Sri Lanka Land Reclamation and Development Corporation – 2017

The audit of consolidated financial statements of the Sri Lanka Land Reclamation and Development Corporation and its subsidiary for the year ended 31 December 2017 comprising the consolidated statement of financial position as at 31 December 2017 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 1000-1810). 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 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 Qualified Opinion

My opinion is qualified based on the matters described in paragraph 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 Reclamation and Development Corporation and its Subsidiary as at 31 December 2017 and its financial performance and its 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 Reclamation and Development Corporation as at 31 December 2017 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 and the LRDC Services (Pvt) Limited, the subsidiaries thereof. The ownership of the corporation in respect of the subsidiaries represented 80 per cent.

Based on the following observations, the audit opinion on financial statements of the Land Reclamation and Development (Pvt) Company for the year ended 31 December 2017 had been qualified.

(a) A cement brick manufacturing machine and the cement bricks preparation plates had been purchased by the institute for Rs.4,508,000 and Rs.2,695,000 respectively under the finance lease on 15 July 2015 and they had not been utilized up to end of the year under review. Further, impairment loss of the machine had not been identified in terms of section 27.5 of the Sri Lanka Accounting standard for small and medium term enterprises.

(b) The buildings valued at Rs.4,216,275 and used by the Company had been accounted for as the work-in-progress instead of being accounted in accordance with section 17.4 of the Sri Lanka Accounting standard for the small and medium term enterprises. As a result, the value of the building had been understated.

(c) According to the financial statements, audit evidence relating to 5 items valued at Rs.18,102,359 had not been furnished.

(d) Due to non-reconciliation balances, a difference of Rs.32,712,441 was observed between 6 balances shown in the financial statements and corresponding schedules thereof.

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) Assets included in the financial statements should be stated on the fair value. Nevertheless, the fair value of Property, Plant and Equipment costing Rs.2,071.41 million had not been assessed and shown in the financial statements by the Corporation.

(ii) Even though a loan amounting to Rs.25 million which had been given to the Land Reclamation and Development Company by Corporation during the year under review on the basis of recover the loan by 53 installments, receivable to the corporation in short term and long term had not been shown separately in the financial statements as current assets and non-current assets as per paragraph 56 of the standard.

(b) Sri Lanka Accounting Standard 07

Even though the unrealized profits and losses on changes in foreign currency exchange rates should be shown under the adjustments in the cash flow statement, the loss on foreign currency exchange rates amounting to Rs.14 million for the year under review had not been so indicated.

(c) Sri Lanka Accounting Standard 11

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 amounting to Rs.58,366,302 identified from 48 construction contracts had been understated.

(d) Sri Lanka Accounting Standard 16

Due to non-reviewing of the useful life of the non-current assets in terms of paragraph 51 of the standard, fully depreciated assets costing Rs.762.34 million were still in used. Thus, action had not been taken to rectify that estimate error in terms of the Sri Lanka Accounting Standard 08.

(e) **Sri Lanka Accounting standard 38**

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.

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

(i) The fair value of two investment properties cost of Rs.101.35 million that included in the financial statements had not been computed and disclosed in the financial statements. Without obtaining a valuation from the Government Valuer and instead, based on the valuation given by the Government Valuer to the adjoining lands, the fair value of the land, extent of 88 acres and cost of Rs.1,259.74 million, had been shown in the financial statements as Rs.5,634.52 million.

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 relating to the value of those lands had also not been explained to audit.

(ii) Three lands had been leased by the corporation on long term lease basis for Rs.360,000 as at end of the year under review had not accounted under the investment properties.

(iii) The value of the land extent of about 2 roods and 20 perches and building therein, located at the Orugodawaththa Project office, had not been shown in the financial statements.

2.3.2. Accounting Deficiencies

The following observations are made.

(a) Even though the Diyatha Uyana Restaurant owned by the corporation had been transferred to the Waters Edge Company for Rs.88.42 million during the year under review, that receivable value had not been shown in the financial statements as receivable balance as at end of the year under review.

(b) The depreciation related to the Head Office buildings amounting to Rs.1.40 million for the preceding year had been adjusted to the profit for the year under review and as a result profit for the year under review had been understated by that amount.

(c) The non-capital expenditure amounting to Rs.206,573 that included in the cost for to construction of the Vesak Stage at the Diyatha Uyana premises in the year under review had been capitalized under the relevant assets. As a result, the value of the properly, plant and equipment had been overstated by that amount.

(d) The over provisions for the doubtful debts amounting to Rs.134,036,755 had been deducted from the selling expenditure instead of being shown in the financial statements as an income of the year under review.

(e) The value of an Excavator machine and 2 Boats which had been used since the year 2012 had not been estimated and shown in the financial statements.

(f) Four Tractor Taylors belonging to the Corporation had been modernisationed as Browsers in the year 2010. However, the value of those Browsers had not been estimated and accounted even up to end of the year under review.

(g) Action had not been taken to make adjustments in the financial statements with regard to the shortage of 84 cubes of sand valued at Rs.596,344 at the Mudun Ela Sea Sand selling centre, as pointed out by the Internal Audit reports as at end of the year under review. As a result, the profit for the year had been overstated by that amount.

(h) The gratuity payable amounting to Rs.2,232,000 to the retired employees, but not gratuity paid, as at end of the year under review had not been shown under the current liabilities by deducting from the provision for gratuity account. As a result the current liabilities had been under computed by that amount.

(i) According to the financial statements the gratuity provision for the year under review amounted to Rs.61,292,000. However, in computing of the income tax, that had been adjusted as Rs.62,647,663. As a result, taxable statutory income and the payable income tax had been overstated by Rs.1,355,663 and Rs.379,586 respectively.

(j) Even though according to the computations made by audit, the Economic service charges amounted to Rs.4,857,423, that amount had not been accounted.

(k) Even though the consultancy cost amounting to Rs.1,064,340 had been accounted relating to the constructed building at Suriyawewa on behalf of an another institute, the related income thereto had not been accounted.

2.3.3 Contingent Liabilities

The Corporation had entered into an agreement to obtain 4 million cubic meters of sea sand and in order to pay the advances and progress bills of the supplier, the Corporation had obtained a letter of credit facility amounting to US$ 19.42 million. However, that had not been disclosed in the financial statements.

2.3.4 Unexplained Differences

The following observations are made.

(a) A difference of Rs.2,231,317 was observed between the balance shown in the financial statements relating to the long term employee benefits and related schedules. As well, according to the balances shown in the financial statements relating to 2 accounting items amounted to Rs.96,519,905. Nevertheless, according to the confirmation of balances for those items had been amounted to Rs.63,912,369.

(b) According to the Register of sand stock of the corporation, sea sand sales of the year was 237,046 cubic meters. Whereas, according to the Sand Sales Register that value was 235,383 cubic meters. Thus, a difference of 1663 cubic meters was observed.

2.3.5 Lack of Evidence for Audit

The following observations are made.

(a) The tax reconciliation statements relating to the Value Added Tax payable amounting to Rs.9,230,850 had not been furnished to audit.

(b) Out of the debtors balances amounting to Rs.6,052.15 million and creditor balances amounting to Rs.1,772.85 million as at end of the year under review and the values of confirmations called by audit amounted to Rs.660.98 million and Rs.250.63 million respectively. Of those debtor and creditor balances, the values of the confirmed balances amounted to Rs.123.13 million and Rs.34.84 million respectively. Thus non-confirm debtor balances amounted to Rs.537.85 million and creditor balances amounted to Rs.215.79 million.

2.4 Accounts Receivable and Payable

The following observations are made.

(a) A sum of Rs.868,698,232 to be receivable to the Corporation from the service rendering projects as at end of the year under review. Out of that receivable balance, less than 1 year was Rs.629,011,353 one year to 5 years was Rs.208,745,944 and over 5 years was Rs.30,940,932 had remained in unrecovered.

(b) Actions had not been taken either to fill the sand mining pits in the land owned by the Ceylon Electricity Board in Muthurajawella since the period of 5 years or to make the payment for estimated value of the sand amounting to Rs.171 million up to end of the year under review.

(c) 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 unfavourable fluctuations in foreign exchange rates that occurred during the relevant period, the sum payable had increased up to Rs.104.93 million as at 31 December of the year under review and foreign exchange loss of Rs.14.15 million had also been sustained.

(d) 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.18.36 million had remained unsettled for period of 2 to 5 years.

(e) Actions had not been taken to deduct the mobilization advances balance amounting to Rs.495.97 million, when making payment to the relevant bills and out of that the balance for over 2 years amounted to Rs.172,755,613. As well, the balance of the mobilization advances given to the sub- contractors amounted to Rs.94,121,853 and out of that amount, a sum of Rs.32,913,574 had remained as unsettles for over one year.

(f) The value of the unsettled tender deposits amounted to Rs.26.70 million.

(g) The corporation had failed to recover the rent amounting to Rs.7,650,907 up to end of the year under review from the Land Reclamation and Development Company for lands and building given to that company on rental basis for the period from the years 2003 to 2012.

(h) The compensations to be payable for the lands acquired, extent of 274.5 acres, amounted to Rs.62.25 million and out of that amount, a sum of Rs.19.74 million had remained unsettled for a period 2 to 5 years and another sum of Rs.25.56 million had remained unsettled for over 5 years. As well, the interest to be payable on the unpaid compensations amounted to Rs.106.90 million and the Corporation had not taken actions to settle sums of Rs.17.67 million and Rs.71.25 million for 2 to 5 years and over 5 years respectively, out of that payables.

(i) The loans given to the vacated and dismissed employees from the service amounted Rs.137,890 and out of that, outstanding balance for over 5 years amounted to Rs.127,890. The corporation had not instituted legal actions in order to recover the loans.

(j) A sum of Rs.47.36 million had been shown in the financial statements as receivable for the construction of the Medamulana D.A.Rajapaksa Memorial Centre. However, according to balance confirmed by that institute, it had been informed that no outstanding balance to be paid to the Corporation.

(k) Action had not been taken to settle the mobilization advance amounting to Rs.68 million received by the Corporation in the year 2014 for the construction a service centre in Hambantota, up to 30 September 2018 and the project had been abandoned at the end of the year under review.

(l) Three construction works that had been commenced in the year 2015 by the Corporation had been suspended by the Urban Development Authority. However, the Corporation had not taken actions to recover the demobilization cost amounting to Rs.27.29 million from the Authority up to end of the year under review.

(m) The Corporation had rented a cafeteria situated at Kibulawala to a Company and the corporation had failed to recover the rent receivable thereon since the preceding year amounting to Rs.24.58 million up to end of the year under review.

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 only 05.
	(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 419 acres out of the lands in Muthurajawella and Mudun Ela, 800 acres in extent taken over by the Corporation in the year 1995, had been developed representing a value as low as 52 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.3,123.12 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)	Sections 113 and 173 (2) of Inland Revenue Act No. 10 of 2006	According to the self-assessment basis, the income tax should be paid quarterly. However, the corporation had paid a sum of Rs.71,046,835 only for the fourth quarter on self-assessment basis for the assessment year under review. The income tax payable for the year under review amounted to Rs.327,091,000.
(e)	Public Finance Circular No.03/2015 dated 14 July 2015	
	(i) Amended Financial Regulation 371 (2)(b)	• The ad-hoc sub imprest amounting to Rs.11,676,147 had been paid exceeding the limits of Rs.100,000 in 55 instances. Further, prior approval of the General Treasury had not been obtained to make the payments exceeding the finance limit. • Even though ad-hoc sub imprest should be paid only the specified activities, the ad-hoc sub-imprest amounting to Rs.6,802,260 had been paid in 36 instances for the general activities of the corporation such as construction contract and works.
	(ii) Amended Financial Regulation 371 (5)	Actions had not been taken to settle 09 imprests amounting to Rs.967,500, up to 31 December of the year under review, out of the ad-hoc sub-imprest given in the year under review. Further, after being completed the intended works, the sub-imprest should be settled within 10 days. However, according to the audit test check conducted relating to 19 instances, for the settlement of sub imprest amounting to Rs.791,800 had been taken from 29 to 221 days period.
(f)	Financial Regulation of the Democratic Socialist Republic of Sri Lanka	
	(i) Amended Financial Regulation 103	Actions had not been taken in accordance with this regulation with regard to 11 Tractors Taylors costing of Rs.399,677, which had been damaged since the year 2010 and Dagger Machine, costing Rs.7,651,700, which had been damaged in the year 2012. Those assets were included to the Assets Register of the Corporation up to end of the year under review.

	(ii) Financial Regulation 139	Due to the issuing of cheques without being checked the cash book balance by the Corporation, the bank overdraft balance as at end of the year under review amounted to Rs.31.79 million.
	(iii) Financial Regulation 237	The final payment should be made after paying the advance and subsequent to the receiving of goods to the stores. However, contrary to this requirement, a sum of Rs.57.28 million had been paid to the supplier, before receiving 2 water pumps to the stores, purchased during the year under review.
	(iv) Financial Regulations 423 and 431(3)	A Investment Register had not been maintained for the miscellaneous bonds, deposits and investments.
	(v) Financial Regulation 571	Actions had not been taken by the Corporation to settle the retention money amounting to Rs.14.23 million related to 50 completed contracts and remained over 3 years without being settled.
(g)	Paragraph 6.1 of Chapter VIII of the Establishment Code of the Democratic Socialist Republic of Sri Lanka	Contrary to Financial Regulation, a sum of Rs.240,805 had been paid for 23 employees for 1,750 hours of the months of September, October and November of the year under review, based on the targeted over times, without considering actual hours worked.
(h)	Extra Ordinary Gazette 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 only Rs.103.65 million.
(i)	Guideline for transferring of Government lands No.SEI/A/4/34 dated 12 July 1995	(i) Contrary to the Circular instructions, the valuation made by the Chief Valuer had not been evaluated by a special committee again, 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, action had not been taken to repossess the land to the Corporation.

(j)	Section of 9.7 of the Public Enterprises Circular No.PED/12 dated 02 June 2003	Without obtaining the Approval of the Treasury, incentive totaling Rs.40.95 million had been paid to the staff in the year under review only on the approval of the Board of Directors.
(k)	Public Enterprises Circular No.PED1/2015 dated 25 May 2015	Exceeding the stipulated fuel limit of the Circular and without obtaining the required approvals, 24,560 fuel litres valued at Rs.2,656,637 had been given to 21 officers of the Corporation during the year under review.
(l)	Decision of the Cabinet of Ministers No.අමප/13/0781/503/065 dated 08 July 2013	Before the payment of 80 per cent of advance for the affected persons' building and other structures due to the Warasgaga Storm Water Drainage and Environment Improvement Project, it should be entered into the agreements. However, without being entered into the agreements, an advance of Rs.76.72 million had been paid up to end of the year under review.

2.6 Transactions not support by Appropriate Authority

The following observations are made.

(a) A sum of Rs.2,132.20 million had been received from the Treasury during the year under review as capital grants and out of that, a sum of Rs.547 million or 25 per cent had been obtained for overhead expenditure of the Corporation without obtaining the formal approval thereto. Further, without obtaining the Treasury approval a service charge amounting to Rs.28 million had been charged.

(b) Even though a Floating Water Sprinkler machine and 2 mobile water sprinkler machines valued at Rs.83,025,000 had been purchased by the Corporation during the year under review using the Treasury grants, a feasibility study relating to the requirement of the machines and location of utilization had not been carried out and the Treasury approval had not been obtained for the procurement. Further, without being utilized the machines, they had been kept at the store premises in unsecured manner as at end of the year under review.

(c) Out of total cost incurred for the Werasgaga Storm Drainage and Environment Improvement Project during the year under review, a sum of Rs.84.90 million or 17 per cent had been recovered as the management fee of the project, without obtaining the Treasury approval. The management fee so recovered since the year 2014 amounted to Rs.313.14 million. In addition, a sum of Rs.111.35 million had been obtained from the project fund as staff salaries of the project.

(d) A sum of Rs.11.20 million had been incurred by the Corporation during the year under review without regular approval for the development activities carried out at a land belonging to the Urban Development Authority for the Vesak festival of the United Nations. However, that amount receivable from Urban Development Authority, the reimbursement of that value had been rejected by that Authority.

3 Financial Review

3.1 Financial Results

According to the financial statements, the profit after tax of the Group and the Corporation during the year under review had been Rs.1,080.54 million and Rs.1,058.76 million respectively as against the profit for the preceding year amounting to Rs.1,221.28 million and Rs.1,193.99 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 a deterioration of Rs.140.74 million and Rs.135.23 million respectively. Increase of administration and development expenditures by Rs.133.22 million and Rs.108.52 million of the Corporation had mainly attributed to the said deterioration.

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.157.89 million in the year 2015. Again in the year 2016 financial result had been a profit of Rs.1,193.99 million and that had become a profit of Rs.1,058.76 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 2013, and reached to Rs.1,681.06 million during the year under review.

3.2 Analytical Financial Review

The following observations are made.

(a) Even though as compared with the preceding year, the gross profit ratio of the Corporation had increased by 11 per cent, the profit earn from the main activities of the Corporation had decreased by 0.5 per cent. Further, compared with the preceding year, the other operational income had increased by 100 per cent. But, due to the increase of other operational expenditure including the administration expenses by 30 per cent, the net profit ratio of the Corporation was at 14 per cent.

(b) As compared with the preceding year, the debtor turnover ratio and debt collection period were at low level and it was further observed that this situation was a weakness of the debt management.

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.

4.1.1 Planning

A Corporate Plan had been prepared by the Corporation for 04 years period from 2017 – 2021 and the following observations are made in this regard.

(a) The following stipulated activities in the Corporation Act, had not been included to the Corporate Plan.

(i) Publicizing of the marshy lands, muddy and barren lands situated in the Island wide through the Gazette after being identified, in order to control the unauthorized land reclamations and conduct the supervision.

(ii) Identification of the embankment area of a cannel as the reservation lands and publish in the Gazette such lands in order to avoid the temporary and other constructions.

(b) The Corporation had not taken adequate actions to achieve the identified strategies through the Corporate Plan and the performance had not been evaluated as per the key performance indicators.

(c) Even though the projects valued at Rs.6,036 million had been included to the Corporate Plan, the management had not been specifically identified those projects.

(d) The particulars of the own projects which should be implemented from the year 2018 and construction projects, included in the corporate plan, had not been identified.

(e) A sum of Rs.658.17 million representing 10 per cent of the total project cost had been allocated in the Corporate Plan for the projects of which should be identified in the year under review.

(f) Even though the activities indicated in the Corporate Plan had been identified under Section 8 and 9 of the Corporation Act, the activities related to the other Sections had not been indicated.

4.1.2 Activity and Review

The following observations are made.

(a) According to the Cabinet decision made in the year 1996, an extent of about 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 under the Greater Colombo Flood controlling and environment improvement project as the specialized institution for the implementation of conservation and controlling measures, in order to protect them as water retention area. The sole responsibility for removal of unauthorized settlers and reclamations is vested with the Corporation. However, about 62 acres had been acquired by the unauthorized settlers and another 79 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 full 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 setters in the year 2013, those activities had not been completed even up to end of the year under review and the physical progress achieved was 50 per cent.

(b) Although 1321 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 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 even up to end of the year under review.

(d) Out of the 84 contracts received by the Corporation during the year under review, 70 per cent of contracts had been completed through the sub – contractors. As a result, one of the objectives of the Corporation. i.e. “being a competitive organization in the field of construction by taking over of building engineering and construction works,” had not been achieved.

(e) The allocation amounting to Rs.800 million had been provided in the year under review for the Construction Project of the Oliyamulla Water Pump House and the financial progress of the project as at end of the year under review amounted to Rs.799.97 million. The following observations are made in this regard.

(i) A sum of Rs.615 million had not been paid by the project during the year under review for the land acquisition and providing of new houses to dispossessed house holders. However, that amount had been considered as paid amount in the financial progress.

(ii) The assessment rate numbers, name and addresses of the some of the recipients of compensations had not been indicated in the Registers prepared relating to the families which had been proposed to remove due to the Project and some of the addresses had been indicated in twice. Due those reasons the accuracy of the registers was questionable in audit.

(iii) Even though the Corporation had identified 201 dispossess houses due to the project at the first stage, the corporation had requested to allocate 205 houses from the Urban Development Authority and that was a contentious issue in audit. Furthermore, the approval of the Treasury had also not been obtained either payment of compensations to the acquired lands or providing of new houses for dispossessed houses.

(iv) The Corporation had expected to obtained a sum of Rs.112,264,131 or 17 per cent of the total project cost as overhead expenditure of the Corporation and that had not been included to the Project's expenditure estimate.

(f) Even though the Corporation had planned entirely complete 31 projects valued at Rs.1,484.81 million during the year under review, the physical progress of those projects as at end of the year under review were at low level of 9 per cent to 75 per cent.

(g) The Corporation had planned to implement 07 projects valued at Rs.776.42 million during the year under review. However, without being implemented those projects, a sum for Rs.903.54 million had been incurred to implement another 26 projects of which were not included to the Action Plan.

(h) According to the Action Plan for the year under review, the identified projects for the implementation were 46. However, the Corporation had implemented 81 projects costing Rs.2,104 million as at end of the year under review and the way of allocation of funds for 40 excessive projects had not been explained to audit.

4.2 Management Activities

The following observations are made.

(a) 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 the end of the year under review, actions had not been taken to cancel the agreement. As a result, the Corporation had deprived of the opportunity for handing over the land again to a suitable Developer.

(b) 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 totaling Rs.22.34 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.21.88 million had also been made thereof.

(c) 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.630,000.

(d) Although the income collected from the Katharagama and Nuwaraeliya Circuit Bungalows amounted to Rs.3.25 million, the expenditure incurred thereon amounted to Rs.7.46 million. Thus a loss of Rs.4.21 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.

(e) 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.

(f) Even though 02 Motor vehicles which had been given under the Lunawa Project in the year 2012 for the use of the Corporation’s activities, they 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.

(g) 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 correction 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 steps had not been taken against the complaints received on unauthorized filling of lands.

(h) When appraising the project proposal that prepared to obtain a bank loan amounting to Rs.4,000 million, to procurement of 4 million cubic meters of sea sand, the demand for the sea sand had been forecasted by adding a percentage to the current selling quantitates of the sea sand.

Accordingly, it was observed that if the Corporation would fail to achieve the expected sales targets, it would difficult to pay the loan installments and interest thereon. For example, according to the project appraisal report, it had been forecasted to earn a sum of Rs.1,993.59 million by selling of 257,238 Cubic meters of washed and sieved sea sand during the year 2018. However, only 33,435 Cubic meters of sea sand had been sold up to 31 August 2018. Further, as compared to the net assets of the Corporation, the loan so obtained had been become high value of 87 per cent and as a result, that situation had been badly affected to the liquidity assets of the Corporation.

(i) Even though the income from the disposing of garbage from the Kerawalapitiya garbage site as at end of the year under review amounted to Rs.466,431,038, the Corporation had failed to recover a sum of Rs.355,098,116 or 76 per cent out of that income.

(j) Without being obtained a Government valuation report, a land of 180 perchs in extent belonging to the Corporation, situated in Dehiwala Aththidiya, had been rented to a Private Company on 28 December of the year under review based on the valuation obtained for renting out of a joining land to the said land, in the preceding year.

(k) The annual rented value obtained from the Government Valuer for the land of 31.91 perchs in extent belonging to the Corporation situated in the Kirimandala Mawatha, Colombo 05, amounted to Rs.2,610,000. However, the Board of Directors had decided to reduce that Government value up to Rs.326,250 and to charge that value from the lessee. As well, even though that land had been used by the lessee since 01 January of the year under review, a legal agreement had not been entered with the Corporation up to September 2018.

(l) In conducting of the auction by the Corporation in the year under review to dispose the damage goods, the Auctioneer had valued 4 items for Rs.1,460,000 and the bid value furnished by the bidders for those items amounted Rs.2,831,677. However, actions had not been taken to purchase the items by the bidders. The Corporation had decided to charge 1 per cent of refundable deposit from the estimated value of the goods, without being identified the nature of goods up for auction and value of each item, and that was attributed to said situation.

(m) The actual time taken for repairing of 20 motor vehicles from the Service Division of the Corporation was ranging from 3 hours to 10 hours. But, more than 2 months had been taken to handed over the motor vehicles and that was questionable issue in audit. Further, even though the time worked by 25 employees of the Service Division during the month of September of the year under review was 5,343 hours including 1,302 over time hours, the actual time worked was 1,240 hours. Thus, the idle time during that period was 4,103 hours. Hence, it was observed that the Management functions of the service and maintenance Division of the Corporation had not been carried out efficiently and effectively.

(n) Even though the main source of income of the Corporation was selling of sea sand for land reclamations and constructions, the Corporation had not been followed a proper stock management procedure for management of stock levels. As a result, it was failed to identify the stock levels as at end of the year under review, prior to reaching the replacement levels. Hence, immediate actions had to be taken to select a contractor to extract the sea sand by calling tenders and 03 months had been given to handover the bids from 30 May 2017 to 30 August 2017. Four bidders had furnished the bids and the second bidder had been selected on the ground of lack of adequate time to further evaluate the qualifications of the lowest bidder, due to diminishing of the sand stocks. Due to removing of the lowest bidder, a loss of US$ 800,000 had been incurred by the Corporation.

Furthermore, as it can not be used the sea sand for construction works immediately after being extracted, the Corporation had taken actions to sell the sand after being washed. Although 185,552 Cubic meters of sea sand had been extracted up to August 2018, only 45,973 Cubic meters had been sold after being washed. It was questionable in audit that the profitability and practical aspect of that process.

(o) Due to non-application of proper mechanism to evaluate the physical performance of the Projects, the management of the Corporation had failed to furnish the physical progress of the Projects implemented by the Corporation as at end of the year under review and only the financial progress had been furnished to audit. Further, way of management of the Projects by the Corporation considering only the financial progress without being understand the physical progress was a questionable matter in audit. On such a ground, the physical progress of most of the projects implemented by the Corporation was at a lower level.

(p) Four stalls belonged to the Corporation situated at Bellanwilla had been closed since May of the year under review without being taken actions to rent out. The rent in arriers for those stalls up to end of the year under review amounted to Rs.717,623. The Corporation had not entered into formal agreements with the lessees and as a result, that amount could not been able to recovered.

(q) Even though number of working hours of 95 heavy vehicles for the year under review belonging to the Machinery and Equipment Division of the Corporation were 162,000 hours, the actual worked hours were 116,328 hours. Thus, it was observed that 45,672 hours were idle. Further, due to ineffective utilization of the idle time of the machineries, the generated income by the Corporation during the year under review from renting of machineries was at lower level of Rs.13,996,352.

(r) Ten inventory items in the Diyatha Uyana cafeteria had been removed by the Waters Edge Ltd, without being informed in properly to the Corporation and action had not been taken by the Management of the Corporation to repossess those goods up to end of the year under review.

(s) The lands which had been vested by the Greater Colombo Flood Controlling and Environment Improvement Project, 378 hectares in extent had not been leased out on short terms basis by the Corporation in term of the Cabinet decision No.96/1760/111/125 dated 15 August 1996. As a result, the Corporation had lost the rent income that could have been collected for over 20 years.

(t) Even though the Corporation had called quotations to rent out the Diyatha Uyana cafeteria, action had not been taken to rent out it during the year under review. As a result, a sum of Rs.12.12 million had been deprived of to the Corporation.

(u) When hiring the machines and equipment to the external parties, the fees should be charged based on the minimum of 4 hours per day. However, due to not charging of the fees accordingly in 07 instances for hired equipment by the Corporation, a sum of Rs.205,400 had been deprived of to the Corporation.

(v) As a new business opportunity the corporation had planned to sell washed and sieved sea sand after being extracted and to implement a project for the construction of 400 houses for middle income families. However, a market survey had not been conducted in order to understand the success of the Projects.

4.3 Operating Activities

The following observations are made.

(a) Deviating from its incorporated primary objectives of the Corporation, actions had been taken to earn the income from implementing Projects from Treasury financing, selling of sea sand and selling of lands belonging to Corporation and leasing of land on long term basis during the preceding years. The total income generated from such sources were raining from 50 per cent to 81 per cent, during the preceding 5 years period.
On that situation, publishing of low laying lands after being identified, as a social responsibility, had been limited to 5 provinces and the changes taken place in the land utilization patterns, due to the development activities that had been carried out at the national and regional levels had affected to the natural strom water canals and to cause bad effects on environment. However, the activities such as preparation of plans to mitigate such effects and to minimize and controlling of floods caused due to the storm water had been carried out at minimum level. Further, the Corporation had not made adequate attention to collect the required data for such planning activities such as water levels of the canals, water flowing capacities, pattern of raining etc. The annual Treasury Provisions had been obtained for the collection of such data. Furthermore, the Corporation had failed to maintain the water gauges and raining meters which had been established in the city Colombo and the suburbs, given by the JICA Project in the year 2003.

(b) Out of 100 equipment and items that had been identified to dispose in the preceding year, 19 items had been kept in the stores without being disposed.

(c) The Corporation had purchased 10,600 Gabion structure Boxes valued at Rs.64.72 million during the year under review, using the Treasury grants. Since the constructions of Gabion walls had been carried out through the sub-contractors, the reason for purchasing of significant amount of gabion wall boxes had not been explained to audit. Further, 8,074 gabion structure boxes had not been used as at end of the year under review and that amount was represented 76 per cent of the total purchased quantity.

(d) As actions 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.62.25 million as at 31 December of the year under review and interest payable thereon amounted to Rs.106.90 million indicating 172 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 12 to 36 years had lapsed in taking over lands, it was further observed that those lands had been encroached.

(e) The unauthorized setters belonging to 464 families had settled in the Water reservation lands, 40 acres in extent and supervising and controlling activities are vested to the Corporation as at end of the year under review. Due to the activities of those setters, water of the reservation areas had been polluted and getting it filled. In order to demarcate the boundary lines, boundary line poles had not been placed and the boundary lines that had been already placed had not been properly protected and maintained. As a result, the above situation was created.

(f) Even though 515 applications had been submitted by the various parties to the Corporation for getting the approval for the land reclamation and development activities during the year under review and the preceding year, 307 applications had been furnished to the Technical Evaluation Committee and out of that only 41 applications had been approved.

(g) A cricket ground, 2 hectares in extent, had been constructed by the Corporation incurring a sum of Rs.161.23 million in the Nawala – Heen Ela area which had been acquired by the Corporation under the Greater Colombo flood control and environment improvement project as a Water reservation area. However, the Cricket ground had not been used even up to end of the year under review.

4.4 Transactions of Contentious Nature
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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 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. In addition, an advances amounting to Rs.25 million had been paid by the Corporation to the Sri Lanka Navy for obtaining construction materials and those advances had not been settled even up to the end of the year under review.

(b) Without being certified the work done reports and without obtaining the measurements of sub-contractors, a sum of Rs.29.18 million had been paid during the year under review based on the request made by the sub- contractors of the Warasgaga storm water drain project.

(c) The following observations are made with regard to handing over of the Diyatha Uyana Railway cafeteria and the Pub hall of the Corporation to the Waters Edge Company during the year under review.

(i) Even though it had been agreed with the Company on 17 January 2017 to recover the development cost of Rs.125.44 million that had been incurred to development of the cafeteria and pub hall, that development cost had been subsequently amended as Rs.88.42 million by deducting Rs.37.02 million received from the Treasury and that was questionable in audit.

(ii) Even though the Company had agreed to pay that payable amount of Rs.88.42 million to the Corporation by 5 installments within 5 years, the Corporation had not taken actions to recover the down payment of Rs.20 million and the first installment receivable on 15 July 2018 amounting to Rs.20.41 million totaling Rs.40.41 million even up to 31 August 2018.

(iii) The agreement relating to the above transfer or related documents had not been furnished to audit.

(d) A provision for doubtful debts amounting to Rs.72,475,016 had been made on the receivables from the Local Government Authorities amounting to Rs.102,382,458, releasing to the disposing of garbage to the garbage yard at Kerawalapitiya during the year under review. However, reasons for the Provision had not been explained to audit. The provision for doubtful debts had been made on the total receivable amounting to Rs.730,540 as at end of the year under review Government and Non-Government Organizations relating to the hiring of machineries.

(e) Even though the Corporation had entered into a contract valued at US$ 19,975,000 with a Foreign Company for extracting of 4 million cubic meters of sea sand, a formal agreement had not been signed and instead of that only a Memorandum of understanding (MOU) had been singed. According to Section 4 of the MOU, the mobilization advances can be paid after being singed a formal contract. However, contrary to that, a sum of US$ 994,000 had been paid to the contractor as an advance on 15 September 2018 without being signed an agreement. Furthermore, although one million cubic meters of sea sand, should be supplied by the contractor from 20 January 2018 to 15 October 2018 period, only 525,114 cubic meters of sea sand had been supplied up to 15 September 2018 and that represent 52 per cent of the agreed quantity.

4.5 Apparent Irregularities

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 Utilization of Funds

The provisions amounting to Rs.56.50 million received for the Ragama Kalu Oya and the Hambanthota Maurapura Projects had not been utilized for the relevant projects at the end of the year under review.

4.7 Idle and under utilized Assets

The following observations are made.

(a) One hundred vegetable trays purchased for Rs.2.58 million, for the use of the Diyatha Uyana Premises in the year 2014 had remained decaying in the premises of the main stores without being made use of.

(b) Eight thousand seventy four gabion structure boxes valued at Rs.50.97 million, and an Excavator Machine valued at Rs.24.05 million, 04 boats had been kept in idle without being used as at end of the year under review.

(c) The value of the slow moving stocks of the Corporation as at end of the year under review amounted to Rs.267.32 million and out of that the value of the stocks older than 4 years amounted to Rs.48.49 million. Apart from that the goods and equipment belonging to 8 categories valued at Rs.10.30 million had been kept in central stores without moving.

4.8 Uneconomic Transactions

The lands belonging to the Corporation situated at Kelaniya Mudun Ela, 5 acres 03 roods 9.77 perchs in extent, had been sold to the university of Kelaniya for Rs.415,075,892 in the year under review. Nevertheless, the selling price of the lands had been determined based on estimated value of the year 2012, without being obtained the current value estimation.

4.9 Identified Losses

The Following observations are made.

(a) Even though the agreed lowest price by the Corporation for purchase of cube of gravel in the year under review for Three Language School project amounted to Rs.1,675, the Corporation had purchase them for Rs.2,075 per cube. As a result, the Corporation had sustained a loss of Rs.4 million.

(b) An accumulated loss of Rs.2.5 million had been sustained by the Corporation as at end of the year under review due to charging of lower rent than the estimated rent by the Department of valuation, when renting out the building, owned by the Corporation situated at the Kirimandala Mawatha, to the Land Reclamation and Development Company since the year 2003. Further, the Corporation had not assessed the rent after the year 2005.

4.10 Implementing of Projects in the lands/ properties that had not been formally acquired

The following observations are made.

(a) The Corporation had incurred a sum of Rs.17,439,977, from the year 1997 to the year 2000 for the Muthurajawela Gunasekara Mawatha Development Project before acquiring the land for the project and due to the non- acquiring of the land for the project, the project had been suspended. Further, the expenditure so incurred had been shown as a loss of the year under review.

(b) The Corporation had incurred a sum of Rs.111 million up to end of the year under review to the construction of a by access road at Madinnagoda. However, due to the oppose made to acquisition of land after being implemented the project by the Corporation, the construction works had been abandoned. Thus, it was observed that the expenditure incurred for the project had been become fruitless expenditure.

4.11 Resources of the Corporation Released to other Public Institutions

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 and a sum of Rs.697,631 had been incurred as maintenance cost of the Motor Vehicle. However, that amount had not been reimbursed.

4.12 Staff Administration

The following observations are made.

(a) The approved cadre of the Corporation as at 31 December 2017 had been 1,873 whereas the actual cadre as at that date had been 1448. Thus, 462 vacancies had been existed in each post, and an excess cadre of 37 had also been existed. Among the above vacancies, the vacancy in the Chief Executive officer of the Corporation, the Director General Post, had also been existed and action had not been taken to fill that vacancy up to September 2018. This situation was attributed to the performance of the Corporation.

(b) On the basis of reimbursement of salaries as at end of the year under review from the Land Reclamation and Development Company and the LRDC Service Company 109 and 800 employees had been respectively recruited by the Corporation and the salaries paid to those employees as at end of the year under review amounted to Rs.173.64 million. However, the provisions for that expenditure had not been provided through the annual budget. Further, action had not been taken by the Corporation to revise the cadre including those employees. Furthermore, in addition to the above staff, 137 employees had been obtained from the Civil Security Services Department by paying Rs.750 per day, to walk at the sites of the Corporation.

4.13 Utilization of vehicles

The following observations are made.

(a) Sixty one motor vehicles had been made use of each Divisions of the Corporation as at end of the year under review, without having the supervision of the Head of Transport Division and some motor vehicles had not been adequately run. Meanwhile, a sum of Rs.10.76 million had been paid in the year under review, for 36 rental motor vehicles that had been used by the Corporation.

(b) According to the assets verifications conducted by the Corporation for the year under review, a Tractor Taylor that included in the Assets Register had not been physically verified and a Water browser that had not been included to the Assets Register had been physically identified. A formal investigation in that regard had not been conducted by the Corporation even up to August 2018.

(c) Nine Tipper Trucks and 08 double cabs had been repaired by the service Division of the Corporation during the year under review and sums of Rs.4,525,312 and Rs.2,946,604 had been incurred respectively thereon. Due to the repairing of those motor vehicles again and again in every month of the year, the quality of the repairing work carried out by the service Division was questionable in audit.

4.14 Market Share

The Corporation quoted for 3 construction contracts valued at Rs.610 million existed in the market during the year under review and out of that only one contract valued at Rs.31 million had been obtained. Accordingly, The Corporation had not paid its attention to obtain completive contracts from the open market and only the contract performed by the Treasury Provisions had been carried out. As a result, the market share that could have been obtained to the Corporation had been lost.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

Every Government entity should take action in accordance with the letter No.NP/SD/SDG/17 of 14 August 2017 issued by the Secretary to the Ministry of National Policies and Economics Affairs and the “2030 Agenda” of the United Nations on Sustainable Development. Nevertheless, as the Corporation not aware about how to act in respect of the functions coming under the scope of the Corporation relating to the year under review Sustainable Development Goals, targeted and manner how to reach those targets and the indicators to measure the targets had not been identified.

6. Accountability and Good Governance

6.1 Submission of Financial Statements

According to Paragraph 6.5.1 of the Pubic Enterprises Circular No.PED/12 dated 02 June 2003, the draft financial statements should be furnished to audit within 60 days after closing of the financial year. However, the financial statements of the Corporation had been furnished on 17 July 2018 to audit after delay of 4 ½ months.

6.2 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 and of large scale constructions, land sales and leasing, sale of sand, sale of housing schemes after being constructed for the achievement of effective results. Furthermore, programmes for evaluating the performance of the Corporation had not been included in the Internal Audit Programmes.

6.3 Procurement and Contract Process

6.3.1 Procurements

The following observations are made.

(a) A main procurement plan had not been prepared including procurement activities relating to the preceding 3 years (2017-2020) in terms of Section 4.2 of the Government Procurement Guideline. 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, the procurement plan had been prepared only for the Procurements on Government grants and the procurements relating to the Projects of the Corporation and service projects had not been included to the plan.

(b) The price difference between the lowest bid price and the second lowest bid price, when made the procurement of gabion structure boxes for Rs.64.72 million during the year under review, amounted to Rs.172,250. But, the guarantee period given by the bidders for the goods was ranging from 1 year to 10 years. Nevertheless, without being considered the guarantee periods, the lowest bidder had been selected.

(c) Without being called the open competitive biddings according to section 2.14.1 of the Government Procurement Guideline and supplementary 33, the building materials valued at Rs.34.40 million had been purchased in the year under review for the Kaduruwella site, calling quotations only from two regional suppliers as mobile tendering.

(d) Without being estimated the required quantity of gravels for the year under review at the beginning of the Projects, the required gravels for the construction sites of the Corporation had been purchased throughout the year, in various quantities and at various prices under 26 contracts incurring Rs.415.81 million during the year under review. This situation had been observed as a weakness of the contract management and the expected objectives by the Government from the Procurement Process that possibility to select a contractor with the qualities of economy, timeliness and quality had been limited. Further, in order to minimize the possible losses that could be sustained by the Corporation due to the poor performance and violation of the contract agreements by the contractors, the performance bounds should be obtained in terms of section 5.4.8 and 5.4.10 of the Government Procurement Guideline. However, actions had not been taken by the Corporation to obtain a performance bond for the contract of supplying of gravels.

(e) Contrary to Section 1.2.1 (c) of the Government Procurement Guideline the Corporation had hired the Tipper Trucks based on the prices quoted in the preceding year, without being called quotation for the year under review.

(f) The Corporation had called quotations for hiring of motor vehicles for the year under review and the suppliers and hiring prices had been fixed at the beginning of the year. However, when renewing the hiring agreements, fresh quotations had not been called and motor vehicles had been hired for the previously quoted prices. A sum of Rs.10.76 million had been incurred thereof during the year under review.

(g) Contrary to Section 8.9.1 of the Government Procurement Guideline, 04 contracts valued at Rs.37.97 million had been awarded to the Contractors, without being entered into written agreements.

(h) Even though the Corporation had established a supply Division to carry out every procurement activities of the Corporation, 8 contracts valued at Rs.124.59 million relating to the Warasgaga storm Water Drain and Environment Improvement Project, had been awarded without informing to the supply Division.

(i) Even though a sum of Rs.1,995,075 had been recovered by the Corporation from the performance bonds of 05 unsuccessful sub constructions, those contractors had not been black listed in terms of section 8.11.6 (a) of the Government Procurement Guideline.

(j) In terms of Section 5.4.8 (a) of the Government Procurement Guideline, a performance bond, not less than 5 per cent of the contract value, should be obtained from the contractors. Without being done so, some portion from the interim certificates had been deducted for the performance bonds and the value of deductions made so as at end of the year under review amounted to Rs.39,265,196. Further, out of that value, unsettled balance ranging from 1 to 5 years as at end of the year under review amounted to Rs.13,491,070 and the balance for over 5 years amounted to Rs.487,313.

6.3.2 Deficiencies in Contract Administration

The following observations are made.

(a) Although a period of more than three 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.52.97 million indicating 43 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 B and C) amounted to Rs.653.02 million, but certified value of the Urban Development Authority amounted to Rs.355.69 million, and remaining value of the work completed amounting to Rs.297.33 million had not been received to the Croporation even after lapse of more than three years.

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

(d) Due to the conducting of the development activities of the Bolgoda Cannel banks without being done a pre study and a without having a plan, the cannel banks had been collapsed and as a result, a sum of Rs.9,001,423 had to be incurred to reconstruction of the cannel banks during the year under review.

(e) 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 Warasgaga and develop the environment. Accordingly, the Corporation had entered into a loan agreement with the National Saving 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. Further, according to the Cabinet Decision No.අමප/17/2561/724/112 dated 07 December 2017, it had been proposed to cancel the loan agreement on Rs.14,227 million and to sign a new loan agreement for the loan amount already obtained amounting to Rs.2,550 million and to make provision that required for the payment of loan installments and the interest and to provide the expenditure that required to continue the project.

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 4 years had been spent on the project by end of the year under review, a progress of 80 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 43 per cent. However, the Management had not introduced a new methodology making it possible for the project to be completed on time by preventing the unusual delays of the project. Further, due to reduce of the estimated cost of the project by 23 per cent, up to Rs.11,050 million, it could not be able to reach to the intended scope 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.162,474,128 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.135,765,060. 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) According to the Cabinet Decision No.අමප/17/2561/724/112 dated 07 December 2017, the Corporation should entered into a new agreement with the National Savings Bank relating the loan of Rs.2,550 million obtained for the Warasgaga Project up to end of the year under review. Nevertheless, new agreement had not been signed up to 31 August 2018. As well, according to the above Cabinet Decision, as the required funds for the Project would be provided by the Annual Budget, about 10 years has to be taken to complete the project. However, the project had not taken actions to prepare a Corporate Plan or an action plan according to the amended time frame. Further, the residents lived nearby the canals, banks, in the zones of which project works under the projects had been implemented, had been temporally removed. Hence, it was further observed in audit that if the project unable to complete the project within the expected time period, the Corporation had to be faced to the various social issues.

(iv) The works of 4 sub-contracts awarded in preceding years at a value of Rs.108.61 million had been suspended as at end of the year under review. The expenditure incurred by the project thereon amounted to Rs.35.56 million.

(v) Even though the construction works relating to 14 sub-contracts that commenced under the project valued at Rs.416.66 million should be completed as at end of the year under review, the physical progress of those projects was as low as 5 per cent to 50 per cent. Out of those sub-contracts, 10 contracts were delayed for over one year. However, the project had not either extended the contract period or charged the liquidated damages from the contractors. Further, the project had not taken actions to extend the validity period of the performance bonds submitted by the sub - contractors.

(vi) None of the works had not been commenced by 4 sub-contracts as at end of the year under review, awarded by the project for Rs.126.2 million, though the works should be completed as at end of the year under review.The mobilization advance amounting Rs.24 million had been paid by the project for those contracts.

(vii) The physical progress of 16 sub-contracts that awarded by the project at the value of Rs.406.53 million had been stated as 100 per cent. However, the financial progress of those projects, as compared with contract values, was ranging from 20 per cent to 80 per cent.

(viii) Any land had not been acquired under the provisions of the Land Acquisition Act, though the land acquisition process had been continued for over 05 years and lands extent of 267.67 hectares had only been gazetted under the Land Acquisition Act. Due to that reason, the Corporation had to continue the payments of rentals to some families those who were lost their houses. Further, the works relating to 6 contracts valued at Rs.197.69 million could not be able started as per the work scheduled.

(f) The value of the invoices furnished to the clients relating to 29 projects, completed and the works are progress as at end of the year under review amounted to Rs.2,277,562,146. Out of those invoices, the value of works done amounting to Rs.1,656,214,858 had been certified by the clients. Not submitting of invoices by the Corporation within the due time period, chances made to primary plans, deficiencies in constructions were mainly attributed for that situation.

(g) The reasons for submitting of invoices relating to 12 construction projects conducted by the Corporation during the year under review exceeding the value certified by the construction consultants, by Rs.163,381,834 had not been explained to audit.

(h) One Hundred and nineteen construction contracts had been taken over by the Water Drainage and Reclamation Division of the Corporation during the year under review. Despite the availability of adequate physical and human resources, 84 contracts or 71 per cent of the total contracts, out of the above contracts, had been performed through the sub-contractors.

Due to the above reason, a significant contract profit which could have been obtained to the Corporation had been obtained by the Sub Contractors.

(i) Three contracts valued at Rs.63.03 million related to the development of the Hatharas Kotuwa Regional Hospital, under the Gaining Plonnaruwa District Development Project, had been obtained by the Corporation and those contracts had been awarded to sub-contractors. The price variances of 23 per cent to 34 per cent were observed between the estimated Bills of Quantities (BOQ) submitted to the client by the Corporation and the BOQs submitted by the sub-contractors. The rate analysis relating to the variances had not been done by the Corporation.

(j) Due to the preparation of the Engineer estimates without conducting proper study, the price variances raining from 30 per cent to 45 per cent had been existed between the contract awarded prices and the Engineer estimates relating to 5 contracts valued at Rs.306 million. Further, the Corporation had not taken action to evaluate the BOQ rates that caused to submit lower prices by the contractors.

(k) Without conducting primary feasibility study and preparation of Engineering plans, the Wellawaththa bridge had been renovated by the Corporation and as a result, the Wellawaththa Sri Sugatha Viharaya and affiliated child care house thereto had been sunk.

6.3.3 Delayed Projects

Sixteen contracts valued at Rs.1,767.94 million that should be completed as at end of the year under review had not been completed and the delayed period was ranging from 06 months to 18 months.

6.4 Budgetary Control

Significant variances ranging from 20 per cent to 850 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.

6.5 Tabling of Annual Reports

According to Section 6.5.3 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the Annual Report of the Corporation should be tabled in the Parliament within 150 days after closing of the financial year. However, the annual reports for the years 2015 and 2016 had not been tabled in the Parliament even up to 31 August 2018.

6.6 Unresolved Audit Paragraphs

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 Kelaniya 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' Product Fund and the Employees' Trust Fund.

(e) Werasgaga storm water drain and environment development project.

The following observation 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 gabion 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 x 6 inches (100 x 150 mm) should be used in the construction of gabion 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 x 16 (200 x 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 gabion boxes should be 200 mm. In this backdrop, the application of the larger granite in the gabion 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 No.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 offices, and allocation of technical officers in respect of each of those sub contracts.

(vii) 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 subscequant 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.

(viii) 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.

(ix) 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.

(x) 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.

(f) The Divisional Secretariat of Ja-Ela had informed the Corporation that to take immediate actions regarding the unauthorized filling of a land of about 4 acres in extent situated in Ekala Madama Junction adjoining to the Valukarama Temple. However, immediate actions had not been taken by the Corporation and instead examination had been conducted after 10 days and due to summon of the unauthorized land filler to the examination and within that period complete the filling of land.

Even though a legal action had been taken by the Corporation regarding the unauthorized filling after lapse of 2 months in terms of the legal authority given by the Act, due to failure of the Corporation to prove the casing effects to strom water flows and to the flooding patterns the court had rejected the case.

(g) According to a Cabinet Decision, a land extent of 3.05 perchs had been leased to a person for 99 years in the year 1993. Subsequently, that land had been leased to another person in the year 2005 by cancelling the first lease agreement for remaining 84 years and for the first rental value, without being made a revaluation. After that, the second lease holder had also been sub leased the land in the year 2010. The Corporation had taken action to enter into the sub lease agreement base on the decision made by the Board of Directors and cancelling first lease agreement signed as per the Cabinet decision and without having the provisions to do so in the first lease agreement.

(h) Without conducting the procurement by the Committee appointed by the Secretary to the Line Ministry according to Section 2.7.5 of the Government Procurement Guideline steel piles valued at Rs.73.71 million had been purchased in the preceding year, by an another Committee.

(i) Over stating of income of the Corporation for the preceding year by Rs.3,332.94 million due to stating of receivables from the Treasury for the expenditure incurred on Warasgaga Project, instead of being stated as differed income.

6.7 Fulfillment of the Social Responsibility

The following observations are made.

(a) Even though the Corporation had gazetted the low, marshy, barren or swamp lands situated in 5 provinces in Sri Lanka, a mechanism had not been introduced to identify the unauthorized reclamations and unauthorized settlements and officers had not also been attached to investigate this situation. Hence, it could not be accepted in audit that the corporation would directly face to various social and environmental issues.

(b) Even though the land acquisition activities of the Warasgaga storm water drain and environment development project had been delayed for over 05 years, the progress of land acquisition 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 carrying 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.

(c) Out of the lands acquired by the Government under the Greater Colombo canals and Drain Systems Rehabilitation Project, extent of 990 acres and supervision and controlling activities coming under the Corporation, various unauthorized setters had settled in 62 acres. Of that, some of lands plots had been transferred to various parties under transfer deeds by the Municipal Councils. Not registration of the acquired lands under the Project in the Land Registration Office was directly attributed for that situation. Without being carried out a technical evaluation to assess the effect for the water reservation areas owing to divesting, 79 acres of those lands had been divested up to end of the year under review.

7. 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 arrears of control.

Areas of Systems and Controls	Observations
(a) Stock Controls	(i) A Store keeper and the Security officers had not been employed at some of sites of the Corporation and stock Registers and the registers to be maintained by the Security officers had not been maintained at those sites.
	(ii) Due to not recording of receiving and issuing of goods of the stores belonging to the Corporation, the stock value that had been existed at a particular time could not be able to identify and monthly reports relating to the stock balances at the sub- stores had not been furnished to the main stores. Also, a monthly report relating to stock balances at the main stores had not been furnished to the Head Office. Due to that reasons, the Corporation had failed to maintain a effective stock management system.
(b) Contract Administration	(i) Failure to implement the planned projects, poor progress in the contracts, failure of certain constructions to comply with Standards.
	(ii) Many contracts taken over by the Corporation had been performed through the sub - contractors and significant variances were existed between the estimated prices of the Corporation and the prices furnished by the sub - contractors.
	(iii) The huge differences were observed between the cost estimates prepared by the Corporation and actual costs of the contracts.
	(iv) Not awarding of contracts according to the Government Procurement Guideline and not taking of action to obtain performance bonds from the contractors.

(c)	Procurement Process	(i)	Procurements had been made based on the previously, decided bids without calling for competitive bids.
		(ii)	Without knowing the supply Division of the Corporation, the procurement activities had been conducted by the various divisions of the Corporation.
		(iii)	Selling and leasing of certain lands without assessing the present value of the lands.
		(iv)	Release of full payment to some suppliers before receiving the goods to the stores.
(d)	Financial Management	(i)	Failure to settle the advances immediately after completing the relevant work.
		(ii)	Failure to settle the loan installments and interest in a timely manner in terms of loan agreements.
		(iii)	Investment of loan funds deviating from the objectives of obtaining of loans.
		(iv)	Incurring of expenditure for unapproved programmes in the budget and action plan.
		(v)	Failure to recover rent according to the agreements.
		(vi)	Utilization of Government grants, received for various programs, contrary to objectives of the grants.
		(vii)	Delaying remittance of Nation Building Taxes to the Department of Inland Revenue.
(e)	Accounting	(i)	Instances were existing in not following of 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.
		(iii)	Not including of supporting documents to the Journal Entities.

(f)	Control of Security activities in the Services Division	In order to record the spair parts, used for the repairing of motor vehicles, brought in to the premises and taken out from the premises, register had been maintained by the Security Division. However, in some instances, old spair parts of some servicing motor vehicles that had been taken out from the Service Division to purchase the spair parts and servicing them had not been handed over.
(g)	Management of working papers in the Service Centre	(i) No procedure to identify the completed and uncompleted works at a particular time, out of the works received to the service centre of the Corporation. (ii) Even though it had been prepared a separate working paper for identified works when start the services of the vehicles, which had not been updated with the main working paper. As a result, the particulars relating to the total services performed could not be identified through the main working paper.