

Southern Development Authority of Sri Lanka - 2013

The audit of financial statements of the Southern Development Authority of Sri Lanka for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance and statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 21(2) of the Southern Development Authority of Sri Lanka Act, No. 18 of 1996. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub - sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and the extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 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 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) A Jeep belonging to the Authority costing Rs.1,455,000 had not been revalued and its value had not been brought to account. It was reported to audit that the motor vehicle was being used for the purpose of an external party.
- (b) The profit from the elimination of the machinery and equipment of the Galagawa Tea Factory in the year under review amounting to Rs.275,000 and the loss from elimination of other assets amounting to Rs.7,632,383 had been shown in the statement of changes in net assets instead of being shown in the statement of financial performance.

2.2.2 Accounts Receivable

Action had not been taken for the recovery of a sum of Rs.1,456,170 receivable from 16 persons and institutions continued to be brought forward over a number of preceding years.

2.3 Transactions not supported by Adequate Authority

The following observations are made.

- (a) Even though the Committee on Public Enterprises had recommended that outstanding advances amounting to Rs.2,135,397 that remained without being recovered over a number of years due to different reasons, approval for that had not been obtained from the Department of National Budget and the Department of Public Enterprises of the General Treasury.
- (b) Advances amounting to Rs.194,437 granted by the Authority had been written off from the books without formal approval.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operating results of the Authority for the year under review had been a deficit of Rs.17,470,479 as compared with the corresponding deficit of Rs.24,710,363 for the preceding year, thus indicating an improvement of financial results by a sum of Rs.7,230,884. The increase of the recurrent grants for the year under review as compared with the preceding year by a sum of Rs.7,670,000 had been the main reason for the improvement.

3.2 Legal Action instituted against or by the Authority

The following observations are made.

- (a) Eight cases had been filed in Courts against the Authority comprising 4 cases filed by three employees and two institutions claiming compensation of Rs.171 million for different reasons and 04 other cases in which no compensation has been cited.
- (b) The Authority had filed two cases against external parties in connection with the loss of a computer and the fraudulent alteration of an agreement without citing compensation.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) Even though the General Treasury approved provisions of Rs.50 million for the target of developing 15,000 units of domestic families in the area of authority under the Divineguma Programme 2013, only a sum of Rs.10.72 million had been received by the Authority and the overall expenditure amounted to Rs.14.37 million. Due to the delay in the receipt of financial provision and a sum of Rs.3.65 million for the projects being accrued, the expected target had not been achieved.
- (b) Policy Methodologies and criteria for the implementation of the above programme had been introduced and those programmes had been entrusted to 07 sectors. A sum of Rs.114,864,346 had been paid by the Authority as salaries, travelling expenses, overtime and fuel for the total staff including the staff of the 07 sectors for the implementation of sectors the programme and the staff of four District Offices. The observations on the sections examined in audit are given below.

(i) Cultivation and Education Division – Cultivation Development

- Out of the estimated provision for the year 2013 relating to the betel cultivation, king coconut cultivation, tea cultivation, kitul products development, pepper cultivation, arecanut cultivation and cinnamon cultivation in the Galle, Matara, Hambantota and Monaragala Districts, amounting to Rs.5,890,500 a sum of Rs.801,363 only had been spent in the year under review and represented a low percentage of 13 per cent. Accordingly, it was observed that both targeted financial and physical progress had not been achieved.
- Distribution of 5,100 king coconut seedlings in the Monaragala District and cultivation of tea in the 201 acres in the Matara and Hambantota Districts had not been done in the year 2013. Out of the target of 37,800 arecanut seedlings in the Monaragala District, 9,850 had been distributed.

(ii) Agriculture and Livestock Sector – Agricultural Development

Even though provisions amounting to Rs.5,447,000 had been made for the year 2013 for components such as strengthening and empowerment of home garden development, food security programme and the strengthening and empowerment of the existing protected nurseries, out of that a sum of Rs.3,107,142 only had been spent and that represented 57 per cent of the amount allocated. As such progress as planned had not been achieved for the agricultural development.

(iii) Livestock and Fisheries Sector - Livestock and Fisheries Development

Out of the sum of Rs.5,747,500 allocated for the development of Livestock and Fisheries in the Galle, Matara, Hambantota and Monaragala Districts under four projects during the year under review, the expenditure according to the progress reports of the Authority as at the end of the year under review amounted to Rs.1,636,525 and the percentage of expenditure had been 28 per cent. The Authority informed the audit that the targeted projects had not been implemented due to practical difficulties and problems and the non-receipt of financial provisions.

(iv) Marketing and Services Development

Out of the sum of Rs.6,140,000 allocated for the year under review for 35 projects in the Galle, Matara, Hambantota and Monaragala Districts, the expenditure incurred on 02 projects up to the end of the year under review amounted to Rs.715,128 only. According to the vouchers relating to that payment a sum of Rs.532,000 had been spent on training of internal staff. It could not be established in audit whether such training had made any contribution to the project.

Even though a sum of Rs.4,017,550 had been allocated under this programme for 04 programmes for the encouragement of supplementary products of the Matara District, no expenditure had been incurred thereon and the financial performance had been zero.

4.2 Management Inefficiencies

The following observations are made.

- (a) A surcharge of Rs.148,348 had been paid in the year under review to the Employees` Provident Fund due to the failure to remit the contributors to that Fund in respect of the employees serving in the Kirala Kele Project in terms of provisions in the Employees` Provident Fund Act.
- (b) Action had not been taken even up to the end of the year under review for the settlement of a sum of Rs.49,923 remaining in the balances receivable since in the year 2002.

4.3 Project Commenced on Lands / Properties not formally acquired

Even though the land 02 roods 17 perches belonging to the State situated at Matara, Walgama is not belonging to the Authority, the Head Office of the Authority had been built on that land at a cost of Rs.110,434,073 and the land had not been transferred to the Authority even by the end of the year under review.

4.4 Resources of the Authority given to other Government Institutions

A motor vehicle belonging to the Authority valued at Rs.1,455,000 had been handed over to the Ministry of Enterprises Development and Investment Promotion defunct at present. The motor vehicle given for duties under the Minister of Economic Development should have been returned after the change of Ministries in the year under review. But it had not been returned even by 25 November 2014. The salary of Rs.25,466 paid to the Driver while surviving in the above Ministry had also not been recovered.

4.5 Personnel Administration

The approved cadre of the Authority as at 31 December 2013 had been 287 and the actual cadre had been 259, thus resulting in 28 vacancies.

5. Accountability and Good Governance

5.1 Rescindment of the Southern Development Authority of Sri Lanka Act

The Southern Development Authority of Sri Lanka Act, No. 18 of 1996 under which the Southern Development Authority of Sri Lanka had been established had been rescinded by the Order published in the Gazette Extraordinary No. 1843/47 of 03 January 2014 and since that date, with the Divineguma Act, No. 1 of 2013 coming into operation, it functions under the Department of Divineguma.

5.2 Action Plan

The Action Plan prepared by the Authority for the year under review had been amended according to the programmes of the Department of Divineguma for the year 2013. It was observed that the amendments to the Action Plan had been made according to sectorial requirements and the advice of the Ministry of Economic Development.

5.3 Procurement Plan

The Procurement Plan for the year 2013 had been amended according to the amended Action Plan for the year.

5.4 Audit Committee

The Audit and Management Committee of the Southern Development Authority had taken the following decisions at the meeting held on 01 July 2013 as the composition of the Authority is due for charges under the Department of Divineguma Development.

- (a) Preparation of Register of Lands relating to all lands belonging to the Authority to prevent omissions as well as handing over all assets properly to the relevant Department in the transfer of assets of the Authority to the Department of Divineguma Development.
- (b) A Register of Lands decided for transfer to the Authority but not transferred should be prepared and furnished by the Deputy Director (Investment Promotion and Lands). The following observations are made in this connection.
 - (i) The Register of Lands prepared did not include the information such as survey plan prepared by the Department of Surveyor General, Gazette Notification on acquisitions, deeds and letters of acquisition and assessed value. The register furnished to audit had been prepared from information in the computer.
 - (ii) The lease agreements entered into with the owners in taking long leases of 05 lands and 03 buildings had not been suitably amended in the handing over to the Department of Divineguma Development.
 - (iii) Even though it was stated that the deposits relating to six lands 1,148 acres in extent acquired in terms of Section 38(a) of the Land Acquisition Act had been transferred to the Authority and the acquisition of lands had been abandoned, information on the handover of lands was not available.
 - (iv) Even though a Gazette Notification had been published in the Gazette No. 980/22 of 17 June 1997 for the acquisition of four lands 90 acres in extent in the Matara District in terms of the powers in Section 17 of the Authority Act, those lands had not been acquired by finalizing the acquisition proceedings. The said Gazette Notification had not been cancelled.

5.5 Unsettled Audit Paragraphs

The particulars of unsettled audit paragraphs are given below.

- (a) Payment of a sum of Rs.2,065,706 for the supply of 4,336 cubic meters of Grovel Earth to the Board of the Thammetiyawa Tank, Hambantota District.
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The following observations are made in this connection.

- (i) According to the report of the Irrigation Engineer, Tissamaharama dated 22 January 2014, the samples of earth taken from four places of the tank band, the quantity of earth compacted had been 3,114 cubic meters of earth, the quantity of earth in the section inundated with water cannot be computed and the overall quantity of earth compacted amounted to 4,203.9 cubic meters. As such the correct quantity of earth had not been confirmed by that report as well.
- (ii) The length and the width of the bund had not been taken into consideration in the computation of the quantity of earth used for the bund and according to the measurement report computation had been done by computing the quantity bagged and used. As such whether the quantity of earth paid for had been used for the used is not established.
- (iii) According to the decision of the Audit and Management Committee taken at the meeting held at the Ministry of Economic Development on 19 December 2013, no further examination in this connection had been taken other than calling for explanations from the officers concerned.
- (b) Non-implementation of Directives made by the Committee on Public Enterprises
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The courses of action taken on 17 matters scheduled for discussion at the examination of the Southern Development Authority of Sri Lanka at the meeting of the Committee on Public Enterprises on 16 October 2012 as well as the further courses of action to be taken thereon were assigned to the Ministry of Economic Development as the composition of the institution is due for changes (Department of Divinaguma Development). Accordingly, the Secretary to the Ministry had appointed a Committee of seven members and a report containing the recommendation of the Committee had been sent on 19 April 2013 to the Secretary to the Committee on Public Enterprises with copy to the Auditor General. Out of those 17 matters the following 07 matters had not been settled even by 31 December 2013.

- (i) According to Directive No.6 of the Committee on Public Enterprises directive was made to make a complaint to the Commission for Investigators of Allegation of Bribery or corruption against the officers responsible for the recovery of a sum of Rs.36.4 million receivable from the Australian Company in accordance with the agreement. The amount recoverable according to the legal action taken by the Authority had not been recovered.
- (ii) According to the Directive No.8 of the Committee on Public Enterprises, it was directed that the sum Rs.43.888 million invested in a private finance Company without any return thereon should be recovered. The company had been dissolved on

an Order of the Ministry and two motor vehicles, land and building of the company had been taken over by the Authority for a sum of Rs.14,900,000, being the valuation made by the Government Valuer. Nevertheless total sum of Rs.28,172,520 which included the initial capital of Rs.10,000,000 and Rs.18,172,520 invested by the Authority had not been recovered even by the end of the year under review.

- (iii) According to Directive No.8 of the Committee on Public Enterprises it was directed to take disciplinary action against all the persons responsible for incurring expenditure of Rs.7,113,104 without taking over the ownership of the Kiralakale project. But the Sri Lanka Tourism Development Authority which transferred the project had not taken any action.
- (iv) According to the Directive No.9 of the Committee on Public Enterprises, it was directed to submit a report on the deposit of Rs.13,607,115 made in the Divisional Secretariats for the acquisition of lands. A sum of Rs.1,947,127 remained outstanding as 31 December 2013.
- (v) According to the Directive No.13 of the Committee on Public Enterprises, the Committee directed that discussion on the iron ferry should be held with the Ministry of Irrigation and report on the decision taken, to the Committee. Nevertheless, the institution which signed the lease agreement on the iron ferry had filed a case against the Authority claiming compensation of Rs.158 million.
- (vi) Even though the Directive No.14 of the Committee on Public Enterprises had directed that the sum of Rs.450,725 spent on the motor vehicle of the Coordinating Officer who resigned from service should be recovered from the officer, that amount had not been recovered.
- (vii) According to the Directive No.15 of the Committee on Public Enterprises, it was directed that legal action should be taken against the institution concerned which did not all in accordance with the agreement for the non - implementation of the planned projects after acquisition of Kaduruduwawatta 19 acres, 02 roods 14 perches in extent and spending a sum of Rs.10,539,989 these resulting in fruitless expenditure. Interest amounting to Rs.6,675,994 had to be paid for the delay in the acquisition of the land. A sum of Rs.10,539,989 had been paid in the year 2006 despite acceptance of the valuation of Rs.3,000,000 made in the year 1997 while the claimants had not been identified. Even though the land had been handed over to a school in the Galle District by the president by letter dated 07 December 2012 no development works had been commenced.

06. **Systems and Controls**

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

- (a) Budgetary Control
- (b) Preparation of Plans
- (c) Maintenance of Registers
- (d) Fixed Assets