

Sri Lanka Land Reclamation and Development Corporation – 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 Sri Lanka Land Reclamation and Development Corporation as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards..

1:2 Comments on Financial Statements

1:2:1 Sri Lanka Accounting Standards

Sri Lanka Accounting Standards No. 2

Even though the stock of 489,296 cubes of sea sand costing Rs.1,367,090,000 could have shown a net realizable value less than the cost as at 31 December 2012, the Corporation had not computed the net realizable value, compared that with the cost and valued the closing stock of sand at the end of the year at the lowest value.

1:2:2 Accounting Policies

The following observations are made.

Even though the Corporation should make provision for doubtful debits at 100 per cent for all debtors older than one year in accordance with the accounting policy

of the Corporation the balances relating to the following projects under implementation at present had also been considered as doubtful debtors.

Project -----	Amount commenced as Doubtful Debtors -----
	Rs.
i. Construction of 120 Houses Project being constructed at Mayura Place implemented by the Urban Development Authority.	3,372,049
ii. Construction of 216 Housing Units Project, Salamulla implemented by the Urban Development Authority	5,207,592
iii. Beliatta Bus Stand Construction Project proposed by the Ministry of Local Government and Provincial Councils	338,939
	----- 8,918,580 =====

1:2:3 Accounting Deficiencies

The following observations are made.

- (a) Over provision for bad and doubtful debts identified at the end of the year under review as Rs.80,894,000 had been deducted from the sales expense instead of being brought to account under other income.
- (b) The provision for doubtful debts amounting to Rs.81,142,859 made on the total trade debtors balance as at 31 December 2012 had not been separately disclosed in the financial statements.
- (c) Even though the actual receipts in cash and payments made in cash should be included in the cash flow statement it was observed in audit that the

investment income for the year included in the cash flow statement included notional tax amounting to Rs.5,755,610.

- (d) A sum of Rs.824,196,175 had been brought forward over several years as completed projects. As this amount had not been capitalized under the respective categories of assets, the value of those assets as well as the necessary write offs had not been correctly shown in the accounts.
- (e) In consequence of the failure to take action in terms of the provisions in the Employees' Provident Fund (Amendment) Act No. 15 of 1968 and the Employees' Trust Fund (Amendment) Act No. 18 of 1993 sums of Rs.72,803,898 and Rs.9,927,804 had been under remitted to the Employees' Provident Fund and the Employees' Trust Fund respectively.
- (f) Write offs totalling Rs.66,419,000 that can be treated as non-operating expenses of the Corporation had been shown as operating expenses.
- (g) Lands valued at Rs.501,354,118 had been leased out on long term basis to third parties and those had been shown in the financial statements under the property, plant and equipment instead of being shown separately as investment assets.
- (h) Contracts older than 05 years appeared as an unusual negative balance of Rs.1,951,675 under the creditors.
- (i) The interest an fixed deposits for the year 2012 had not been correctly computed and as such the interest on fixed deposits for the year had been understated by a sum of Rs.966, 732 in the final financial statements.
- (j) It was observed that Sri Lanka Navy provides free labour for carrying out activities of the Corporation. Nevertheless, any disclosure or an adjustment in that connection had been made in the final financial statements.

1:2:4 Accounts Receivable and Payable

The following observations are made.

- (a) The total trade creditors balance of the Corporation as at 31 December 2012 amounted to Rs.369,484,746 and out of that the balances old between 02 to 05 years and older than 05 years by December 2013 totalled Rs.8.1 million and Rs.12.5 million respectively.
- (b) Action had not been taken for the settlement of a mobilization advance of Rs.2,000,000 obtained over 05 years ago as the assessed charges of a project.
- (c) The advances obtained by the Corporation for the sale of lands as at 31 December 2012 amounted to Rs.518,528,333 and out of that, the balances remaining without being settled from 04 to 05 years and over 05 years amounted to Rs.489,000,000 and Rs.1,163,751 respectively.
- (d) Out of the sum of Rs.643,875 retained from the money payable for obtaining tipper vehicles on hire, a sum of Rs.450,871 had not been settled despite the elapse of more than one year.

1:2:5 Non-compliance with Laws, Rules and Regulations, etc.

The following non-compliances were observed

Reference to Laws, Rules and Regulations, etc. -----	Non-compliance -----
(a) Sri Lanka Land Reclamation and Development Corporation (Amendment) Act, No. 35 of	There were instances where legal action had not been taken against unauthorized land reclamations. (Example : File No. LM 6189)

2006. Section 2(a)(4)

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|---|---|
| (b) Land Reclamations and Development Board Act, No. 15 of 1968 Section 2(b)1 | The low lying marshy, barren or muddy lands in all Province in Sri Lanka (except Western and Southern Province) had not been determined and published. |
| (c) Section 9(2) of the Employees' Provident Fund (Amendment) Act, No. 1 of 1985 and Section 5(1) of the Employees' Trust Fund (Amendment) Act, No. 18 of 1983. | Even though the cost of living allowance, special living allowance, other similar allowances payments made for holidays, meal allowances and other remunerations should be considered in addition to the basic salary, the computation of the contributions to the Employees' Provident Fund and the Employees' Trust Fund from the year 2008 up to date had been done without including the above allowances. |
| (d) Establishments Code of the Democratic Socialist Republic of Sri Lanka
Chapter XXIV Section 4.5 | When money recoverable to in Government is not recoverable from the principal debtor, the action that should be taken on the surety. But it was observed that was balances totalling Rs.792,047 comprised a sum of Rs.309,035 due from 04 officers who had obtained housing loans from the year 2006 to the year 2012 and a sum of Rs.483,012 due from 05 officers who had obtained distress loans, had not been settled. |
| (e) Public Enterprises Circular No. PED/12 of 02 June 2003
Section 9.14 | Every Corporations should prepared a Manual of Procedure providing rules and regulations for the settlement of problems human resources management. Otherwise, the provisions in the Establishments Code should be followed for the settlement of human resources problems. But the Corporation had not taken action |

accordingly.

1:2:6 Transactions not supported by Adequate Authority

The following observations are made in connection with the procedure on the grant of motor vehicles loans through the Bank of Ceylon at a concessionary rate of interest to the officers of the Sri Lanka Land Reclamation and Development Corporation under the Trade, Tariff and Investment Policy Circular No. 01/2010 dated 10 December 2010 of the Secretary to the Treasury on the issue of concessionary motor vehicle permits.

- (a) In granting the motor vehicle loans through the Bank of Ceylon at 11.5 per cent interest to the officers of the Corporation entitled to the motor vehicle import permits issued by the Government, the Corporation pays 2/3 of the loan interest.
- (b) Even though the Corporation had so spent a sum of Rs.3,425,937 from December 2011 to June 2013 approval for that had not been obtained from the Secretary to the Ministry or the Secretary to the Treasury.

2. Financial Review

Financial Results

According to the financial statements presented the operations of the Corporation for the year under review had resulted in a pre-tax net loss of Rs.42,529,000 as against the net profit of Rs.393,243,000 for the preceding year, thus indicating a deterioration of Rs.435,772,000 or 111 per cent in the financial results. The main reasons for the deterioration of financial results had been the decrease of the sales income of Rs.1, 793,419,000 in the preceding year to Rs.782,550,000 or 56 per cent and the payment of sum of Rs. 75,000,000 Consolidated Fund on a request made by the General Treasury in the current year.

3. Operating Review

3:1 Performance

The following observations are made.

- (a) When the quantity of sea sand sold from the year 2005 to the year 2013 are taken into consideration, the sales in the year 2013 as compared with the preceding year had decreased by 98 per cent. As there was no demand for sea sand from the Colombo-Katunayake Highway Project and the projects of the Department of Coast Conservation in the year 2013 it is observed that the sale of sea sand in the future will face a serious crisis .
- (b) Even though an advance of Rs.489,000,000 had been obtained from an investor and entered into an agreement between the two parties on 27 June 2007 for a project for construction of houses on a land belonging to the Corporation, no development work whatsoever had been done despite the elapse of nearly 06 years. The investor and the Corporation had not taken action in accordance with the agreement. If the investor returns the land, the above amount should be paid back within 14 days in accordance with the agreement and that would result in a working capital problem. It was observed that action had not been taken for updating agreement while attention had not been paid for making available the land of huge commercial value to another investor in order to reap the benefits therefrom to the Corporation as well as the society. Nevertheless, the Chairman informed that the investor has commenced the planning work of the project.
- (c) Even though the excavation of the Thalawathugoda Canal was planned for completion by 31 December 2011, the progress of the project, according to the Progress Reports had been at a low level of 66 per cent as at 31 December 2012. As compared with the estimated cost of Rs.190.80 million of the Project, a sum of Rs.126.35 million only had been spent on the Project up to the end of the year under review.

- (d) Even though the Corporation had planned to complete the construction of the Head Office by August 2012, the physical progress thereon by December 2012 had been 42 per cent and out of the total cost estimate of Rs. 110 million only a sum of Rs.46 million had been spent.
- (e) The Corporation had not taken appropriate courses of action for the eviction of the 361 families who are in unauthorized occupation of the reserved lands acquired for the Greater Colombo Flood Protection and Environmental Improvement Project.
- (f) A sum of Rs.71.8 million had been spent in the year 2012 on 03 projects for which total cost estimates had not been prepared.

3:2 Management Inefficiencies

The following observations are made.

- (a) It was observed that the compensation and interest payable as at 31 December 2012 on the lands acquired by the Corporation from the year 1979 to the year 2005 for development purposes in terms of Section 38(1) of the Land Acquisition Act, No. 9 of 1950 amounted to Rs.539,165,624.
- (b) It was observed that due to the failure to take action in co-ordination with the respective Divisional Secretariats for expediting the payment of compensation, interest at the rate of 7 per cent is computed annually resulting in the amount of compensation payable as at 31 December 2012 being Rs.244,730,221 which represented 45 per cent of the total amount of compensation payable. In view of the delay in obtaining compensation and the comparative lesser amount received as interest it is observed that an injustice is caused to the recipients of compensation.
- (c) According to the information made available to audit in connection with the complaints received on unauthorized land reclamation, the summarized information on the complaints made to the Corporation in the years 2011 and 2012 is given below. Complaints on unauthorized land reclamation are received by various Divisions, and as there is no system of assembling all complaints under one Division, the accuracy of the number of complaints received cannot be ascertained.

	<u>Number of Complaints received</u>	
	<u>Year 2011</u>	<u>Year 2012</u>
Special Project Division	554	459
Security Division	417	837

The following observations are made in connection with the manner in which the Special Projects Division had taken action on 08 complaints on unauthorized reclamation of lands.

- (i) Proper and immediate action not taken to examine the complaints recent and for stopping the reclamation.
 - (ii) Only letters are sent to other institutions informing them to take action on the unauthorized reclamations (Examples : Commissioner General of Agrarian Development, Local Authorities, District Secretaries, Divisional Secretaries, etc.)
 - (iii) Inability to take proper action on unauthorized reclamations in the provinces not declared in terms of Section 2(b)1 of the Sri Lanka Land Reclamation and Development Act.
 - (iv) No follow up action is taken after referring the complaints to other institutes for taking action to ascertain the current status.
- (d) The following observations are made in connection with the non-recovery of lease rent of the Salamulla “SuduNelumpura” Housing Project.
- (i) Even though 113 houses of the Salamulla “SuduNelumpura” Housing Project implemented in the year 2001 at a cost of Rs.88 million for the construction of 144 houses as a project for providing houses to low income families, had been leased out for a period of 30 years. Out of those houses, those transferred to other parties contrary to the conditions in the agreements had not been recovered by the Corporation. Nevertheless, the Chairman

informed that Courts action has already been taken for the recovery of installments in arrears.

- (ii) Even though the Corporation had the right for therecovery of the tenure of the houses for which installments for 02 months have been defaulted, the Corporation had not taken action for the recovery of tenure of the houses for which 100 installments on nearly that number of installments had been defaulted.
- (iii) The Corporation had not taken any steps whatsoever against the interior alterations of houses made contrary to the agreement.
- (iv) Twenty four houses had been release on a request made by the Affiliated Company of the Corporation for temporarily accommodating 24 families who had to vacate their dwelling places due to 03 housing projects implemented by the company. The Corporation had not entered into a written agreement with the company in connection with the handing over of the houses.
- (v) It was observed in audit that the persons who had obtained houses from the Affiliated Company had transferred those houses to third parties. It was further observed in audit that the recovery of the cost of those houses amounting to Rs.11,676,000 would become problematic as action is being taken at present for the liquidation of that company.
- (vi) As the Certificates of Conformity had not been obtained before allowing the families to occupy the houses, the Urban Council had not approved the plan.
- (vii) Further it was revealed that shortcomings in the finish and quality of construction works existed since inception and that condition had induced the occupants to desist from the payment of installments.
- (viii) It was also observed that the arrears of installments of the occupants of this project had not been brought to account as a balance receivable and installment income received. The

installment income received up to date amounting to Rs.17.6 million had been shown under other advances received.

- (e) The Corporation had decided to write off Rs.28,192,095 out of the trade debtors as at 31 December 2012. The following matters were revealed at an audit test check carried out in that connection.
- (i) According to the letter No.PE/COM 4/Fin dated 05 February 2013 and dated 07 February 2013 issued by the Department of Public Enterprises it was informed that before the write off of debtors, the approval of the Chief Accounting Officer of the Ministry of Defence and Urban Development, which is the line Ministry, should be obtained. But it had not been so done.
 - (ii) Out of the trade debtors written off, a sum of Rs.11,008,989 or 39 per cent and a sum of Rs.2,533,792 or 9 per cent had been receivable from the Urban Development Authority and the Department of Irrigation respectively. The Urban Development Authority had been a profit making institution in the years 2011 and 2012 while the Department of Irrigation is also a functioning institution. As such the write off of the sum of Rs.13,542,781 recoverable from the above two institutions is observed as due to the failure to present adequate and acceptable evidence.
 - (iii) An examination of a sample of the write off revealed that there was no evidence of adequate continuous steps taken such as sending reminding letters within a reasonable period of completion of the projects in respect of which debtors balances are recoverable.
 - (iv) Even though only a sum of Rs.509,934 had been approved for the Rattanapitiya Canal reconstruction under the Decentralized Budget for the year 2004, a larger amount of money had been spent thereon and a bill for Rs.3,535,330 had been issued on 08 December 2004. An agreement had not been entered into for this work and a mobilization advance had also not been obtained. As such only the approved amount had been received and outstanding balance of Rs.3,025,396 receivable by the Corporation had been shown continuously in the accounts. Even though it had been decided to write off this amount in the year 2012, only a sum of

Rs.1,135,117 had been taken into the accounts by the Corporation by that time and as a sum of Rs.509,934 out of that had been received, the balance sum of Rs.625,183 only had been written off.

- (v) In view of the implementation of projects without a written agreement / understanding, it had not been possible for taking legal action for the recovery of the debtors balances so created. Nevertheless, no action had been taken on the officers who granted approval for the implementation of such projects.

3:3 Transactions of Contentious Nature

The following observations are made.

- (a) A sum of Rs.15,000 per month had been paid to an Association of the Employees of the Corporation which had neither been registered as a Sports Association nor subjected to a proper audit while the Corporation had spent a sum of Rs.2,050,000 from its Fund in the year 2012 for a cricket tour of Malaysia organized by that Association.
- (b) The Corporation had distributed 361 gift bags valued at Rs.2,135,075 in the year 2012 among the staff of Sri Lanka Army, Sri Lanka Navy and the Civil Security Force. Procurement Procedure had not been followed for the purchase of the gift bags. The gift bags included liquor bottles valued at Rs.852,645 and that was observed as an instance of non-compliance with the State Policy on liquor.
- (c) According to the Public Enterprises Division Circular No. 63 of 20 December 1990 issued by the Secretary to the Ministry of Finance and Planning, all donations and gifts, irrespective of the prices, should be given with the approval of the Cabinet of Ministers. If any donations and gifts had been made without such approval, the value thereof should be recovered from the person or a board of individuals who did so.
- (d) In addition to that the Public Enterprises Circular No. 108 dated 21 May 1996 of the Secretary to the Ministry of Finance and Planning had issued instructions that any donations or gifts of whatever form should not be granted.

3:4 Uneconomic Transactions

The following observations are made.

<u>(a) Project</u>	<u>Expenditure</u> Rs.Million
Dredging of Beira Lake Project under a Project of Sri Lanka Ports Authority	8.97
Kiribathgoda Kalu Ela Project of the Ministry of Economic Development	<u>7.81</u> <u>16.78</u>

As the above projects implemented by the Corporation at an expenditure of Rs.16.78 million had been abandoned halfway, none of the parties had been benefitted from the expenditure incurred on the projects.

- (b) Even though the Corporation had published newspaper advertisements costing Rs.161,884 for inviting quotations for carrying out various activities, those activities had not been carried out. As such the expenditure incurred on newspaper advertisements, stationery and on the Technical Evaluation Committee was observed in audit as fruitless expenditure.
- (c) The capital expenditure on the construction of an office building on a land not belonging to the Corporation amounting to Rs.799,786 had been written off in parts in the Profit and Loss Accounts.

3:5 Staff Administration

The approved staff of the Corporation as at 31 December 2012 had been 1,290 and the actual staff had been 1,202 and as such there were vacancies in 88 posts.

4. Accountability and Good Governance

4:1 Internal Audit

Even though the Internal Audit should be used as a very important tool for providing the guidance needed by the management and providing an understanding of the areas that should be rectified, attention had not been paid to empowering the Internal Audit Staff along with the expansion of the role of the Corporation for the achievement of material results.

4:2 Audit and Management Committees

Even though the Audit Committees of the Corporation met on a timely basis, certain decisions and orders made by them are not implemented. As such it was observed that the management is not keen on making use of those Committees for the proper maintenance of the institution.

4:3 Budgetary Control

The following observations are made.

Significant variances were observed between the estimated and the actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control. Several important matters observed in this connection are given below.

- (a) The Corporation had spent a sum of Rs.35,680,000 in the year 2012 for the purchase of motor vehicles even though no provision for purchase of motor vehicles had been made in the budget.
- (b) Expenditure amounting to Rs. 73.20 million had been incurred in related to 6 projects in the year 2012, without preparing estimates.

- (c) Fifteen projects implemented in the year 2011 but not included in the Action Plan for the year 2012 as well as 19 projects not included in the budget for the year 2012 had been implemented in the year. The expenditure incurred on those amounted to Rs.622.27 million and Rs.155.77 million respectively.
- (d) Expenditure amounting to Rs.374.03 million had been incurred in the year under review for 12 Projects which had not been included in the Action Plan for the year 2012.

4:4 Tabling of Annual Reports

Even though the Corporation should table its annual Reports in Parliament within 150 days after the close of the year of account in terms of Section 6.5.3 of the Public Enterprises Circulars No. PED/12 of 02 June 2003, the Annual Reports after the year 2010 had not been tabled.

5. Systems and Controls

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

- (a) Recovery of Money from Debtors
- (b) Obtaining Advances from Clients
- (c) Co-ordination of Information among Divisions
- (d) Computation of Stocks of Sand
- (e) Accounting
- (f) Settlement of Advances