Sri Lanka Land Reclamation and Development Corporation – 2015

The audit of consolidated financial statements of the Sri Lanka Land Reclamation and Development Corporation and its Subsidiary for the year ended 31 December 2015 comprising the consolidated statement of financial position as at 31 December 2015 and the Consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statements 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 17(1) of the Land Reclamation and Development Board Act, No. 15 of 1968 as amended by the Sri Lanka Land Reclamation and Development Corporation (Amendment) Act, No. 35 of 2006. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2)(c) of the Finance Act, appear in this report.

1.2 Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka 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 Auditors' Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing 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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation'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 Corporation'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 the consolidated 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 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 paragraphs 2.2 and 2.3 of this report.

2. Financial Statements

2.1 Opinion

Qualified Opinion – Group

In my opinion, except for the effects of the matters described in paragraphs 2.2 and 2.3 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 and its Subsidiary as at 31 December 2015 and the financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Qualified Opinion - Corporation

In my opinion, except for the effects of the matters described in paragraph 2.3 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 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2. Comments on Financial Statements - Group

The financial statements of the Corporation for the year under review had been amalgamated with the audited financial statements of the Land Reclamation and Development Company (Pvt) Limited which is a Subsidiary of the Corporation. However, the financial statements of the Subsidiary Company had been prepared without being amalgamated with the R.D.C. Services (Pvt) Limited, a subsidiary thereof. The ownership of the Corporation in respect of the Subsidiary represented 80 per cent.

At the time of preparing the consolidated financial statements by the Corporation in the year under review, the legal ownership of the subsidiary companies thereof had been 80 per cent. However, without taking that into consideration, assets and liabilities of the subsidiary companies had been amalgamated with the total value of the pretax profit. Hence, assets, liabilities, and the pretax profit had been over computed by sums of Rs. 174.16 million, Rs. 129.78 million, and Rs. 14.50 million respectively in the consolidated financial statements.
Based on the following observations, a qualified audit opinion had been expressed by the auditors of the Land Reclamation and Development Company (Pvt) Limited on the financial statements of the said Company for the year ended 31 December 2015.

(a.) Non- computation of impairment in respect of the balance amounting to Rs. 55.3 million as at 31 December of the year under review.

(b.) As the brought forward receivable income tax valued at Rs. 12. 2 million was not in agreement with the income tax return and the Department of Inland Revenue, an assurance could not be given.

(c.) Non – rendition of confirmation of balances to check the accuracy of the balances amounting to Rs. 19.8 million payable as at 31 December of the year under review.

(d.) Accounting the contract income on cash basis contrary to Sri Lanka Accounting Standards.

2.3 Comments on Financial Statements – Corporation

2.3.1 Non – disclosure of Transactions with Related Parties.

The following observations are made.

(a.) Balances of Rs. 33,726,073 receivable to the Corporation from the Land Reclamation and Development (pvt) Ltd, had been shown as Rs. 14,878,689 in the books of the subsidiary company which was a subsidiary of the Corporation. Furthermore, a sum of Rs. 15,263,813 had been shown in the financial statements of the Corporation as payable to the said company, but no value whatsoever had been shown in the accounts of the said company as receivable from the Corporation.

(b.) A sum of Rs. 25,702,506 receivable to the Corporation from the LRDC Services (Pvt) Limited, a Sub - subsidiary company of the Corporation, had not been brought to accounts.

2.3.2 Sri Lanka Accounting Standards

Non-compliances with the following Sri Lanka Accounting Standards were observed during the course of audit.

(a.) Sri Lanka Accounting Standard 01

(i) Adjustments of the other comprehensive income relevant to the period and the disclosures relating thereto should be disclosed in the statement of comprehensive income in accordance with the Standard. Nevertheless, adjustments on the other comprehensive income or disclosures in that connection had not been made in the statement of comprehensive income prepared by the Corporation for the year under review.

(ii) Assets included in the financial statements should be stated on the fair value. Nevertheless, the fair value of Property, Plant and Equipment costing Rs. 980.38 million had not been assessed and shown in the financial statements by the Corporation.

(iii) Although assets valued at Rs. 96.86 million had been kept as bank guarantees by the Corporation in the year under review, the value of fixed assets disclosed in the financial statements kept as bank guarantees, amounted to Rs. 75 million only.

(iv) In respect of the operating activities carried out on Government grants, 20 per cent of the contract value had been recovered by the Corporation as overhead expenditure in addition to the direct expenditure incurred by the said grants. Instead of showing those charges in the statement of comprehensive income as an income, a sum of Rs. 260.90 million had been deducted from the expenditure.

(b.) Sri Lanka Accounting Standard 11

(i) Despite being disclosed in the financial statements that the income, cost, and profit of the ongoing projects of the Corporation, would be identified on the stage of completion method, the contract income, cost and the profit had not been identified in terms of the Standard. As the cost incurred on the certified works had not been identified in a manner adjustable with the relevant income and expenditure, the income could not be identified on a constant basis. As such, the profits identified from 17 construction contracts had extensively fluctuated.

(ii) The completed percentages of the work in progress and the particulars of identified income of the construction contracts valued at Rs. 2,798.60 million as at the end of the year under review, had not been disclosed in the financial statements.

(c.) Sri Lanka Accounting Standard 20

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Conditions of the Government grants valued at Rs. 624.74 million received by the Corporation by the end of the year under review, and the contingencies had not been disclosed in the financial statements.

(d.) Sri Lanka Accounting Standard 37

The contingent liability of Rs. 74.31 million likely to arise in respect of 12 cases filed by external parties against the Corporation on the acquisition of lands by the end of the year under review, had not been computed, and provisions had not been made in terms of the Standard.

(e.) Sri Lanka Accounting Standard 38

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The intangible assets, viz the computer software belonging to the Corporation had not been separately identified in terms of Paragraph 118 of the Standard, and no adequate disclosures had been made in the financial statements in that connection.

(f.) **Sri Lanka Accounting Standard 39**

The financial assets of the Corporation had not been classified in terms of the Standard. Action had not been taken to adjust a realistic value in the financial statements by identifying the impairment value of the trade debtors on objective evidence that should have been identified as financial assets. Instead, 100 per cent provisions had been allocated for all doubtful debtors exceeding 01 year.

(g.) **Sri Lanka Accounting Standard 40**

The policy relating to the investment properties valued at Rs. 520.89 million included in the financial statements, had not been disclosed, and the fair value thereof had not been computed and shown in the financial statements. Furthermore, the lands released by the Corporation to external parties on lease basis, had not been shown in the financial statements as invested properties, and the information on the value of those lands had also not been made available to audit.

2.3.3 Accounting Deficiencies

The following observations are made.

(a.) The fixed assets valued at Rs. 35.18 million purchased for the *Werasganga* Project by utilizing the long term loan obtained from the National Savings Bank for the implementation of the said project, had been added to the differed income account as a grant. Furthermore, due to the fact that the depreciation on the said Property, Plant and Equipment for the year under review amounting to Rs. 7.92 million had been shown as a non-operating income, the income of the year under review had been overstated by that value.

(b.) The value of 03 machines received by the Corporation in the year under review under the Grater Colombo Development project had not been assessed and shown in the financial statements.

(c.) Instead of the value of assets built up from the completed projects, without analyzing the nature of the relevant balances to be added to the relevant assets, a sum of Rs. 779.63 million incurred thereon, had been shown under other non-current assets. As such, those assets had been understated by that value in the financial statements.

(d.) It had been disclosed through the notes to the accounts that the assets purchased from the grants valued at Rs. 660 million received by the Corporation under the Greater Colombo Flood Control and Environment Improvement Project, would be amortized within a period of 03 years from the preceding year. The value of Rs. 220.24 million to be so amortized by the end of the year under review, had been shown under special project liabilities, instead of being shown as differed income in the financial statements.

(e.) Kitchen equipment valued at Rs. 38,497,957 purchased in the year under review for the food court in *Bellanvila*, had been shown as work in progress in the financial statements instead of being accounted as fixed assets. As such, the non-current assets and the depreciation thereon had been understated by that value in the statement of financial position.

(f.) A sum of Rs. 2.60 million spent on various ceremonies in the year under review, from the loan obtained *Werasganga* Project, had been capitalized under the said project.

(g.) Incomplete projects valued at Rs. 2,798.60 million that should have been shown under non-current assets, had been shown under trading stock. As such, the current assets had been over stated by that value.

2.3.4 Unexplained Differences

The following observations are made.

(a.) According to the financial statements as at 31 December of the year under review, the provision for gratuity amounted to Rs. 230.20 million, but that value amounted to Rs. 234.08 million according to the schedule. As such, a difference of Rs. 3.88 million was observed.

(b.) According to the financial statements, a sum of Rs. 23,035,752 had been incurred by the Corporation on the construction of the shopping complex in *Kalutara* pertaining to the Urban Development Authority, whereas according to the performance report, such expenditure amounted to Rs. 12,570,000 only, thus observing a difference of Rs. 10,465,752.

(c.) According to the financial statements, the net surplus of the net actual gratuity to be recognized amounted to Rs. 17,537,551. Nevertheless, that value amounted to Rs. 17,967,426 in the report of the actuary on the actuarial valuation of the gratuity liabilities.

(d.) Although a difference of Rs. 10,573,117 was observed in comparing the balances of 02 items shown in the cash flow statement presented along with the financial statements, with the balances of the relevant statements of comprehensive income and financial position, reasons attributed thereto, had not been explained to audit.

2.4 Accounts Receivable and Payable
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The following observations are made.

(a.) The debtors balance of Rs. 556 million existed as at the end of the year under review had included a debtor balance of Rs. 86 million outstanding from a period of 2 to 5 years and the outstanding debtor balance over 5 years amounted to Rs. 18 million.

(b.) Of the advance granted to the Sri Lanka Army for the construction of railway food court at *Diyatha Uyana*, a sum of Rs. 11,576,801 had not been settled even after a lapse of over one year since the date of completion of the construction as at 31 December of the year under review. Furthermore, advance bonds had not been obtained from the contractor as well in granting those advances.

(c.) Even though a period of one year had elapsed by the end of the year under review since the completion of the construction of 216 houses in *Kolonnawa* and *Salamulla,* (A building) the Corporation had failed to recover a sum of Rs. 160.76 million receivable from the Urban Development Authority, and the retention money amounting to Rs. 25.92 million.

(d.) As the Corporation had failed to furnish the inspection reports requested by the client for paying the bills (buildings B and C) of the contract for constructing 792 houses at *Kolonnawa* and *Salamulla* on behalf of the Urban Development Authority, the retention money receivable to the Corporation amounting to Rs. 65.16 million and Rs.25.14 million respectively could not be obtained. As the construction had been suspended, the Corporation had not taken action to repay the mobilization advance of Rs. 359.02 million paid by the client.

(e.) The sum payable for a motor vehicle valued at Rs. 3,000,000 obtained on credit basis from the Sri Lanka Land Reclamation and Development Company on 28 November 2012, had not been paid even up to the end of the year under review.

(f.) The Corporation had not taken action to pay the undeveloped land value of Rs. 60.37 million payable to the Land Commissioner General's Department in respect of the sale of lands owned by the Government relating to the period from the year 1978 up to the end of the year under review.

(g.) A sum of Rs. 489 million from the land sales deposit amounting to Rs. 502 million received by the Corporation from external parties as at 31 December of the year under review for developing lands, had remained unsettled over a period of 05 years.

(h.) Sums of Rs. 180 million and Rs. 171 million remained receivable to the Corporation from the contractor for the removal of sand and making use of the land owned by the CEB in *Muthurajawela* respectively. Nevertheless, action had not been taken to recover that sum over a period of 05 years.

(i.) Due to failure in taking action to settle the sum of Euros 575,000 that remained payable by the Corporation to a foreign company since the year 2011, and the unfavourable fluctuations in the foreign exchange rates that occurred during the relevant period, the sum payable had increased up to Rs. 90.48 million by 31 December of the year under review.

2.5 Non-compliances with Laws, Rules, Regulations, and Management Decisions

The following non-compliances were observed.

	Reference to Laws, Rules, and Regulations etc.	Non-compliance
(a)	**Land Reclamation and Development Corporation Act, No. 15 of 1968**	
	(i) Section 2 (b) 1	The Corporation had been entrusted to determine the low-lying marshy, barren or muddy lands located at provincial level throughout the island thereby publishing such information through the gazette notifications to enable the control and supervision of illegal land reclamation. Nevertheless, the number of provinces gazetted in such a manner by the end of the year under review, had been only 04.
	(ii) Section 8 (a)	Lands taken over for reclamation and development in terms of Section 2 of the Act, should be developed to facilitate the construction of buildings, and industrial, commercial and agricultural activities. Nevertheless, only 84 acres out of the lands in Muthurajawela and Mudun Ela, 284 acres in extent taken over by the Corporation in the year 1995, had been developed representing a value as low as 30 per cent.
(b)	**Finance Act, No. 38 of 1971**	
	Section 11 (b)	Without obtaining the concurrence of the Minister of Finance, a sum of Rs. 1,279.66 million had been invested in fixed and short-term deposits on the approval of the Board of Directors.
(c)	Section 8 (a) of the Urban Development Authority (Amendment) Act, No. 04 of 1982.	The Corporation had constructed the new Head Office Building Complex without obtaining the approval from the relevant Local Authority. As such, a liability of about Rs. 12,041,540 had arisen for obtaining the approval in the ensuing years.
(d)	Management Services Circular, No. 02/2015, dated 09 December 2015.	Contrary to the provisions of the Circulars, incentives totalling Rs. 18,372,000 had been paid at Rs. 13,500 per employee for the year under review on the recommendation of the Minister in Charge of the subject.

(e)	Gazette Extraordinary Circular, No. 794/23, dated 26 November 1993.	A royalty of Rs. 135.45 million should have been paid in respect of 4,478,679 cubic meters of sea sand extracted by the Corporation. However, the royalty paid by the end of the year under review, amounted to Rs. 10 million only.
(f)	**Public Enterprises Circular, No. PED/12, dated 02 June 2003.**	
	Section 8.3.8	Without obtaining the approval of the Treasury, incentives totalling Rs. 39.26 million had been paid to the staff in the year under review only on the approval of the Board of Directors.

3. Financial Review

3.1 Financial Results

According to the consolidated financial statements, the loss sustained by the Group and the Corporation for the year under review had been Rs. 91.56 million and Rs. 157.39 million respectively as against the profit for the preceding year amounting to Rs. 398.02 million and Rs. 346.68 million respectively. As compared with the preceding year, the profits of the Group and the Corporation for the year under review had indicated a deterioration of Rs. 489.58 million and Rs.504.07 million respectively. The decrease in the income of the Corporation by a sum of Rs. 876.5 million, and the increase in the sales expenditure by a sum of Rs. 292.30 million as compared with the preceding year, had mainly attributed to the said deterioration of the pre-tax net profit.

The analysis of the financial results of the year under review and 04 preceding years revealed that a financial deficit of Rs. 68.17 million had existed in the year 2012 despite the financial surplus of Rs. 287.97 million had existed in the year 2011. Again in the years 2013, and 2014, a financial result had been a surplus of Rs. 103.89 million and Rs. 346.69 million respectively, but that had become a deficit of Rs. 157.39 million in the year under review. However, considering the employees remuneration, Government taxes, and the depreciation on non-current assets, the contribution of the Corporation had continuously improved positively since the year 2011, and reached to Rs. 419.32 million in the year under review.

4. Operating Review

4.1 Performance

According to the Sri Lanka Land Reclamation and Development Corporation Act, No. 35 of 2006, the main objectives and functions of the Corporation include : reclamation and development of the lands published to that effect , and making those lands suitable for buildings and industrial, commercial or agricultural activities; administration and management of the custody of the said lands; taking the custody of those lands under the condition of being reclaimed and developed; facilitation of the construction and consultancy assignments in the field of engineering; holding the custody of the channels, and improvement, maintenance and administration thereof; prevention of channels from being polluted. The following observations are made in connection with the progress in achieving the said objectives.

a) Although an extent of 1,000 acres of marshy lands as reservation areas had been taken over by the Corporation during the period 1993-2005, it had decreased to 600 acres by the end of the year under review due to unauthorized reclamation, and constructions. Substantial measures had not been taken by the Corporation in that connection, and this situation had intensified the damages caused by floods directly.

b) Although 673 unauthorized constructions and reclamation of lands had been identified by the Corporation within the water retention areas belonging to 05 Divisional Secretariats areas by the end of the year under review, no substantial measures had been taken to remove those constructions identified.

c) Five of the 09 contracts executed by the Construction Division of the Corporation in the year under review, had sustained losses, and the accumulated loss incurred amounted to Rs. 20.60 million.

d) The income of the Machinery Division of the Corporation amounted to Rs. 251.78 million for the year under review. However, due to increase in the expenditure on maintenance and employees of that Division, the accumulated loss amounted to Rs. 125.13 million as at 31 December of the year under review.

e) After incurring a sum of Rs. 42.45 million on 09 projects initiated and implemented by the Corporation, it had been suspended in the year under review on the request of the client, and the recovery of the funds incurred also remained doubtful.

f) Although a sum of Rs. 2,000,000 had been allocated by the Treasury in the year under review for preparing an action plan for the management of wetlands in regard of marshy lands in *Muthurajawela*, that plan had not been prepared even up to November 2016.

g) Despite being planned by the Corporation to implement 14 projects valued at Rs. 1,325 million in the year under review, a sum of Rs. 266.98 million had been incurred in the year under review to implement 23 projects, not included in the Action Plan without implementing the planned projects.

h) A sum of Rs. 14,615,535 had been incurred on the construction of the Pub at *Diyatha Uyana* by the end of the year under review, and the construction thereof had been abandoned when the progress of the construction had reached to 34 per cent. Reasons for the abandonment had not been explained to audit.

4.2 Management Activities

The following observations are made.

a) Action had not been taken to take over the legal rights of the land where the food court of *Diyatha Uyana* had located. Hence, hindrances had arisen when the Corporation had entered into legal agreements with the external parties in respect of the activities of the food court. Furthermore, there had been a risk that this land would be taken over by the Urban Development Authority for their development activities in the future.

b) A sales agreement had been entered into between the Corporation and a developer in the year 2007 for the construction of a luxury housing scheme at a land in extent of about 05 acres located on 9th lane in *Pitakotte*, and the construction was scheduled to be completed by the year 2010. An advance of Rs. 489 million had been obtained from the developer for developing this land, but the activities relating to the development could not be commenced even up to 31 December 2016. Hence, action should have been taken to settle the advances by cancelling the agreement. However, as funds had been utilized without adhering to a proper financial management, the Corporation had faced a financial crisis making it impossible to repay the advances.

c) No legal action whatsoever had been taken by the Corporation in terms of the conditions of the agreement to recover the outstanding installments and interest totalling Rs. 10.39 million that remained receivable from the occupants of the *Sudu Neluma* Housing Scheme by the end of the year under review. Provisions for bad debts had also been made for a sum of Rs. 19.01 million thereof.

4.3 Operating Activities

The following observations are made.

a) A land of 04 acres in extent belonging to the Corporation had been utilized for the construction of houses in *Salamulla, Kolonnawa* (Buildings A, B, C), and action had not been taken to recover the value of the land amounting to Rs. 171 million from the Urban Development Authority.

b) Although 156 families who had encroached the reservations belonging to the Corporation, had been identified, adequate measures had not been taken to evict them, and it was revealed that certain families had occupied those lands since the year 1999.

c) As the land comprising 03 marshy lands in *Attidiya* and *Muturajawela* taken over by the Corporation, had not been properly identified and maintained, the persons occupying the said land could not be identified as to whether they were encroachers or not.

d) As action had not been taken to pay compensation in a timely manner in respect of the lands taken over by the Corporation during the period from 1981 to 2005, the compensation payable for the said lands amounted to Rs. 166.95 million as at 31 December of the year under review, and the interest payable thereon amounted to Rs. 98.50 million indicating 59 per cent of the compensation payable. This situation had directly been attributed to the failure in coordinating with the Divisional Secretariats thereby expediting the payment of compensation so as to minimize the interest. Furthermore, as a period of 11-35 years had elapsed in taking over the lands, it was further observed that those lands had been encroached.

4.4 Transactions of Contentious Nature
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The following observations are made.

a) (i) The sum of Rs. 56.31 million due to the Corporation on the construction of a monument together with a commemorative museum pertaining to a former politician of the *Hambanthota* district contrary to the objectives of the Corporation, should have been collected through the shows performed by popular artists. Nevertheless, funds had not been raised in that manner even up to the end of the year under review.

(ii) In addition to the said sum, advances amounting to Rs. 25 million had been paid by the Corporation to the Sri Lanka Navy for obtaining construction material, and those advances had not been settled even up to the end of the year under review.

b) In accordance with the Cabinet Decision, No. අමප/93/340/041, dated 31 March 1993, the plot of land on the *Elvitigala* Road, Colombo 05 in extent of 3.05 perches, had been leased to a person by the Corporation through the lease agreement No. 73 dated 21 June 1993 for a lease period of 99 years in a manner that sums of Rs. 152,000, and Rs. 305 would be recovered as the value of the land , and the nominal annual lease rental respectively.

The following matters were observed in this connection.

(i) The lease agreement had been cancelled on 28 March 2008, and a new lease agreement had been entered into with a private company for the rest of the lease period of 84 years. The Corporation had entered into a new agreement on a decision taken by the Board of Directors without a Cabinet decision, by cancelling a lease agreement entered into on a Cabinet decision. Furthermore, in terms of Section (III) of the initial lease agreement, the period of lease can be amended in respect of the lessor or heirs only after the lapse of the 99 year lease period. Nevertheless, that Section had been breached as well.

(ii) After a period of 15 years since the initial agreement had been entered into, the second lease agreement had been entered into based on the value set forth in the initial agreement without revaluing the land. As such, the Corporation had sustained an extensive loss.

(iii) The second lessor had delegated all the powers entrusted to him through the lease agreement on 30 June 2010, to s sub- lessor in the year 2013, and despite the lack of provisions in the agreement for a sublease, the Corporation had agreed to proceed with the request made by the sub lessor in the year 2016 to sublease the same land to another private company for a period of 03 years.

(iv) As the lease value of the land had been decreased to 25 per cent by the Corporation in computing the administrative expenses relating to the sublease, the administrative fee charged had been nominal. The matters based on which, the lease value had been decreased, were not made available to audit.

c) Action had not been taken to reimburse the project expenditure amounting to Rs. 41.01 million incurred by the Corporation in the year under review on the Colombo Urban Development Project implemented on the assistance of the World Bank.

4.5 Apparent Irregularities

The sum of Rs. 3,439,282 payable for the services obtained by the Corporation from a Hotel Company by the end of the year under review, had not been shown in the financial statements as a payable expenditure. Information on the services obtained had not been made available to audit.

4.6 Uneconomic Transactions

Although a Legal Division had been established in the Corporation, a sum of Rs. 1,143,630 had been paid to external lawyers as legal expenses in the year under review.

4.7 Procurement and Contract Process

The following observations are made.

a) Although a period of more than one year had elapsed by the end of the year under review to complete the construction of the food court at *Diyatha Uyana*, the financial progress of the project had been about Rs. 52,691,701 indicating 42 per cent of the estimated value.

b) The value of the work completed in respect of the contract for the construction of 792 houses in *Salamulla, Kolonnawa* (Buildings B and C), amounted to Rs. 653.02 million, but the certified value amounted to Rs. 281.34 million, and the remaining value of the work completed amounting to Rs. 371.68 million had not been certified even after a lapse of more than one year. Furthermore, as the physical progress of the contract had been 19 per cent by the year under review, the contract had been taken over and awarded to a private construction company by the client.

c) The contract for the construction of sports ground in *Eheliyagoda* valued at Rs. 157.72 million commenced in the year 2014, should have been completed by the year 2015, but the contract had been abandoned by the end of the year under review due to the failure of the client to pay monies, and the financial and physical progress of the construction as at that date had been 35 per cent and 34 per cent respectively.

d) The physical progress of 04 contracts valued at Rs. 786.92 million that should have been completed by the year under review, had remained as low as 1 – 34 per cent by the end of the year under review. Furthermore, the works of the Biodiversity Study Park, Thalawathugoda, that should have been completed by October of the preceding year, had remained incompleted even by 31 December of the year under review.

e) A sum of Rs. 11.27 million had been spent by the end of the year under review without an engineering estimate to prepare housing and structural plans for the project of constructing stores and filling station on the *Kirimandala* Road.

f) An accumulated loss of Rs. 14.10 million had been sustained by the Corporation in the year under review from 02 projects taken over by the client due to poor performance of the contract.

g) A sum of Rs. 95.14 million had been incurred in excess of the estimated value of the contract for constructing 216 houses in Kolonnawa, Salamulla (Building A), valued at Rs. 516.44 million.

h) The Corporation had called for quotations at the commencement of the year for purchasing building material for the year under review, and the suppliers and the prices at which each material should be furnished, had been decided. However, building material valued at Rs. 3,740,806 had been purchased in the year under review at the prices decided earlier without calling for fresh competitive bids.

i) Following the Cabinet Decision No. 13/1144/503/087, dated 30 August 2013, a loan amounting to Rs. 14,227 million had been approved to be granted to the Corporation through the National Savings Bank under the guarantee of the Treasury for launching and implementing the project to drain the rain water of *Veras Ganga* and develop the environment. Accordingly, the Corporation had entered into a loan agreement with the National Savings Bank on 14 July 2014 being agreed the loan would be repaid within a period of 14 ½ years. The main objectives of the project include, controlling the floods occurring during the rainy season in areas such as *Nugegoda*, *Raththanapitiya*, *Boralesgamuwa*, *Piliyandala*, and *Werahera*, widening the existing system of canals, protecting the banks of the canals, construction of reservoirs by protecting the flood retention areas, and construction of new culverts and bridges. The duration of the project had begun on 04 October 2013, and scheduled to be completed within 05 years on 24 October 2018.

The following observations are made in this connection.

I. The project had been implemented without preparing an Action Plan by including the time frame indicating how the project would be completed within the duration of the project, and a Work Schedule in respect of the system of canals, bridges, culverts, maintenance routes, and water retention areas etc.

II. As a period of over 03 years had been spent on the project by 30 November 2016, a progress of 60 per cent should have been indicated considering the duration for the completion of the project. Nevertheless, it was confirmed through the documents made available to audit that the actual physical progress as at that date was around 23 per cent. However, the management had not introduced a methodology making it possible for the project to be completed on time by preventing the unusual delays of the project.

III. The project had failed to identify the possibility of the floods to occur in the future, the minimum and maximum severity thereof, and the likely risks to be caused.

IV. The progress reports to be prepared monthly and annually in respect of the zones and the packages identified during the implementation of the project, had not been prepared.

V. An independent accounting system had not been planned and implemented by considering this project as a separate entity being financed through a loan amounting to Rs. 14,227 million.

VI. The construction of gabian structures in the Zones 1, 2, and 3 of the project had been overestimated to the value of Rs. 281,461,659. As such, mobilization advances had been overpaid to the contractors.

VII. Only the granite of size 4*6 inches (100*150 mm) should be used in the construction of gabian structures as per the standards. It was revealed during the physical inspection carried out thereon that granite of the said size had been used only for less than 25 per cent of the construction. It was observed that the rest of the area of more than 75 per cent had been constructed with granite of the size 12*16 (200*400 mm) in breach of the British Standard, BS 8002.1984 according to which, the maximum size of the granite to be used in the gabian boxes should be 200 mm. In this backdrop, the application of the larger granite in the gabian boxes could damage them, and those walls had not been built in accordance with the Standards.

VIII. The works relating to the development of canals stretching over 2,889 meters in the Zone 1 had been packaged into 34 sub projects and awarded the contract. The following matters were observed in respect of separating the works of 34 projects.

- The reasons for dividing the contract in terms of 54m, 68m, 100m, and 110m had not been explained to audit.

- Under this circumstance, an extensive cost had been incurred on publishing newspaper advertisements in 3 languages for the development of the canal stretching over 2,889m. Furthermore, action had been taken to estimate and pay preliminaries over Rs. 1 million for activities such as construction of toilets for sanitation, construction of offices, and allocation of technical officers in respect of each of those subcontracts.

IX. Mobilization advances amounting to Rs. 341,077,366 had been given to subcontractors, and, the balance of unsettled advances, including the balances that remained outstanding for over 2 years, amounted to Rs. 161,767,969 as at 16 November 2016. As such, the advances granted to the contractors by utilizing loans for the project, had been retained in hand of the contractors over an unusual period of time.

X. Action had been taken by the Corporation to generate interest income by investing the loans obtained for the project contrary to the relevant purpose. Funds amounting to Rs. 647 million had been invested in repurchase orders (Repo) as at 31 December of the year under review.

XI. It was expected to acquire lands in extent of about 1,000 acres under the project. Nevertheless, by the end of the year under review, the progress in the acquisition of lands stood at less than 10 per cent of what had been planned. Action had not been taken as well to take over the ownership of the lands for which compensation had been paid.

XII. According to the information made available, a sum of Rs. 3,111 million had been invested in the project by end of the year under review, but the bank loans obtained amounted only to Rs. 2,550 million. As such, a sum of Rs. 561 million had been incurred on the project in excess of the loan obtained. However, particulars relating to the investment made in excess of the loan, had not been furnished to audit.

4.8 Resources of the Corporation Released to Other Institutions

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Four officers of the staff of the Corporation had been released to other Public institutions in the year under review contrary to the provisions set forth in Paragraph 8.3.9 of the Public Enterprises Circular, No. PED/12 dated 02 June 2003, and a sum of Rs. 1.8 million had been incurred by the Corporation on their salaries and allowances. Furthermore, 03 vehicles belonging to the Corporation had also been released to the Line Ministry.

4.9 Personnel Administration

The following observations are made.

a) The approved cadre of the Corporation as at 31 December 2015 had been 1,720, whereas the actual cadre as at that date had been 1,411. A number 368 vacancies had existed in each of the posts, and an excess cadre of 59 had existed.

b) Recruitment had been made to the post of Deputy General Manager (Machinery) being a key post of the Corporation, on contract basis, whilst the post of Deputy General Manager (Planning and Business Promotions) had remained vacant.

4.10 Identified Losses

The following observations are made.

a) As the Corporation had not assessed the lease rents after the year 2005 for the building and the yard leased out to the Sri Lanka Land Reclamation and Development Company (Pvt) Limited, the Corporation had deprived of the lease rent receivable at present.

b) One hundred vegetable trays valued at Rs. 2.58 million purchased in the year 2014 for *Diyatha Uyana*, had remained decaying in the stores since the date of purchase without being made use of.

4.11 Idle and Underutilized Assets

The following observations are made.

a) A non-moving stock balance costing Rs. 867,000, and a slow-moving stock balance costing Rs. 123.2 million had existed as at 31 December of the year under review.

b) Two hoists valued at Rs. 10.36 million, and scaffolding props and G.I. pipes valued at Rs. 40.32 million purchased for the contract of constructing houses in Salamulla in the year 2013, had remained idle without being used since the year 2014. As the equipment had been stored without being sheltered from rain, those equipment had remained decaying in an unusable manner.

5. Accountability and Good Governance

5.1 Corporate Plan

The following observations are made.

(a) The Corporate Plan had not been prepared by including the information that should be included therein in terms of Paragraph 5.1.2 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, such as resources of the Corporation at present, progress of the operating results for the 03 preceding years, and etc.

(b) The management had failed to identify the projects valued at Rs. 12,290 million included in the Corporate Plan.

(c) The functions required to carry out the following activities entrusted by the Act of incorporation, had not been included in the Corporate Plan.

(i) To identify low lying marshy, barren or muddy lands located island wide and publish through gazette notifications so as to control and supervise the unauthorized land reclamations.

(ii) To identify a certain area of land located in the bank of a canal as a reservation of the canal thereby publishing through a gazette notification preventing temporary or other constructions thereon.

(d) Adequate measures had not been taken by the Corporation to fulfil the strategies identified in the Corporate Plan.

(e) A sum of Rs. 450 million had been allocated in the Corporate Plan in respect of the projects to be identified for the year under review, representing 15 per cent of the total cost for the projects. Furthermore, a reference had not been shown, indicating the relevance of the miscellaneous projects included in the Corporate Plan, to the Act of incorporation.

5.2 Internal Audit

The Internal Audit should be used as an important procedure by the management for providing guidance in the areas where rectification should be done. However, proper attention had not been paid for empowering the Internal Audit Staff along with the expansion of the role of the Corporation as a contractor of large scale constructions for the achievement of effective results. Furthermore, programmes for evaluating the performance of the Corporation had not been included in the Internal Audit Programmes.

5.3 Budgetary Control

Significant variances ranging from 75 per cent to 144 per cent were observed between the estimated and the actual income and expenditure for the year under review, thus observing that the budget had not been made use of as an effective instrument of management control.

5.4 Tabling of Annual Reports

The Corporation should have tabled the Annual Report within a period of 150 days since the lapse of the year of accounts in terms of Paragraph 6.5.3 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003. Nevertheless, the Corporation had not tabled the annual report for the year 2014 in Parliament even up to the end of the year under review.

5.5 Unresolved Audit Paragraphs

The following matters pointed out in the previous audit reports had remained unresolved even up to the end of the year under review.

(a) Payment of professional allowances continuously to the staff without obtaining the approval from the relevant responsible parties.

(b) Continuous reimbursement of the interest recovered from the officers on their vehicle loans.

(c) Directives were issued by the COPE at its meeting held on 30 November 2012 that legal action be taken against a party who had constructed a Kovil with the assistance of the Divisional Secretariat on a land of 3.5 acres in extent developed by the Corporation at a cost of Rs. 30.2 million. However, no action whatsoever had been taken by the Corporation in order to carry out the said directives.

(d) Failure to compute the allowances and other remuneration required by the relevant Acts and Circulars when computing the contributions to be remitted to the Employees’ Provident Fund, and the Employees' Trust Fund.

5.6 Commitment to the Environmental and Social Responsibility

Many environmental and social issues had been created by unauthorized land reclamations carried out island wide, and as they could affect the future generation as well, the Corporation had not adequately made use of the powers vested in it to make aware the public thereof and prevent unauthorized land reclamations.

6. Systems and Controls

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

	Areas of Systems and Controls	Observations
(a)	Contract Administration	Failure to implement the planned projects. Discontinuation of certain projects by the client due to poor progress thereof. Failure of certain constructions to comply with Standards.
(b)	Procurement Process	(i) Procurements had been made based on the bids decided previously without calling for competitive bids. (ii) Leasing of certain lands without assessing the present value of the lands.

(c) Financial Management	(i)	Failure to settle the advances, and the deposits obtained from the developers as soon as the completion of the relevant purpose. Failure to settle the loan installment and interest in a timely manner in terms of loan agreements.
	(ii)	Failure to recover the lease rent in terms of agreements.
	(iii)	Use of government grants received for various programs extraneous to the objective.
(d) Accounting	(i)	Preparation of financial statements without complying to many of the Sri Lanka Accounting Standards.
	(ii)	As the assets and liabilities had not been accurately identified, and accounted in the statement of financial position, the value thereof had either been overcalculated or undercalculated.