Sri Lanka Land Reclamation and Development Corporation – 2016

The audit of consolidated financial statements of the Sri Lanka Land Reclamation and Development Corporation and its subsidiary for the year ended 31 December 2016 comprising the consolidated statement of financial position as at 31 December 2016 and the Consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statements for the year 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

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 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 1000-1800). 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 judgment, 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 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 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 Adverse Opinion

Had the matters described in paragraphs 2.2 and 2.3 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial Statements

2.1 Adverse Opinion – Group

In my opinion, because of the significance of the matters described in paragraphs 2.2 and 2.3 of this report, the financial statements do not 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 2016 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Adverse Opinion – Corporation

In my opinion, because of the significance of the matters described in paragraph 2.3 of this report, the financial statements do not give a true and fair view of the financial position of the Sri Lanka Land Reclamation and Development Corporation as at 31 December 2016 and its financial performance and its 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.

Based on the following observations, the audit opinion on financial statements of the Land Reclamation and Development (Pvt) Limited for the year ended 31 December 2016 had been disclaimed.

(a) Due to unavailability of written evidence relating to the balances amounting to Rs.212.24 million as existence, completeness and accuracy of those balances could not been confirmed.

(b) Non – rendition of confirmation of balances to check the accuracy of the balances amounting to Rs.35.05 million payables and receivables as at 31 December of the year under review.

(c) Accounting the contract income on cash basis contrary to Sri Lanka Accounting Standards No.11.

(d) Non-computation of impairment in respect of a Cement Brick Machine of which the net book value of Rs.3.15 million as at 31 December of the year under review.

2.3 Comments on Financial Statements - Corporation

2.3.1 Sri Lanka Accounting Standards

Non – compliance with the following Sri Lanka Accounting Standards were observed in 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 statements of comprehensive income in accordance with the Standard. Nevertheless, adjustments on the other comprehensive income or disclosure 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.1,288.15 million had not been assessed and shown in the financial statements by the Corporation.

(iii) Although bank deposits amounting to at Rs.163.87 million had been kept as bank guarantee by the Corporation in the year under review, the value of fixed deposits disclosed in the financial statements kept as bank guarantees, amounted to Rs.100 million only. As well, the confirmation of balances relating to the bank guarantees had not been furnished to audit.

(b) Sri Lanka Accounting Standard 11

(i) Despite being disclosed in the financial statements that the income, cost, and profit of the ongoing contracts 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 21 construction contracts had extensively fluctuated.

(ii) The completed percentage of the work in progress and the particulars of identified income relating to 13 construction contracts valued at Rs.728.85 million as at the end of the year under review, had not been disclosed in the financial statements.

(c) Sri Lanka Accounting Standard 20

Condition of the Government grants valued at Rs.778.41 million received by the Corporation by the end of the year under review, and the contingencies had not been disclosed in the financial statements in terms of Section 39 of the Standard.

(d) Sri Lanka Accounting Standard 37

The contingent liability of Rs.296.96 million likely to arise in respect of 17 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

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 for bad debt had been allocated for all doubtful debtors exceeding 01 year.

(g) Sri Lanka Accounting Standard 40

(i) The policy relating to the investment properties valued at Rs.745.57 million included in the financial statements had not been disclosed, and the fairvalue 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 investment properties, and the information on the value of those lands had also not been made available to audit.

(ii) Seven long term lease lands valued at Rs.17.58 million existed as at end of the year under review had not been accounted under the investment properties.

2.3.2. Accounting Deficiencies

The following observations are made.

(a) The value of 3 machines received by the Corporation during the preceding year under the Metro Colombo Urban Development Project had not been valued and shown in the financial statements even up to end of the year under review.

(b) Instead of the value of assets built up from the completed projects to be added to the relevant assets, a sum of Rs.716.50 million incurred thereon had been shown under other non-current assets.

(c) Work-in-Progress of the Projects valued at Rs.728.85 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.

(d) Even though a sum of Rs.2,296.80 million to be receivable from the Treasury for the Projects conducted under the Treasury grants, only a sum of Rs.1,626.27 million had been shown in the financial statements as that receivable amount. As such, the service charges income that had been charged on the Treasury grants had been under stated by Rs.670.53 million.

(e) The penalty interest amounting to Rs.4.25 million that had been computed by the Bank due to defaulting the payment of loan instalments and interest on due dates as at end of the year under review, for the loan obtained by the Corporation under the Varasgaga Project, had not been shown in the financial statements as payables.

(f) A sum of Rs.3,332.94 million which had been incurred on Verasgaga Project and should have been receivable from the Treasury had been shown as an income of the Corporation instead of being shown as a differed income. As a result, the profit of the Corporation for the year under review had been overstated by that amount.

(g) According to the Register of sand stock of the Corporation, sea sand sales was 117,782 cubic meters. Whereas, according to the sand sales Register that value was 118,614 cubic meters. As such, sand selling income of the Corporation during year under review had been overstated by 832 cubic meters i.e. by Rs.6.74 million.

(h) A sum of Rs.139,378 had been shown in the financial statements as expenditure of the Mhijaya Compost Project conducted by the Corporation. However, the over head expenditure of the project had not been included to the expenditure. Hence, the profit of the project had been over stated.

(i) Although a land extent of 5.77 perches, belonging to the Head Office of the Corporation had been leased to a private company on 01 July 2005, the lease income had not been computed and brought to the accounts since month of July 2014. Rent of the land had not been revised annually since the year 2010 to end of the year under review and legal agreement had not been entered into with the tenant since the year 2005.

(j) Advances amounting to Rs.73.51 million which had been paid up to end of the year under review, to the affected persons from the Verasgaga storm water drain Project, had been accounted for as miscellaneous expenses instead of being shown as advances in the financial statements. As a result, current assets of the Corporation as at 31 December of the year under review had been understated and expenditure of the year had been over stated by the same amount.

2.3.3 Unexplained Differences

The following observations are made.

(a) A sum of Rs.35,083,245 had been shown in the financial statements of the Corporation as receivable from the Land Reclamation and Development Company (Pvt) Limited. Nevertheless, according to the books of the Company that value amounted to Rs.9,987,145. As well, although a sum of Rs.23,501,000 had been shown in the financial statements of the Corporation as payable to that Company, such a amount had not been shown in the financial statements of that Company as receivable from the corporation.

(b) Even though a sum of Rs.2,441,387 had been shown in the financial statements of the Corporation as receivable from the LRDC Service (Pvt) Limited, Sub subsidiary Company of the Corporation, that value amounted to Rs.26,571 according to the books of that Company. Further, payables to that Company by the Corporation amounting to Rs.12,446,000 had not been shown in the financial statements of the Company.

2.4 Accounts Receivable and Payable

The following observations are made.

(a) The debtors balance of Rs.867 million existed as at end of the year under review had included a debtor balance of Rs.255 million outstanding from a period of 2 to 5 years and the outstanding debtor balance over 5 years amounted to Rs.24 million. Also, the confirmations relating to these balances had not been furnished to audit.

(b) Of the advance granted to the Sri Lanka Army for the construction of railway canteen at Diyatha Uyana on 20 November 2014, a sum of Rs.11,576,801 had not been settled even after lapse of over two years since the date of completion of the constructions 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 two years 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.86.51 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 (building B and C) of the contract for constructing 792 houses at Kollonnawa and Salamulla on behalf of the Urban Development Authority, the retention money receivable to the Corporation amounting to Rs.74.36 million and Rs.30.89 million respectively could not be obtained. Further, as the construction had been suspended, the Corporation had not taken action to repay the mobilization advance of Rs.298.48 million paid by the client.

(e) The sum payable for a motor vehicle valued at Rs.3 million obtained on credit basis from the SRDC (Service) Private Limited on 28 November 2012, had not been settled even up to end of the year under review.

(f) The Corporation had not taken actions to pay the undeveloped land value of Rs.69.60 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) Sums of Rs.14.64 million and Rs.489 million from the land sales deposit amounting to Rs.966 million received by the Corporation from external parties as at 31 December of the year under review for developing lands, had remained unsettled for period of 01 to 03 years and over a period of 05 years respectively.

(h) Sums of Rs.180 million and Rs.171 million remained payable to the Ceylon Electricity Board since 5 years for the removal of sand and making use of the land owned by the CEB in Muthurajawella respectively, actions had not been taken to settle those sums.

(i) Due to failure in taking actions to settle a sum of Euro 575,000 that remain payable by the Corporation to a foreign Company since the year 2011, and the unfavorable fluctuations in foreign exchange rates that occurred during the relevant period, the sum payable had increased up to Rs.90.78 million by 31 December of the year under review.

(j) The contract creditors' balance as at end of the year under review amounted to Rs.385.76 million and out of that a sum of Rs.52.48 million had remained unsettled for the period from 2 to 5 years.

(k) Actions had not been taken to settle the retention money kept from the sub-contractors amounting to Rs.97.49 million up to end of the year under review. Out of that, outstanding balance over 2 years amounted Rs.23.57 million.

(l) Actions had not been taken to recover the retention money amounting to Rs.169.65 million receivable from the completed contracts by the Corporation as at end of the year under review and out of that outstanding balance for over 2 years amounted to Rs.52.67 million. That was 30 per cent of the total value of the retention receivables.

(m) Actions had not been taken to settle the mobilization advances received by the Corporation as at end of the year under review amounted to Rs.744.92 million and of that amount a sum of Rs.355.54 million was remained for over 2 years. As well, the value of the mobilization advances payable amounted to Rs.65.09 million and of that amount, a sum of Rs.24.10 million was remained over one year.

(n) The deposits that had been deposited for obtaining the electricity supply to the sites of the Corporation amounted to Rs.2.47 million as at end of the year under review. Nevertheless, action had not been taken to settle the deposits though those project had been completed.

2.5 Non – Compliances with Laws, Rules, Regulations and Management Decisions

The following non – complacence were observed.

Reference to Laws, Rules 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-laying marshy, barren or muddy lands located at Provincial level through the Island thereby publishing such information through the gazette notification to enable the control and supervision of illegal land reclamation. Nevertheless, the number of Provinces gazette in such a manner by end of the year under review, had been limited to 04.
(ii) Section 8 (a)	Lands taken over for reclamation and development in terms of Section 02 of the Act, should be develop to facilitate the construction of building and industrial, commercial and agricultural activities. Nevertheless, only 92 acres out of the lands in Muthurajawella and Mudun Ela, 307 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) Section 11 (b) of Finance Act No.38 of 1971	Without obtaining concurrence of the Ministry of Finance, a sum of Rs.3,333.82 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.12.04 million had arisen for obtaining the approval in ensuring years.

(d) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 571	Action had not been taken to settle the retention money amounting to Rs.9.47 million related to 14 contracts and remained over 5 years without being settled as at end of the year under review.
(ii) Financial Regulation 700 (3)	Contrary to this regulation, action had not been taken to refund the tender deposits amounting to Rs.365,000 obtained from unselected 23 bidders, when selecting of bidders for deposal of goods in the year 2016.
(iii) Financial Regulation 774	Even though it had been identified 100 items valued at Rs.1,631,490 for disposal in the year under review, the approval of the Secretary to the Line Ministry had not been obtained and a Board of Survey had not been appointed in this regard.
(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.32.05 million only.
(f) Guideline for transferring of Government lands No.SEI/A/4/34 dated 12 July 1995	(i) Contrary to the Circular instructions, Government lands extent of 93.15 perches had been sold to Private Sector by the Corporation as at end of the year under review, and the valuation made by the Chief Valuer had not been evaluated by a special committee, when leasing the lands. (ii) In addition, although a land had been given to a Private Company by the Corporation on sale agreement in the year 2007 for constructing of a housing scheme, it had not been started by that Company even up to end of the year under review. Nevertheless, actions had not been taken to repossess the land to the Corporation.

(g)	Public Finance Circular No.02/2015 dated 10 July 2015	Seventeen Motor vehicles, estimated value of Rs.1,200,000, had been disposed by the Corporation during the year under review. Nevertheless, particulars relating to the deposal had not been furnished to the Treasury and to the Auditor General and the motor vehicles sale income had not been credited to the Consolidated Fund in terms of the circular instructions.
(h)	Public Finance Circular No.03/2015 dated 14 July 2015	Ad hoc advances amounting to Rs.5,819,819 had been given in 21 instances during the year under review exceeding Rs,100,000 contrary to the circular instructions. Also, out of those advances, a sum of Rs.1,452,500 had not been settled within 10 days and unsettled advance balance as at 31 December of the year under review was to Rs.82,316.
(i)	Management Services Circular No.02/2015 dated 09 December 2015	Contrary to the Provisions of the Circular, incentives totalling Rs.17,581,000 had been paid at Rs.13,500 per employee for the year under review on the recommendation of the Board of Directors.
(j)	Section 9-7 of the Management Services Circular No.PED/12 dated 02 June 2003	Without obtaining the Approval of the Treasury, incentive totalling Rs.39.22 million had been paid to the staff in the year under review only on the approval of the Board of Directors.
(k)	External Resources Department Circular No. TA/General/2013/14 dated 15 March 2013	According to the Circular, a report relating to foreign training should be submitted within a month after returning to the country by the officers those who participated to the foreign training Programmes. Though 32 officers had participated to the foreign training programmes during the year under review, such reports had not been submitted.

3 Financial Review

3.1 Financial Result

According to the financial statements, the profit after tax of the Group and the Corporation during the year under review had been Rs.729.95 million and Rs.702.56 million respectively as against the loss for the preceding year amounting to Rs.91.56 million and Rs.157.39

million respectively. Thus, as compared with the preceding year, the financial result of the Group and the Corporation for the year under review had indicated an improvement of Rs.821.51 million and Rs.859.95 million respectively. Considering of differed income amounting to Rs.3,332.94 million as income of the year under review had mainly attributed to the said improvement of the financial result.

The analysis of the financial results of the year under review and 04 preceding years revealed that the profits of Rs.103.89 million and Rs.346.69 million had been earned in the years 2013 and 2014 respectively despite the financial deficit of Rs.68.17 million in the year 2012. Again in the year 2015 financial result had been a deficit of Rs.157.39 million, but that had become a profit of Rs.702.56 million in the year under review. However, considering the employees remuneration, Government taxes and depreciation on non-current assets, the contribution of the Corporation had continuously improved positively since the year 2012, and reached to Rs.1,337.39 million during 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 includes; reclamation and development of lands published to that effect, and making those lands suitable for building and industrial, commercial or agricultural activities; administration and management of the custody of the said lands; making 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 cannels, 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) According to the Cabinet decision made in the year 1996, an extent of 1,000 acres of marshy lands, situated in western boundary of the Parliamentary building complex, had been vested to the Sri Lanka Land Reclamation and Development Corporation as the specialized institution for the implementation of conservation and controlling measures, in order protect them as water retention area. The sole responsibility for removal of unauthorized settlers and reclamations is vested with the Corporation. However, about 200 acres had been acquired by the unauthorized settlers and, about another 200 acres also had been divested by the Corporation. As such, the Corporation had failed to achieve the expected objectives determined by the Cabinet of Ministers, from the Corporation. Comparable to loss of the above areas, the Corporation had not taken actions to increase out fall capacity of storm water and as the result, it had directly affected to increase the floods. Although the Corporation had started to reestablished the boundary lines of the lands occupied by an authorized settlers in the year 2013, those activities had not been completed even up to end of the year under review.

(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 Divisions by the end of the year under review, no substantial measures had been taken to remove those constructions identified.

(c) Even though a sum of Rs.30 million had been allocated by the Treasury during the year under review for preparation of a wetland Management action plan on behalf of the Muthurajawela marsh, that plan had not been completed even up to 31 December of the year under review and the physical progress as at that date was 24 per cent.

(d) Despite being planned by the Corporation to implement 13 projects valued at Rs.361.87 million in the year under review, a sum of Rs.626.13 million had been incurred in the year under review to implement 14 projects, not included in the Action Plan without implementing the planned projects.

(e) A sum of Rs.14.61 million had been incurred on the construction of the Pub at Diyatha Uyana by the end of the year under review, and constructions 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. Further, although a sum of Rs.33.32 million had been incurred by the Corporation to construction of the Diyatha Uyana Train Cafeteria in the preceding year, it had not been started even end of the year under review. Also, damages had been caused to the Pasanger unit and food stall beyond the unreusable condition.

(f) Even though it had been planned to construct 2 housing schemes by the Planning and Development Division of the Corporation during the year under review under the new business proposal, the plans relating to the housing schemes had not been prepared up to July 2017.

(g) Nineteen contracts had been awarded to the Corporation in the year 2012 under the Metro Colombo Urban Development Project and those contracts to be completed in the year 2019. Out of that, 3 contracts had been completed during the year under review and 4 contracts valued at Rs.523.95 million were being Progressed. The physical progress of those contracts was below 25 per cent and 12 contracts were at the planning stage. In addition, although a sum of Rs.14.733 million had been allocated to the Corporations by the Project, only a sum of Rs.1.253 million or 8.5 per cent of the allocation had been used even after lapse of 3 ½ years as at end of the year under review, since the commencement of the Project.

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 Diyatha Uyana railway canteen 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 canteen. 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 sale 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 5 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. Although activities relating to the development not been commenced even up to 30 June 2017, actions had not been taken to cancel the agreement. As a result, the Corporation had lossed the opportunity for handing over the land again to a suitable Developer.

(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.20.56 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 amounting to Rs. 20.15 million had also been made thereof.

(d) Even though the Corporation had established the new section of planning and Business Development Division during the year under review in order to determine the new business requirements and to expand the existing market share, the activities of that Division had not been identified.

(e) Five plots of land, vested to the Corporation and located at Kiththampahuwa cannel reservation area had been leased on annual rent basis. The rent agreements had not been entered into with lessees since the year 2012 and outstanding rent income as at end of the year under review amounted to Rs.2.92 million.

(f) Although the income collected from the Katharagama and Nuwara eliya Circuit Bungalows amounted to Rs.3.45 million, the expenditure incurred thereon amounted to Rs.6.62 million. Thus a loss of Rs.3.17 million had been sustained by the Corporation. Failure of the management to identify a suitable charging system comparable to the expenditure, was caused for this situation.

(g) A Jeep that had been legally transferred to the Corporation by the Metro Colombo Urban Development Project in the year 2014 had been taken over again by that project. However, action had not been taken to repossess the Jeep to the Corporation.

(h) Two Motor vehicles which had been given under the Lunawa Project in the year 2012 for the use of the Corporation’s activities, had been utilized for the activities of the Ministry of Water Supply. Nevertheless, actions had not been taken to repossess those motor vehicles to the Corporation. Further, the Corporation had not taken follow up actions on those motor vehicles after 2013.

(i) According to the examination conducted by the Internal Audit Division of the Corporation, it was observed that proper monitoring system had not been carried out over the fuel issuing procedure for the sites of the Corporation and as a result, 115,268 fuel litters valued at Rs.10.96 million had been misused during the year under review.

(j) Without the supervision of the in - charge of Transport Division, 57 motor vehicles had been run by various divisions of the Corporation as at end of the year under review. Some of the motor vehicles had not been adequately run and due to that reason a sum of Rs.4.84 million was paid to 25 rented motor vehicles during the year under review.

(k) Due to inadequacies in the Provisions of the Act, a Cabinet memorandum had been furnished to the Cabinet of Ministers in the year 2012 in order to make necessary corrections by amending the Act. However, actions had not been taken to make amendment to the Act up to end of the year under review. Furthermore, due to such kind of weaknesses in the Act, adequate measures had not been taken against the complaints received on unauthorized filling of lands.

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 Kollonnawa Salamulla (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) 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 such lands amounted to Rs.90.72 million as at 31 December of the year under review, and interest payable thereon amounted to Rs.103.06 million indicating 113 per cent of the compensation payable. This situation had directly been attributed to the failure in coordinating with the Divisional Secretariats thereby expending the payment of compensation so as to minimize the interest. Furthermore, as a period of 11 to 35 years had lapsed in taking over the lands, it was further observed that those lands had been encroached.

(c) The Divisional Secretariat of Ja-Ela had informed the General Manager of the Corporation, through his letter dated 8 August 2016, to take immediate actions regarding the unauthorized filling of a land of about 4 acres in extent situated in Ekala adjoining to the Valukarama Temple. According to the instructions given by the General Manager in this regard, the Security Division of the Corporation had conducted a field investigation on the same date and the report thereon had been handed over to General Manager on 12 August 2016. As well, The person who filled the land without having the authority had been summoned to the Corporation on 18 August 2016.

The following observations are made in this regard.

(i) Although the corporation had received many complaints regarding those unauthorized fillings from the media and state institutions and from the general public during the period from 08 to 11 August 2016, immediate actions had not been taken to conduct the investigations. Instead, examinations had been conducted after 10 days, since the complaints received date and that opportunity was taken to complete the filling of land. Due to the reasons viz taking of long period of time to investigate the complaints, lack of continuous field inspections, delays in furnishing of examination reports and lack of prompt legal actions against unauthorized fillings the land owner had filled the land as the his discretion without the permission.

(ii) Although an investigation report had been submitted by the wetland management Division of the Corporation on 14 September 2016 after lapse of over one month, it had not been reported the unauthorized filling area and boundaries and effect for flooding and water drains. Also an analyse had not been made relating to storm water behavior and flood vulnerability. As such, it was observed in audit that external parties (Particularly the Court) could not be able to understand material understanding on bad effect of unauthorized filling.

(iii) According to the legal authority give by the Act, a legal action had been taken by the Corporation regarding that unauthorized filling, after lapse of 2 months, since the date of receiving the complaints on 14 October 2016. The Corporation had failed to substantiate that subjected land as low, marsh, swamp, barren or fen land, located in the Ja-Ela Urban Council area, and casing effect to storm water flows and to the flooding patterns. Hence, the Court had rejected case. It was observed that this kind of weakness are hindrance to avoid the unauthorized fillings.

(d) One hundred units of goods and equipments had been identified as disposable items during the year under review and out of that 42 items had been kept in the stores without being disposed.

4.4 Transactions of Contentious Nature

The following observations are made.

(a) The sum of Rs.31.31 million due to the Corporation on the construction of a monument together with a commemorative museum in the year 2014 pertaining to a former politician of the Hambantota District Contray 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.

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 materials and out of those advances Rs.01 million had not been settled even upto the end of the year under review.

(b) Action had not been taken to reimburse the project expenditure amounting to Rs.46.36 million incurred by the Corporation in the year under review, on behalf of the Metro Colombo Urban Development Project that had been implemented under World Bank assistance.

(c) The Corporation had planned to dispose 9 motor vehicles during the year under review and recommended to obtain condition reports thereon. However, without obtaining the condition reports, bids had been obtained. Those vehicles had not been disposed even upto end of the year under review.

(d) A Cricket ground, extent of 2 hectares, had been constructed in an area acquired by the Corporation for reserve as a water reservation area, Under the Grater Colombo Flood Control and Environmental Project.

(e) Even though the mobilization advances amounting to Rs.37.31 million had been granted to 7 sub-contractors under the warasgaga storm water drains and Environment Development Project, actions had not been taken to recover 10 per cent of the mobilization advances that should be recovered from the interim bill payments of the year. Without being certified the works done by the sub-contractors and without being obtained the measurement sheets, a sum of Rs.22.20 million had been paid by the corporation based on the request made by the sub-contractors.

4.5 Apparent Irregularities

The following observations are made.

(a) In the Project costs related to the Treasury funded projects conducted by the Corporation, had been included the overheads expenditure of the Corporation too. However, out of the capital grants amounting to Rs.2,296.80 million received from the Treasury in the year under review, a sum of Rs.1,042.38 million or 45 per cent had been obtained as over head expenditure of the Corporation. It was further observed that the amount charged so had been become a net profit to the Corporation. As a percentage of gross profit, that amount represented 69 per cent of the gross profit. In addition, 40 per cent of the salaries and wages expenditure incurred by the Corporation in the year under review had been reimbursed by the Treasury Grants.

(b) A sum of Rs.88.12 million had been obtained by the Corporation in the year under review, without certifying the work done submitting only the interim payment certificates, for 3 projects conducted through the Government Grants.

(c) A sum of Rs.1,568,248 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

The following observations are made

(a) Although a Legal Division had been established in the Corporation comprising 4 Lawyers, a sum of Rs.1.82 million had been paid to external Lawyers as legal expenses in the year under review.

(b) Ten double cabs had been obtained by the Corporation on rental basis during the year under review, by paying Rs.105,000 for maximum mileage of 1500 Kilo meters per month and in addition to that a sum of Rs.75 per Kilo meters to be paid for extra mileage. In an audit test check conducted relating to 08 vehicles, it was observed that the average mileage of a cab was 2,000 Kilo meters to 3,000 Kilo meters per month. However, actions had not been taken by the Corporation to increase allowed mileage of a cabs beyond the limit of 1,500 Kilo meters. As a result, a sum of Rs.2.57 million had to be incurred for additional mileage of 35,502 Kilo meters. Furthermore, an adequate attention had not been paid to run the maximum mileage of vehicles in order take advantages to the Corporation.

(c) Under the flood control and Environmental Development Project, the lands extent of 378 hectares had been transferred to the Corporation and according to the Cabinet decision No.96/1760/111/125 dated 15 August 1996, those lands had not been leased on short term basis. Hence, considerable rent income that could have been collected had been lossed by the Corporation since a period of more than 20 years.

4.7 Procurement and Contract Process
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The following observations are made.

(a) Although a period of more than two years had lapsed by the end of the year under review to complete the construction of Diyatha Uyana, the financial progress of the Project had been Rs.52.69 million indicating 42 per cent of the estimated value.

(b) The value of the work complete in respect of the Contract for the construction of 792 houses in Kollonnawa and Salamulla (Building A,B,C) amounted to Rs.653.02 million, but certified value amounted to Rs.281.34 million, and remaining value of the work completed amounting to Rs.371.68 million had not been certified even after lapse of more than two years.

(c) The Physical progress of 04 contracts valued at Rs.340 million that should have been completed by the year under review, had remain as low as between 1 to 24 per cent.

(d) Due to the conducting of the development activities of the Bolgoda Cannel banks without being done a basic study and a without having a plan, the cannel banks had been demolished and as a result, a sum of Rs.950,000 had to be incurred to reconstruction of the cannel banks during the year under review.

(e) The estimated cost of 14 completed projects by the Corporation during the year under review amounted to Rs.1,156.50 million and where as the actual cost amounted to Rs.274.40 million. Thus indicated a variation of 76 per cent. Further, a sum of Rs.943.54 million had been incurred for 10 projects exceeding the estimated cost. It was observed this situation was created due to planning of projects without having a prestudy.

(f) Out of the invoices submitted for 8 completed contracts by the Corporation, the value of work done amounting to Rs.35.90 million had not been certified by the client since a period more than 5 years as at end of the year under review. Also, uncertified work done value relating to 27 contracts, out of the invoices submitted, over a period of 01 to 5 years amounted to Rs.646 million. Not submitting of invoices by the Corporation within the due time periods, changes made to primary plans, deficiencies in the construction were mainly attributed.

(g) Without being done a feasibility study, a sum of Rs.52 million had been incurred by the Corporation during the year under review, for construction of a by entrance road at Madinnagoda. However, the requirement for construction of the road had not been explained to audit. At the site inspection, it was observed that though this road had been constructed by filling a marshy land, a soil test report that should be required for the confirmation had not been obtained by the Corporation.

(h) 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 storm water of Varasgaga 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 accruing during the rainy seasons in the area such as Nugegoda, Raththanapitiya, Boralasgamuwa, Piliyandala, and Werahera, Widening the existing system of canals, protecting the banks of canals, construction of reservoirs by protecting the flood refection areas, and construction of new culverts and bridges.

The following observations are made in this connection.

(i) The Project had been planned to implement on 04 October 2013 and scheduled to be completed 24 October 2018, within 5 years. As a period of over 3 years had been spent on the project by end of the year under review, 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 had available to audit that the actual physical progress as at that date was around 23 per cent and the activities in zones Nos. 3,4,6 had not been started. 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.

(ii) Sixty contract works which should be completed within a short period of time, 3 to 6 months as at end of the year under review, had been given to sub-contractors as packages and mobilization advances amounting to Rs.337,080,517 had been given to them as at 31 December of the year under review. The balance of unsettled advances, including the balances that remained outstanding for over one year, amounted to Rs.170,860,858. As such it was observed that the advances granted to the contractors by utilizing loans for the projects, had been remained in hand of the contractors an unusual period of time.

(iii) 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.444 million had been invested in repurchase orders (Repo) as at 31 December of the year under review. As well, the interest income received on that investment amounting to Rs.25.32 million had been shown as an income of the Corporation in the financial statements of the year under review instead of being shown as income of the project.

(iv) According to the loan agreement, the Corporation had failed to settle the interest on the loan of Rs.2,798 million and the loan installments amounting to Rs.726.54 million on due duties. Hence, the bank had suspended to released remaining balance of the loan amounting to Rs.11,429 million on 28 July 2015. Lack of proper financial management system had mainly attributed to this situation.

(v) To obtain the remaining loan balance amounting to Rs.11,429 million that required to continue the project, and to repay the bank loan balance of Rs.2,550 million and interest thereon in installment basis, a Cabinet memorandum No.2016/cp/56 dated 29 July 2016, had been furnished by requesting funds under the Treasury allocation. However, the cabinet had decided that inability to provide allocations for the expenditure of the project and manage the project expenditure within the limit of provisions allocated through the annual budget to the Corporation. According to the above facts, continuation of the Project was questionable in audit. However, by paying adequate attention, amended action plans had not been prepared by the Corporation. Furthermore, it was observed that residents lived in nearby houses to the canals, had been temporally removed for the purpose of projects activities. Thus, if the project would not be completed within the expected time period, the Corporation would face to various social problems.

(vi) Action had not been taken to acquire the required lands for the projects since the year 2012. Nevertheless, any land had not been acquired under the provisions of the Land Acquisition Act, though the land acquisition process had been continued for over 4 years and lands extent of 267.67 hectares had only been acquired under the Land Acquisition Act. However, the extent of lands that should be acquired under the project, had not been identified. Further, the land acquisition progress had not been furnished to audit.

(vii) According to the Cabinet Decision No.අමප/13/0781/503/065 dated 08 July 2013, the agreements should be signed with affected persons due to the project’s activities, before make the payment of 80 per cent of advances, on the estimated value of the buildings and other properties. However, a sum of Rs.54.62 million had been paid without being signed the agreements and another a sum of Rs.18.88 million had been paid to some persons exceeding the advance limits.

Although the Cabinet of Ministers had decided to obtain observations from the Ministry of Land and Land Developments, a sum of Rs.31.07 million had been paid without obtaining said observations.

(viii) Without obtaining the recommendations from the Committee on Confirmation of Ownership of the properties, a sum of Rs.3 million had been paid to 12 co-families as compensations during the year under review.

(ix) A sum of Rs.35.52 million had been paid for the constructions and structures that had been removed due to security reasons, without having a Cabinet Decision and without obtaining a compensation report from the Government valuer.

(x) Under the Raththanapitiya Katuela Development Programme, it had been planned to demolish and remove a bridge, located on the way to a business place in Raththnapitiya old Kesbewa road, and subsequent to the development of canal it had scheduled to be reconstructed. However, a sum of Rs.1.84 million had been paid to the above business owner for that bridge.

(i) The Corporation had called for quotations at the commencement of the year for renting motor vehicles for the year under review, and suppliers and the vehicles rents had been determined. However, when renewing the rent agreements, the rental charges had been decided based on the earlier decided charges without calling for fresh completive bids. A sum of Rs.4.84 million had been paid as rental charges during the year under review. Further, the same procedure had been followed by the Corporation for purchase of building materials and building materials amounting to Rs.328.70 million had been purchased during the year under review.

(j) Steel sheet piles valued at Rs.73.71 million (excluding tax) had been purchased by the Corporation during the year under review and the following observations are made in this regard.

(i) According to Section 2.7.5 of the Government Procurement Guideline, a Department Procurement Committee had been appointed by the Secretary to the Ministry to perform procurement of the Corporation for the year under review. However, above procurement had been performed by another Committee.

(ii) Contrary to Section 2.8.1 of the Government Procurement Guideline, the Head of the Research and Planning Division of the Corporation had been represented the procurement Committee. An external representative to the Corporation had not been represented.

(iii) According to Section 3.1 of the Government Procurement Guidelines, when the capacities of local suppliers are limited, the International Completive Biding (ICB) procedure should be applied. However, the Corporation had been followed the National Competitive Biding procedure for the above procurement.

(iv) As well, that procurement had not been included in procurement plan of the Corporation for the year under review and the purchasing requirement of the steel sheet piles and particulars relating utilization the expected projects, had not been explained to audit. Further, those goods had been kept in idle in the stores without being used as at end of the year under review.

(k) An accumulated loss of Rs.15.97 million had been sustained by the Corporation in the year under review, due to the suspending of 3 external construction contracts that had been conducted by Construction Division of the Corporation.

4.8 Resources of the Corporation Released to other Institutions

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The following observations are made.

(a) Four officers of the staff of the Corporation had been released to other Public institutions in the year under review contrary to the provision set forth in paragraph 8.3.9 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, and a sum of Rs.1.82 million had been incurred by the Corporation on their salaries and allowances. Furthermore, a motor vehicle belonging to the Corporation had also been released to the Line Ministry.

(b) A Double Cab which had been given to the Corporation by the Metro Colombo Urban Development Project for the use of its sub-project had been given to the major project without being used it for intended purpose.

4.9 Staff Administration

The Following observations are made.

(a) The approved cadre of the Corporation as at 31 December 2016 had been 1,872, where as the actual cadre as at that date had been 1,428. A number 487 vacancies had been existed in each of the posts, and an excess cadre of 43 had been existed. The vacancies in the major posts of Deputy General Manager (special projects) and Deputy General Manager (planning and development) were attributed to low performance of the Corporation.

(b) Action had not been taken to amend the cadre of the Corporation including 58 staff members that had been recruited to the Corporation based on the reimbursement of salaries end of the year under review by the Land Reclamation and Development Company, the Subsidiary Company of the Corporation.

4.10 Identified Losses

The following observations are made.

(a) As the Corpoartion had not assessed the lease rent after the year 2005 the building extent of 3,186 square feets leased to the Sri Lanka Land Reclamation and Development Company (Pvt) Limited, the Corporation had deprived of the lease rent receivable at present.

(b) A loss of Rs.5.21 million had been sustained by the Corpoartion for the year under review due to improper management of the Soil Testing institute operated under the Corporation.

4.11 Idle and underutilized Assets

The following observations are made.

(a) A show moving stock balance costing Rs.189.16 million were existed as at 31 December of the year under review.

(b) Two hoists valued at Rs.10.36 million, and scare folding 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 remaind 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.

(c) 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.

(d) A lathe machine purchased by the Corporation for Rs.2.09 million in the year 2012, had been kept in idle without being used for over 4 years since the date of purchase and the lathe works had been done from outside institutions.

(e) The Kitchen equipments costing Rs.1.46 million purchased in the year 2014 by the Corporation for the cafeteria in Bellanwila had not been utilized and those equipments had not been entered in the stock register.

5. Accountability and Good Governance

5.1 Corporation 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 preceding 3 years and etc.

(b) Although the projects valued at Rs.11,836 million had been included to the Corporate Plan, the Management had not certainly identified such Projects.

(c) The functions required to carry out the following activities entrusted by the Act of in corporation, 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 banks of canals as a reservation of the canal thereby publishing thorough a gazette notification preventing temporary or other permanent construction thereon.

(d) Adequate measures had not been taken by the Corporation to fulfill the strategies identified in the Corporate Plan and performance had not been evaluated according to the setout key performance indicators.

(e) A sum of Rs.892 million had been allocated in the Corporate Plan in respect of the projects to be identified for the year under review, representing 78 per cent of the total cost of 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 and the post of the Deputy General Manager (Internal Audit) was vacant up to end of the year under review.

5.3 Procurement Plan

A main procurement plan had not been prepared including procurement activities relating to the preceding 3 years (2016-2019) in terms of Section 4.2 of the Government Procurement Guidelines. Further, a detailed procurement plan for the year under review had not been prepared and each of the individual procurement activities, estimated values of the activities, the procurement committees that should be appointed based in the value of the activity, and suitable procurement time table had not been included to the prepared plan. Furthermore, Action had not been taken to up date the procurement plan for every 6 months period.

5.4 Budgetary Control

Significant variances ranging from 9 per cent to 322 per cent were observed between the estimated and 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.

5.5 Unresolved Audit Paragraph

The following matters pointed out in the previous audit reports had remained unresolved even up to 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 to be taken against a party who 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.

(e) In accordance with the Cabinet Decision No.අමප/93/340/041, dated 31 March 1993, the plot of land on the Elvitigala Mawatha, 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 the second lessee for the rest of the lease period of 84 years. The second lessee had delegated all the powers entrusted to him through the lease agreement on 30 June 2010, to a sub-lessor in the year 2013, and despite the lack of provision in the agreement for a sublease, the Corporation had agreed to proceed with request made by the sub lessor to sub lease the same land to another private company for a period of 3 years.

(ii) 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.

(iii) 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 on Cabinet decision, by cancelling a lease agreement entered into an 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 years lease period. Nevertheless, that Section had been breached as well.

(iv) 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 revaluating the land. As such, the Corporation had sustained an extensive loss.

(f) Verasgaga storm water drain and environment development project.

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 Work Schedule in respect of the system of canals, bridges culverts, maintenance routes, and water retention areas etc.

(ii) 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.

(iii) 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.

(iv) 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.

(v) 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 bot been built in accordance with the Standards.

(vi) 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 contracts. The reasons for diving 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 the action had been taken to estimate and pay preliminaries over Rs. 1 million for activities such as construction of toilets for sanitation, construction of officers, and allocation of technical officers in respect of each of those subcontracts.

(g) A sum of Rs. 95.14 million had been over expended, than the estimated contract value of Rs.516.44 million, for the contract of construction of 216 houses (A building) in Kolonnawa Salamulla housing scheme.

5.6 Commitment to the Environmental and Social Responsibility
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The following observations are made.

(a) At the field inspection conducted on 07 June 2017, it was observed that about 700 tons of daily collected garbage by the Colombo Municipal Council, had been released, without being done an environmental and a feasibility studies, to the Muthurajawela marsh which is belonged to the corporation and identified as high risk natural environmental system by the Central Environment Authority. Nevertheless, the Corporation had not taken steps to stop the garbage dumping. In addition, it was further observed that due to those garbage dumping, water an air of the Reservation had been polluted, by creating an endanger situation to the inhabited animals of the Reservation and to the natural environment.

(b) Even though the Corporation had gazetted the low, marshy, barren or swamp lands situated in 4 provinces except the Western province, a mechanism had not been introduced to identify the unauthorized reclamations and unauthorized settlements and officers had not also been appointed to investigate this situation. Hence, it could not be ruled out in audit that the corporation would directly face to various social and environmental issues.

(c) Even though the land acquision activities of the Varasgaga storm water drain and environment development project had been delayed for over 4 years, the progress of land acquision process was at very low level. As a result, the residents in the affected houses had been suffered from hopeless situation. It was further observed that some homes located in the canal banks had been sunk due to the development works carring out in the canals. Acquisition of lands without having a proper plan and a study and vibration generated due to use of old machineries for the canal development activities had been directly attributed to create this situation. As well, the scheduled canal development works carried out in the said affected places had been suspended and the Corporation had failed to solve the said problems.

6. System 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 arrears of control.

	Areas of Systems and Controls	Observations
(a)	Contract Administration	Failure to implement the planned projects. Poor progress in the contracts and 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 objectives.

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 over calculated or under calculated.