

Southern Development Authority of Sri Lanka – 2012

1. Financial Statements

1:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Southern Development Authority of Sri Lanka as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1:2 Comments on Financial Statements

1.2.1 Accounting Deficiencies

The following observations are made.

- (a) The Authority had not taken action to revalue and account for the fixed assets such as motor vehicles and machinery with zero book value.
- (b) According to the letter dated 30 August 1999 of the Chief Valuer, the assessed value of the land with a tea factory amounted Rs.1,500,000. The value of the land had been understood by Rs. 1,400,000 and shown as Rs. 100,000 in the financial statements. The assessment value of compensation also had not been obtained.
- (c) A plot of land of 02 acres in extent belonging to the Authority had been leased out in a lease agreement to an external individual on 20 August 2009 for a dragon fruit project. According to the letter dated 08 December 2008 of the Sectoral Manager (Lands), the value of 300 purchases of land allocated for dragon fruit cultivation according to the Chief Valier amounted to Rs. 1,800,000. Nevertheless, the sum of Rs. 250,000 spent on the acquisition of the land only had been shown in the financial statements thus resulting in an understatement of Rs. 1,550,000.

1.2.2 Unexplained Differences

Even though a sum of Rs.6,959,614 had been shown in the financial statements as accrued expenditure as at end of the year under review, the accrued expenditure as at that date according to the progress report amounted to Rs.5,015,174 and as such a difference of Rs.1,944,440 was observed.

1.2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Even though a sum of Rs.221,183 remaining receivable over periods ranging from 2 years to 13 years from 8 institutions and individuals had been continuously brought forward, necessary action had not been taken to recover that amount.
- (b) Action had not been taken even up to 31 December 2012 to recover a loan amounting to Rs.1,258,554 granted to an institution over 13 years ago and loans and advances amounting to Rs.134,656 granted to 06 institutions by the Authority over 12 years ago.
- (c) Action had not been taken even up to 31 December 2012 to recover a sum of Rs.1,301,601 paid to various projects, institutions and individuals about 12 years ago.

1.2.4 Lack of Evidence for Audit

Sixteen balances payable valued at Rs.2,252,039 shown in the financial statements could not be satisfactorily vouched in audit due to lack of confirmation of balances.

1.2.5 Non-compliance with Laws, Rules, Regulations etc.

Ad hoc sub-impressts amounting to Rs.14,654,793 paid during the period from the year 1999 to the year 2011 had not been settled even up to 31 December 2012 contrary to the Financial Regulation 371(2) of the Republic of Sri Lanka.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, operations of the Authority for the year under review had resulted in a deficit of Rs.24,710,364 as compared with the corresponding deficit of Rs.26,406,383 for the preceding year, thus indicating an improvement of Rs.1,696,019 in the financial results. Increase in the receipt of recurrent grants by Rs.1,355,000 and decrease of operating expenditure by Rs.1,745,548 in the year under review had mainly attributed for the improvement in the financial results.

2.2 Legal Proceedings Initiated Against the Authority

A case had been filed at the Colombo Commercial High Court against the Authority and other 2 Government institutions by an external institution requesting compensation of Rs.158 million due to default in taking action in terms of the agreement.

3. Operating Review

3.1 Performance

The following observations are made.

- (a) Even though new projects should have been commenced in terms of Divineguma Circular No.2/2012 dated 10 July 2012, new projects whatsoever had not been commenced in the districts of Galle, Matara and Moneragala during the year 2012 and it was observed that only a portion of the projects continued from the year 2011 had been completed.
- (b) Sixty nine projects valued at Rs.7,897,245 shown as being implemented under the continuation programme had been completely abandoned by 31 December 2012.

- (c) Even though estimates amounting to Rs. 39,150.079 had been prepared for the accrued expenditure of the continuation works that estimate had been revised as Rs.16,426,281 by the letter dated 14 March 2012 of the Secretary of the Ministry of Economic Development. As such the manner of completion of continuation works of accrued expenditure amounting to Rs.22,723,798, was not clear.
- (d) The Authority had to make payments to its staff in the year only in respect of the work completed in the year 2011. Nevertheless, the entire staff had been deployed in service and a sum of Rs. 108,785,898 had been paid in the year 2012 as salaries, travelling expenses, overtime and fuel expenses.

3.2 Management Inefficiencies

3.2.1 Payment of Salaries to an Officer who had proceeded Abroad

The Board of Directors had approved leave with pay from 28 February 2005 to 31 July 2006 to an officer who had worked as Project Coordinator of the Authority since 01 April 1998 to proceed abroad to follow postgraduate course in Master of Commerce at her own cost and the Authority had entered an agreement with that officer on 01 March 2005. The following observations are made in this connection.

- (a) Leave with pay to the above officer for the period from 28 February 2005 to 31 July 2006 to proceed abroad had been approved by the Board of Directors contrary to Sections 14.1.1 and 14.1.5 of Chapter XIV of the Establishments Code.
- (b) Prior approval in terms of Paragraph 4 of Circular No.MF/6/1/2/03 dated 25 August 2003 of the Secretary to the Treasury had not been obtained for granting leave with full pay while the courses of action to be taken against the officer in connection with the breach of contract had not been included in the agreement in terms of the Circular No. 24/97 dated 28 November 1997 of the Secretary of the Ministry of Public Administration.
- (c) Even though the period of leave with pay granted to the officer had expired on 31 July 2006, a sum of Rs.270,934 had been obtained as salaries by irregularly altering the above date as 31 July 2007. Leave without pay for the period from 01 August 2007 to 31 July 2009 had been approved by the Chairman by his letters dated 26 July 2007, 22 July 2008 and 19 March 2009. In terms of Section

10 of Chapter XV of the Establishments Code as amended by the Public Administration Circular No. 21/2007 of 21 September 2007, any requests for extension of leave should be made by giving reasons therefor. Nevertheless the leave abroad of the officer had been approved in the absence of any reasons adduced.

- (d) A sum of Rs.1,002,928 remained recoverable by the Authority from this officer as at 02 July 2013. A complaint bearing No.(4)32/33 had been made on 23 October 2012 at the Matara Police Station treating the matter as a violation of agreement without taking action to recover the money for the offences committed under Public Properties Act, No.12 of 1982 in for obtaining money by preparing forged documents.

3.2.2 Acquisition and Leasing out of Lands by the Authority

- (a) The following observations were made at the test check carried on the lands acquired by the Authority.
- (i) According to the letters dated 08 August 1997 of the former Chairman of the Authority addressed to the Secretaries of the Ministry of Finance and Planning and the Ministry of Agriculture and Lands, the expected objective of the acquisition of lands is the commencement of joint projects with the co-operation of the private sector. Nevertheless, only the leasing out of 8 lands and 6 buildings acquired in the restructure of the Authority in the year 1998 to the private sector had been done.
- (ii) Appropriate registers and files had not been maintained up to the completion of the transfers of lands through notices of acquisition and the vesting of lands by Gazette Notifications. As such the information on the current status of the lands is not disclosed.
- (b) The following matters were observed in connection with a lease agreement entered into with a private institution by the Authority on 05 September 2001.
- (i) In leasing out the land, the Authority had entered into a lease agreement unfavorable to the Authority on a request made by the lessee. The lessee

had been allowed to obtain loans by pledging the leasehold property as security while the risk resulting from the non-payment of the loan had not been considered. The lease agreement had been prepared in a manner enabling the transfer of title to the land acquired by the Authority on payment or compensation, to the lessee in 02 years.

- (ii) Even though information relating to machinery and equipment valued over Rs.5,000 installed by the lessee should have been informed to the Authority within 30 days from the date of installation in terms of clause 7 of the lease agreement, the Authority had not been informed of the machinery and equipment valued at Rs. 101,776,557 installed. A physical inspection carried out on 25 March 2013 revealed that buildings valued at Rs. 55,486,250 had been constructional on the land without the written approval of the Authority contrary to clause 5 of the lease agreement.

3.2.3 Weaknesses in the Implementation of Divineguma Projects

A sum of Rs.5,238,702 had been spent by the Southern Development Authority of Sri Lanka in the year 2012 for providing cattle, goats and chicks and establishment of cattle breeding centers in 04 districts of Galle, Matara, Hambantota and Monaragala under the Divineguma Project. The following matters were observed at the test check carried out in this connection.

- (a) A sum of Rs.987,611 had been spent for distributing chicks and establishment of poultry farms in the Matara District. Even though 300 chicks had been provided to the beneficiaries in the area of Thihagoda for nourishing, it was observed at the physical inspection carried out on 07 March 2013 that those two beneficiaries had abandoned the project.

- (b) Out of 80 chicks provided to 08 beneficiaries in the area of the Divisional Secretariat, Yakkalamulla in Galle District, 60 chicks had died and out of 130 chicks provided to 13 beneficiaries in the area of the Divisional Secretariat, Ambalangoda, 81 chicks had died.

3.3 Deficiencies in Contract Administration

3.3.1 Preparation of Land of the Akmeemana Bogahagoda Market and Construction of Restaurant with Stalls

The Authority had prepared 04 estimates valued at Rs.4,619,475. Four agreements valued at Rs.4,619,475 had been entered into with 04 contracting societies in December 2010 and August 2011 and a sum of Rs.4,111,068 had been paid in the years 2010 and 2011. The following matters observed at the test check carried out in that connection.

- (a) Financial provision had not been made for the above projects through the development plan for the year 2010. Even though the unpaid retention money of the year 2010 had been utilized in accordance with the decision of the Board of Directors dated 11 November 2010, works had not been completed even in that year. Even though these projects had not been continued for the year 2011, the work of 02 projects in the continuation plan had been suspended and a sum of Rs. 439,603 out of that had been used for these projects.
- (b) The completed projects referred to above had been handed over to the Akmeemana Pradeshiya Sabha on 10 October 2011 without entering into a Memorandum of Understanding; those projects had not been used for the benefit of the public even up to the physical inspection carried out on 21 March 2013. As such the sum of Rs.4,111,068 spent by the Authority without proper planning had become fruitless.
- (c) Before the commence and of work on this land belonging to the Akmeemana Pradeshiya Sabha by the Authority in December 2010, the Akmeemana Pradeshiya Sabha had spent a sum of Rs. 1,583,754 on 20 April 2010 for earth excavation and construction of foundations due to the absence of sound co-ordination between the institutions.

3.3.2 Development of Katapodduwa Agriculture Dam

The Authority had entered an agreement valued at the Rs. 299,710 with a Samurrdhi Society on 11 February 2011 for the project for development of agriculture dam at Palatuwa, Katapodduwa under the Divineguma Programme of the year 2011 and a sum of Rs.293,710 had been paid. It was observed at the field inspection carried out on 06 March 2013 that the paddy fields 40 acres in extent, targeted for cultivation, according to the feasibility study report of the project, had not been cultivated.

3.3.3 Formation of Earth Dam of Right Bank of the Kadawarayaya Canal and the Construction of Left Bank Dam of the Kotawila South Gingaswila Canal

Two agreements valued of Rs.252,200 and Rs.491,941 respectively had been signed in December 2011 for these constructions in the area of the Divisional Secretariat Division, Weligama under the Matara District Office, of the Authority for facilitating the outflow water accumulating in the paddy field and a sum of Rs.672,080 had been paid.

The following matters were observed in this connection.

- (a) Even though two estimates had been prepared and two agreements had been signed for these projects, it was confirmed at the physical inspection carried out on 07 March 2013 that only a portion of the right bank of one irrigation canal had been developed and the Technical Officer of the Divisional Secretariat, Weligama had also confirmed the position.
- (b) According to the feasibility study report of these two projects, cultivation of 90 acres of paddy lands fallowed for 25 years had been targeted. Even though preparation of canal for the outflow of water accumulating in the paddy fields was the purpose of the project, the above target had not been achieved as the water was not flowing out as expected due to the failure to develop the left bank and 180 metre section of the right bank. As such the sum of Rs.672,080 spent by the Authority had become fruitless.

3.3.4 Abandoned of Project

Four road constructions works valued at Rs. 2,032,898 for which the Authority had signed agreements with 04 societies in the year 2011 had been abandoned totally.

3.3.5 Reconstruction of Thammennaweva

The District Office, Hambantota had prepared 05 estimates valued at Rs.8,687,630 under the “Jathika Saviya” Gamaneguma Programme of the year 2010. Five agreements amounting to Rs.8,517,392 had been entered into on 21 October 2010 with 05 registered societies under 05 stages. The Authority had paid a sum of Rs. 5,896,390 during the period from 03 December 2010 to 01 March 2011. The following matters were observed in this connection.

- (a) The Engineers of the Authority had granted approval to consider the estimate that contained similar items and similar quantities, as three portions for the same tank bund in preparing estimates of first, second and third stages. But the photocopies of the estimates and the bill of quantities of the first stage had been utilized for second and third stages.
- (b) According to paragraph 05 of Circular No. Circular/Gamaneguma/03/2008 dated 29 April 2008 of the Ministry of Economic Development, estimates had not been prepared according to the bills of quantity method. Estimates had been prepared with the purpose of awarding contracts to the societies by dividing each item of work.
- (c) According to the statements made on 19 April 2013 by the officers of the contracting societies that signed in the agreements, works in the first, second and fourth stages of the Project had not been carried out by them and as such they had admitted that they could not show the places where each work was carried out. It was also admitted in the statement of the Technical Officers dated 02 April 2013 that they could not show the places where the works were carried out by each society and the measurement book in which the measurements were recorder and admitted that the field books with the measurements could not be produced. As a result, it was not possible ensure the correctness of the measurements obtained for the payments.

- (d) It was observed at the physical verification carried out on 02 April 2013 that the length of the tank bund of the project was 420 metres. A sum of Rs.806,042 had been overpaid due to the computation of the estimated length as 520 metres, 518 metres and 1560 metres and making payment for 5 stages.
- (e) Even though a sum of Rs.2,065,706 had been paid for 4336 square metres of earth supplied for the tank bund, a laboratory certificate was not made available to prove that the above earth conformed to the specified standards. Instead of utilizing 6x9 inch size stones under item of pitching of dam embankment, 1 ½ feet size stones not conforming to the specified standard had been utilized and a sum of Rs.2,394,503 had been paid thereon.
- (f) Water had been seeping through cracks developed at 4 places of dam embankment and the spill way. Even though it was targeted to commence new cultivation of 600 acres of land and for feeding 05 more tanks by construction of a canal from Lunugamvehera reservoir under this project, those objectives had not been achieved. As a result, proper benefits had not been obtained from a sum of Rs.5,896,390 spent by the Authority.

3.4 Personnel Administration

The cadre position of the Authority as at 31 December 2012 had been as follows.

Category of Posts	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
-----	-----	-----	-----	-----
Executive	05	04	01	-
Secondary	97	96	01	-
Tertiary	105	95	10	-
Primary	80	82	-	02
	-----	-----	-----	-----
	287	277	12	02
	=====	=====	=====	=====

The following observations are made.

- (a) Even though only three drivers and an assistant were required for 03 motor vehicles belonging to the Office of the District Director, Galle, 09 drivers and two assistants exceeding the above requirement had been deployed.
- (b) Total number of days in which the drivers and assistants had been deployed in the service during the year had been only 304 (two assistants had been deployed in other services for 98 days) whilst two drivers/ assistants had not been deployed even on a single day in service and one person had been deployed in service only for 2 days.

3.5 Establishment of Fund for the Provision for Employees Gratuity

According to the financial statements of the Authority provision of Rs.40,939,560 had been made for payment of gratuity as at 31 December 2012. However, the balance of the Bank Account maintained to build up a separate Fund for settlement of future liabilities for payment of gratuity as at 31 December 2012 amounted only to Rs.993,740.

3.6 Utilisation of Vehicles

The Authority owned 12 motor cars, 02 Vans, 19 double cabs motor vehicles, 04 Browsers and 07 Lorries in the year under review. Total running cost of petrol vehicles and diesel vehicles amounted to Rs.1,071,613 and Rs.20,385,189 respectively and the total average expenditure per kilometre amounted to Rs.31.64 and Rs.60.52 respectively. Total distance run by 03 motor vehicles of the District Office, Galle during the year under review had been 9,451 kilometres and a sum of Rs.2,853,416 had been spent as salaries and allowances of 12 drivers and three assistants attached to the office. A sum of Rs.122,385 had been spent for vehicle maintenance and fuel. According to the expenditure incurred and the number of kilometers run, a sum of Rs. 315 had been spent per kilo meter run.

4. Accountability and Good Governance

4.1 Corporate Plan

Even though it was targeted to prepare and implement a Corporate Plan according to the Divineguma Programme of the Ministry of Economic Development for the period

from 2012 to 2015, payment for the continuation works of the year 2011 only had been done in the year 2012. As such, the activities relating to the main objectives of the Authority had not been carried out in the year.

4.2 Action Plan

Even though an Action Plan had been prepared for the year 2012, the new projects included in the plan had not been implemented due to the non-receipt of money from the Ministry.

4.3 Internal Audit

It was observed that the internal audit had not been directed so as to cover the entire internal audit programme approved by the Internal Audit Division.

4.4 Procurement Plan

Even though a Procurement Plan had been prepared for the year under review, procurement activities had not been carried out according to that plan.

4.5 Budgetary Control

Even though the Board of Directors had approved the Budget for the year under review, action had not been taken to implement in accordance with the Corporate Plan and Action Plan. As such, it was observed that the budget had not been made use of as an effective instrument of management control.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of control.

- (a) Budgetary Control
- (b) Assets Control
- (c) Contract Administration

