

Sri Lanka Land Development Corporation - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Land Development Corporation for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Financial Act No.38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Sri Lanka Land Development Corporation as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters discussed in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standard, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the National Physical Planning Department of Sri Lanka is required to maintain proper books and records of all its

income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

1.4 Audit Scope (Auditors Responsibility with regard to audit of the financial statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Corporation, and whether such systems, procedures, books, records and other documents are in effective operation;
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- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation;
- Whether the Corporation has performed according to its powers, functions and duties; and
- Whether the resources of the Corporation had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Controls over perpetration of financial statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non – Compliance with Sri Lanka Accounting Standards (LKAS)

Audit Observation -----	Management Comment -----	Recommendation -----
(a) According to the LKAS-01, the assets, liabilities, income, expenditure should be shown in the financial statements at their fair value. However, the value of the Property, Plant and Equipment had not been shown in the financial statements at the cost of Rs. 2,424.37 million without being ascertained the fair value.	The cost accounting method has been applied by the Corporation for the property, plant and Equipment.	According to the Sri Lanka Accounting Standards (LKAS), the fair value of the assets should be shown in the financial statements.

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| <p>(b) According to the report submitted by the asset's useful life assessment committee of the Corporation, the unusable motor vehicles, the cost of Rs. 11.41 million, had been shown in the financial statements as non-current assets as at end of the year under review contrary to the LKAS-5. Further, action had not been taken to rectify the estimation error of the useful life the fully depreciated assets cost of Rs.715.67 million, but still in use, according to the LKAS-8.</p> | <p>The relevant disclosures will be made when preparing the financial statements for the year 2020.</p> | <p>According to the LKAS, the assets should be shown in the financial statements.</p> |
| <p>(c) According to Paragraph 36 of the LKAS - 16, if an item of property, plant and equipment is revalued the entire class of property, plant and equipment to which those assets belong should be revalued. However, 160 motorcycles and a Jeep cost of Rs. 24.74 million and Rs. 26.47 million respectively belonged to the Corporation as at end of the year under review, had not been revalued.</p> | <p>Instructions have been given to the officers to revalue the assets and brought to the registers.</p> | <p>According to the LKAS, the assets should be shown in the financial statements.</p> |
| <p>(d) Two investments properties had been shown in the financial statement at their cost of Rs.158.28 million, without being ascertained the fair value of investment properties according to the LKAS 40. Further, the land leased to the external parts, had not been shown in the financial statements as investment properties.</p> | <p>As per the instructions in the LKAS, the fair value will be shown in the financial statements as an additional information.</p> | <p>According to the LKAS, the assets should be shown in the financial statements.</p> |

1.5.3 Accounting Policies

Audit Observation

Management Comment

Recommendation

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| <p>(a) Without having the Engineer's certificate, the contract revenue amounting to Rs.266.76 million relating to 6 contracts had been identified based on the cost of work</p> | <p>The certificates which had been furnished to audit were not signed by the officers. The certificates with the signature will be furnished to audit in future.</p> | <p>According to the LKAS, the contract revenue should be identified based on the stages of completion of the contracts.</p> |
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done which were included in the bills for payments. Further, due to not identifying the contract cost related to the contract revenue, the profit of 3 contracts were varied from 100 per cent to 1132 per cent.

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| <p>(b) According to the Accounting policy No. 1.6 and the LKAS - 23, the directly attributable borrowing costs for manufacturing should be identified as a part of the manufacturing cost. However, the borrowing cost that had been incurred to processing of sea sand amounting to Rs.261 million had not been added to the cost of sea sand stock shown in the financial statements at a cost of Rs.1, 323 million as at end of the year under review. As a result, the sea sand stock had been understated by that amount.</p> | <p>Immediately after handing over the excavated sand to the Corporation, the sand could be sold. Hence, the borrowing cost had not been added to the stock value.</p> | <p>According to the LKAS, the borrowing cost should be accounted.</p> |
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1.5.4 Accounting Deficiencies

Audit Observation -----	Management Comment -----	Recommendation -----
<p>(a) Due to amendments made to the contract rats by the standard Technical Committee relating to 2 contracts as at end of the year under review, a loss of Rs. 6.20 million had been incurred by the Corporation. However, owing to not making of necessary adjustment in the accounts in that regard, the contract revenue shown in the financial statements had been understated by that amount.</p>	<p>Action will be taken to make the adjustment for over stated revenue in the coming year.</p>	<p>Correctly calculated contract revenue should be shown in the financial statements.</p>
<p>(b) The value of 10 Tractor Taylors that had been modernized as Browsers in the year 2010, and the value of an Excavator machine and 2 Boats which have been used since the year 2012</p>	<p>Action will be taken to include in the financial statements for the year 2021.</p>	<p>The assets belonging to the Corporation should be valued and brought to the accounts.</p>

had not been estimated and shown in the financial statements. Further, 3 motor vehicles valued at Rs.1,620,000 had not been shown in the financial Statements.

1.6 Accounts Receivable and Payable

1.6.1 Amounts Receivable

Audit Observation	Management Comment	Recommendation
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(a) A sum of Rs238.11 million should have been receivable to the Corporation from 23 Institutions up to end of the year under review, for disposing of garbage to the Kerawalapitya Garbage Management Centre. Out of that receivables, a sum of Rs119.9 million was remained as unsettled less than one year and the receivable in arrears for a period ranging from 1 to 3 year amounted to 118.21 million. Not entering into agreements stating the conditions applicable to the garbage disposing was the main reason for the debts recovery delays.	It would link to inform that according to the agreements/ Concurrences entered with the Government and non – Government institutions by the Corporation, garbage had been handed over and reminders had been sent requesting settle the outstanding payments.	Prompt action should be taken to recover the receivables to the Corporation.
(b) The rent receivables and interest thereon amounting to Rs.88.42 million and Rs.33.64 million respectively from the Waters Edge relating to renting of the Railway currg restaurant was remained as outstanding for about 3 years.	Consent had been obtained to recover the arrears. Action will be taken to recover the money in future.	Prompt action should be taken to recover the receivables to the Corporation.
(c) Out of the debtor balances as at end of the year under review amounted to Rs.1,142 million, the outstanding balances for a period ranging from 4-5 years amounted	Agreed with the audit para. Actions have been taken to recover the debtor balances.	Attention should be drawn to recover the long term debtor balances and the confirmation of balances relating that debtors should be furnished to audit.

to Rs.67 million and balances over 5 years amounted to Rs.98 million. Further, the value of the debtor confirmations called by audit amounted to Rs.872 million. However, none of the debtors had confirmed their balances to audit.

1.6.2 Amount Payable

Audit Observation	Management Comment	Recommendation
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Out of the contract creditor balances as at end of the year under review amounted to Rs.265 million, unsettled creditor balances for a period from 2 to 5 year amounted to Rs.48 million. Further, even though the confirmations had been called by audit relating to creditor balances amounting to Rs.67 million, any confirmation had not been received to audit.	The corporation had taken action settle the bills, when it furnish the bills after completing the projects by the contractors and with recommendation of the Engineers. Further, action will be taken to send the confirmation of balances.	Action should be taken to settle the payable credit balances by the Corporation and confirmations relating to the above balances should be furnished to audit. Further, action should be taken to write-off the non-liable balances to the income.

1.6.3 Advances

Audit Observation	Management Comment	Recommendation
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(a) The advances obtained by the Corporation relating to land sales as at end of the year under review amounted to Rs.493.13 million and out of that advances, a sum of Rs.489.80 was remained as unsettled for over 5 years.	Comment had not been given	The advances obtained by the Corporation should be settled in timely manner.
(b) A mobilization advance amounting to Rs.5.96 million had been paid to the Land Reclamation and Development Company to carry out the function on behalf of the had not been taken to recover that advance even from the	The settlement will be made during the year 2021.	Action should be taken to recover the mobilization advances in timely manner.

payment made for the bills period for over 4 years.

1.7 Non – Compliance with Laws, Rules, Regulations and Management Decisions ect.

Reference to Laws, rules, regulations etc.	Non - Compliance	Management Comment	Recommendation
(a) Financial Regulation of the Democratic Socialist Republic of Sri Lanka: Amended Financial Regulation 139 (5)	Without being established the identity of the payee, a payment amounting to Rs.4.11 million had been made to an irrelevant person in the year under review, instead of being made the payment to a foreign legal firm. As a result, the Corporation had lost that amount.	This had been informed to the Board of Directors at the Director Board meeting held on 26 June 2019. And according to the instructions given by the Board of Directors, a complaint had been made to the Crimes Investigation Department on 25 June 2019.	According to the Financial Regulations, identify of the payee should be confirmed before make the payments.
(b) The decision made by the Cabinet of Ministers No.අම/19/1643/116/165 dated 03 July 2019	The estimated cost for purchase of 3 machines for the Project of Cleaning of Bairei Lake by removing of sediment amounted to Rs.283.50 million. However, the Corporation had taken action to purchase those machines exceeding the approved cost by Rs.120.49 million.	Agreed with the observation relating to purchase of those machines by the Corporation exceeding the approved cost by the cabinet of Ministers.	It should be adhered to the decision of the Cabinet of Ministers.
(c) The public Enterprises Circular No.PED/12 dated 02 June 2003			
(i) Section 2.2.2	The approval of the Cabinet of Ministers had not been obtained for the procedure applied for	Based on the decision made by the Board of Directors, the fees have been charged for	Action should be taken as per the Circular instructions.

		sub-leasing of lands belonging to the Corporation.	sub-leasing.	
(ii)	Section 8.1.4	A loan amounting to Rs.200 million had been given to a Subsidiary Company of the Corporation as at end of the year under review, without being followed the circular instructions. However, repayment ability of the loan had not been assessed by the Corporation. Further, according to the Corporation's Act, the provisions are not available to provide the loans to other parties.	No restriction in the Corporation Act, to provide financial facilities to the subsidiary company to maintain the going concern of the Company.	Action should be taken as per the Circular instructions.
(iii)	Section 8.2.2	Without being obtained the concurrence of the Minister of Finance and having only the approval of the Board of Directors, a sum of Rs.2,981.47 million had been invested in fixed and short term deposits.	Action will be taken to obtain the concurrence of the Minister of Finance.	Action should be taken as per the Circular instructions.
(d)	Government Procurement Guidelines			
(i)	Section 3.8	In carrying out of procurements under the National Competitive Building System, the minimum bidding period shall be 14 to 21 days. However, bidding period of only 7 days had been given to the contractors, relating to 2 procurements made for Rs.35.70 million (excluding VAT) during the year under review.	The instructions had been given to the officers to call the bids so as to giving opportunities to the bidders to submit more bids in a complete manner and according to the specified time period.	Action should be taken to comply with the instructions of Government Procurement Guideline.

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| (ii) Section 5.3.19 (b) | The post qualification criteria of the bidder should be clearly stated in the bidding documents. However, the post qualification criteria of the bidders had been amended without obtaining the prior approval of the Procurement Committee in connection with procurement of the Cutter Section Dredger Machine for Rs.244.70 million in the year under review. Further, without fulfilment of the requirement stated by the Procurement Committee, the tender had been awarded. | In addition to the investigation has being conducted by Crime Investigation Department, another investigation has also been conducted by an independent committee, with regard to performing of this procurement without being completed all requirements. | Action should be taken to comply with the instructions of Government Procurement Guideline. | |
| (e) The Corporation Act No.35 of 2006 | (i) Section 2 | A wetland, extent of about 6 hectares, which is mainly attributed for flood controlling system in the area and biodiversity situated nearby the Muthurajawela Sanctuary at Shuhada Mawatha, Delathura had been filled. However, action had not been taken against that regard. | Comment had not been given | According to the powers of the Corporation, action should be taken to avoid the unauthorized land fillings. |
| (ii) Section 4 (a) | According to Section 3 and 4 of the Act, recommendation of the Ministers of Industrial and Local Governments should be obtained for sale of Corporation's lands. However, that | In order to dispose of this land under the selling basis to the Sri Lanka Petroleum Terminal Company for Rs.272.62 million, the approval of then Committee of the | According to the provisions of the Act, the recommendations of the Ministers should be obtained. | |

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| | | recommendations had not been obtained for the sale of land valued at Rs.272.62 million. | secretaries and the Cabinet of Ministers had been obtained. | |
| (f) | Gazette Notification No.162/7 dated 14 July 2010 | The Corporation should take actions to protect the reservation lands belonging to the canals in the Western Province. However, the Corporation had not taken positive actions to identify the reservation lands and to remove the unauthorized settlers in the reservation lands since the year 2010. | Comment had not been given | According to the Gazette notification, an effective mechanism should be introduced to remove the unauthorized settlers. |
| (g) | Section 9.6 of the Trade and Investment Policy Circular No.01/2018 dated 15 February 2018. | Twofold of interest paid on the loans obtained for the purchase of Motor vehicles using duty fee permits that had been given to public officers based on their posts, had been reimbursed by the Corporation contrary to the circular instructions. The interest reimbursed so during the year under review amounted to Rs. 616,228. | Comment had not been given | Action should be taken according to the circular instructions. |

2. Financial Review

2.1 Financial Results

According to the consolidated financial statements, pre-tax profit of the Group and the Corporation amounted to Rs.755.73 million and Rs.752.60 million respectively and corresponding pre-tax profit for the preceding year amounted to Rs.1,683.74 million and Rs.1,620.29 million respectively. Compared with the preceding year, deterioration in the pre-tax profit of the Group and the Corporation amounting to Rs.928.01 million and Rs.867.69 million were observed respectively. Decrease of sand sale income by Rs.803 million and income of the garbage management division by Rs.282 million were the main reasons attributed for the deterioration in the pre-tax profit.

2.2 Analytical review in the main income and expenditure items

- (a) Compared to the year 2015, the direct income had been increased from Rs.2,224 million to Rs.4,715 million during a four years period by 112 per cent.
- (b) Compared to the preceding year, financial expenditure of the year under review had been increase from Rs.435.46 million to Rs.592.91 million by 36 per cent and the financial income had been decreased by 12 per cent.
- (c) Seventy per cent of the total income of the Corporation for the year under review amounting to Rs.6,318.01 million had been generated from operating activities and a sum of Rs.2,786.14 million had been received as the Government Grants.

2.3 Ratio Analysis

- (a) Compared to the preceding year, the net profit ratio was deteriorated by 12 per cent and decrease of sand selling income and increase of finance cost had been mainly attributed for that situation.
- (b) As compared with to total assets and net equity, the current assets as at end of the year under review had been represented 40 per cent and 105 per cent respectively.

3. Operational Review

3.1 Identified Losses

Audit Observation	Management Comment	Recommendation
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(a) Without being conducted a feasibility study, a boat service had been started by the Corporation in the Barrei Lake in the year under review and a loss of Rs.3.48 million had been incurred from the service as at end of the year under review. 4 new boat cost of Rs.40 million had been put into service by the Corporation and the total expenditure incurred to the project amounted to Rs.41.02 million.	Due to the Easter Sunday attack and the Covid – 19 pandemic, obstacles were created for those activities.	Before implementing the projects, the feasibility studies should be carried out.
(b) A land belonged to the Corporation situated in Muthurajawela and extent of 4 acres had been sub-leased to a private Company during the year under review. However, without being charged the relevant lease	According to the decision made by the Board of Directors, when renting the properties to the 3 rd parties, the rent mentioned in the first lease agreement should be	The rent calculated under the sub-leasing procedure, should be recovered.

amounting to Rs.56.60 million to the land, only a sum of Rs.2 million had been charged after being made the computations. As a result, a loss of Rs.54.60 million had been incurred by the Corporation. Further, action had not been taken by the Corporation to obtain the approval of the Cabinet of Ministers to lease the land.

followed as there was. However, such a transfer had not been taken place and the original lease agreement is still valid.

3.2 Management Inefficiencies

Audit Observation -----	Management Comment -----	Recommendation -----
<p>(a) A land belonged to the Corporation, extent of about 2 acres and situated in Muthurajawela, had been sold to a Public Company in the year under review for Rs. 272.62 million, based on the valuation made to lease out another land in the year 2017, instead of being obtained the current valuation to sale. As a result, a loss of Rs. 12.10 million had to be incurred to the Corporation. Further, although that land had been disposed on selling basis, determining the selling consideration based on the lands lease out prices for the sale of that land is a problematic issue in audit.</p>	<p>As it takes a long period of time to get another valuation report, the Board of Directors had decided to transfer the plot of land on the prevailing valuation.</p>	<p>When disposing the lands, the current valuation should be obtained and the disposal should be carried out following the decision made by the Cabinet of Ministers.</p>
<p>(b) In order to control the sea sand stock levels, the recorder quantities had not been determined by the Corporation. As a result, when it occurred the shortage of sea sand stocks, 351.3 million sea sand cubic meters had been extracted from a land leased out to the Ceylon Electricity Board in the Kelawarapitiya to fill the sea sand stock shortages. However, the land had not been refilled since a period over 5 years. Further, due to extracting of sea sand, the land area to be refilled as at end of the year</p>	<p>Due to the shortages in the sand stocks, sand had been extracted so and actions have taken to fill the pits.</p>	<p>Management of sea sand stocks should be conducted effectively.</p>

under review was 1,034,846 cubic meters.

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| <p>(c) Out of the competitive construction contracts in the market, the Corporation had submitted bids for 7 contracts valued at 1,453 million. However, the Corporation had failed to receive any contract. The higher quotations submitted by the Corporation, than the market prices, had been directly attributed for that failure.</p> | <p>Comment had not been given</p> | <p>Adequate actions should be taken to improve the market share in competitive manner.</p> |
| <p>(d) Due to inadequacies in the provisions of the Act, to avoid the current unauthorized reclamations, 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, the Act, had not been amended up to end of the year under reviews. Further, due to the prevailing weakness of the Act, adequate actions had not been taken against the complaints received on unauthorized land fillings. As well, unfavourable court orders had been given against the Corporation owing to that situation.</p> | <p>The approval of the Cabinet of Ministers had been given for the amended Act of the Corporation and it has been furnished to parliament.</p> | <p>After being amended the Corporation Act, the benefits should be used to achieve the objectives of the Corporation.</p> |

3.3 Performance

Audit Observation

Management Comment

Recommendation

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| <p>(a) In order to minimize the damages cause due to floods to the general public and to the industries in the areas of Kelaniya, Biyagama, Wattala and Peliyagoda Deivisonal Secreteriats, the Mudun Ela development project had been started by the Corporation at the estimated cost of Rs.3,000 million in the year 2016. The financial and physical progress of the project as at</p> | <p>Comments had not been given</p> | <p>The projects which are implemented by the Corporation should be effectively managed.</p> |
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end of the year under review were 43 per cent and 56 per cent respectively. Although a sum of Rs.1,456 million had been expended for the project using the Treasury Provisions as at end of the year 2020, the provisions had not been made from the Annual Budget for the year 2021. Thus, it was observed in audit that the project would have to be suspended without being achieved the objectives.

3.4 Operating Activities

Audit Observation

Management Comment

Recommendation

- (a) According to the decision made by the Cabinet of Ministers in the year 1996, the land, extent of about 1,000 acres located in the western boundary of Parliament had been vested to the Corporation under the Grater Colombo Flood Controlling and Environment Improvement Project to Conserve the lands as water basin and to protect them as the specialist entity that had been incorporated for those functions. Even though the sole responsibility to remove the unauthorized settlers and reclaims of those lands is vested with the Corporation, about 63 acres had been acquired by the unauthorized settlers and 82 acres had been divested by the Corporation. Hence, it was observed that the Corporation had failed to fulfil the expected responsibilities by the Cabinet of Ministers, from the Corporation. Further, although 1324 unauthorized constructions and reclamations of lands had been identified by the Corporation in the water retention areas belonging to 5 Divisional Secretariat Divisions by the end of the preceding year, the

Comment had not been given

Effective actions should be taken to manage the lands transferred to the Corporation based on a decision made by the Cabinet of Ministers.

Corporation had failed to remove those unauthorized constructions.

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| (b) | Even though the Corporation had gazetted the boundaries of low, marshy, barren and muddy lands in 6 regions of the county, a procedure to identify unauthorized land fillings and settlements in those lands had not been prepared and the officers had not been appointed to supervise the lands. Therefore, it could not be ruled out in audit the possibility that creation of social and environmental problems owing to that situation. | Except the spot investigations conducted only based on the complaints, there was not any formal procedure to identify the unauthorized land fillings/constructions and agreed with the comment. | In order to identify the unauthorized land fillings/residents in the gazetted regions, a procedure should be introduced as soon as possible. |
| (c) | Even though the land acquisition activities for the Werasgaga drainage and environment improvement project have been started over 6 years ago, the progress of those activities was at a lower level. As a result, the affect people from the project were in a helpless situation for several years, due to enabling them. To rebuilt the houses. Further, it was observed that some of the houses situated nearby the canal beds were sunk due to the development activities of the project. | Even though the project has been started about 6 years ago, the land acquisitions progress is delayed due to the various reasons. | The land acquisition activities should be finalized as early as possible in order provide the relief to the affected people. |
| (d) | Following the decision of the Cabinet of Ministers dated 30 August 2013, a loan amounting to Rs.14,227 million had been granted by the National saving Bank (NSB) under the guarantee given by the Treasury. Accordingly, the Corporation had entered into an agreement with the NSB on 14 July 2014 being agreed to repay the loan within a period of 14 1/2 years. However, according to the Cabinet decision made on 07 December 2017, it had been proposed to cancel the first loan agreement on Rs.14,227 million and to re-sign a | Delays in receiving of funds for the project activities and influences occurred in some instances due to the social protect had been affected to delays of project activities. | The project activities should be finalized within the scheduled time period in order to provide the benefits to the public. |

new loan agreement for the loan amount already obtained amounting to Rs2,550 million and make provisions through the Annual Budget so as to provide funds for the payment of loan instalments, the interest and the expenditure that required to continue the project. Although it had been expected to be completed the project by 24 October 2018, the actual physical progress achieved by the project even after laps of over 06 years up to end of the year under review was about 60 per cent. Nevertheless, a programme to complete the project activities avoiding the abnormal time delays within a short period of time, had not been introduced by the management. 18 contract works, which should be completed by the project within 03 to 06 month period, had been divided into packages and given to sub-contractors. Out of the mobilization advances given to the Sub-contractors, unsettled advance balances as at 31 December of the year under review amounted to Rs.89.17 million. Further the outstanding advance balance was remained as unsettled for over one year amounted to Rs.52.16 million.

3.5 Transactions in Contentions Nature

----- Audit Observation -----	----- Management Comment -----	----- Recommendation -----
<p>The Corporation had purchased 02 Long Arm Excavator machines valued at Rs. 41 million in the year under review. The supplier had fraudulently supplied the machines by fixing Long Arm excavator parts to the short Aram excavator machines violating the technical specifications provide by the Corporation.</p>	<p>This matter has been referred to the crime Investigation Department after being revealed that supplying of short Arm Excavators machines by fixing the long Arm Excavators to them, instead of being provided of Long Arm Excavator Machine and it was reported to me that the machines are not performed as expected.</p>	<p>The disciplinary actions should be taken against the responsible officers.</p>

3.6 Related Party Transactions

Audit Observation	Management Comment	Recommendation
(a) The subsidiary Company of the Corporation had incurred a sum of Rs.404.40 million for the sea sand paking project. The Corporation had given a loan amounting to Rs.200 million on 12 per cent interest, and an advance amounting to Rs. 109 million. In addition, a sum of Rs. 170.21 million to be receivable from the Company for construction of buildings. Thus, the total amount to be receivable from the Company as at end of the year under review amounted to Rs.479.21 million. But the Company unable to settle the payables due to the lack of financial feasibility. Further, due to the lack of demand for the sea sand bags in the market, the project had been suspended during the year under review and it was observed in audit that there is a doubt to the Corporation to recover the loan.	Comment had not been given	Before implementing a new project, a feasibility study should be conducted relating to the project.

3.7 Idle or underutilized Property Plant and Equipment

Audit Observation	Management Comment	Recommendation
(a) Without being carried out a feasibility study, a sum of Rs.112 million had been expended up to end of the preceding year for the construction of an entrance Road at Madinnagoda. However, due to the creation of land acquisition issues, the project had been suspended. As a result, the expenditure incurred for the project, had been become fruitless expenditure	Comment had not been given	Before implementing a new project, a feasibility study should be conducted.

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| <p>(b) A building which had been constructed by the Corporation in the preceding year at a cost of Rs.89.87 million at the Muthurajawela compost project, had been kept in idle even up to end of the year under review.</p> | <p>Comments had not been given</p> | <p>The assets belonging to the Corporation should be utilized effectively in order to obtain economic benefits.</p> |
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3.8 Staff Administration

Audit Observation

Management Comment

Recommendation

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| <p>(a) The approved cadre of the Corporation as at 31 December 2019 had been 1,875 whereas the actual carder as at the date had been 1,407. Thus, 437 vacancies and 31 excess had been existed. 102 and 800 employees had been recruited by the Corporation form the Land Development Company and the LRDC Services Company respectively on the basis of reimbursement of salaries, as at end of the year under overview. The salaries paid for those employees as at end of the year under review amounted to Rs.486.86 million. Furthermore, in addition to the above staff, 175 employees had been obtained from the Civil Security Service Department by paying Rs.750 per day, to work at the sites of the Corporation.</p> | <p>The approved cadre of the Corporation as at 31 December 2019 was 1,875 and the Actual cadre as at that date was 1,407. The vacancies were 437. Excess cadre of 31 was existed due to given of permanent appointments to the employees those who recruited to the Corporation on training basis and after being given permanent appointments to them according to the Public Administration Circular No.2014/25, completing of their service 180 days. Those excess employees were 31. A request had been made to absorb those excess employees to the permanent cadre, to the Department of Management Services.</p> | <p>The vacancies should be filled based on the approval cadre.</p> |
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3.9 Procurement Management

Audit Observation

Management Comment

Recommendation

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| <p>(a) The work-in-progress relating to 7 project that had been shown in the financial statements at the cost of Rs.242.14 million as at end of the year under review were existed for a period ranging from 02 to 03 years, and due to not completing the works</p> | <p>Agreed with the comment</p> | <p>Work – in – progress should be completed in time in order achieve the expected benefits.</p> |
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in timely manner the expected gains had been lost by the Corporation. Further, accumulate loss of Rs.125.84 million had been incurred by the Corporation from 7 contracts implemented during the year under review. Hiring of manpower for the construction works while being kept in idle the permanent employees of the Corporation and contract management weakness were directly attributed for these losses.

<p>(b) Without being obtained the mobilization advances and entered into formal agreements, 03 contracts valued at Rs.520.74 million had been commenced by the Corporation during the year under review. Further, the receivable amount for the work done of the contracts as at end of the year under review amounted to Rs.135.95 million and the work done to be further certified by the clients amounted to Rs.97.82 million. Furthermore, a sum of Rs.98.43 million was remained as receivables from those contracts even as at end of 2020.</p>	<p>Comments had not been given</p>	<p>Contract management activities should be formalized.</p>
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3.10 Deficiencies in Contract Administration

Audit Observation	Management Comment	Recommendation
<p>(a) Even though the contact work of 09 contracts valued at Rs.620.72 million scheduled to be completed as at end of the year under review, those contract works had not been completed as at end of the year under review. Not conducting of proper supervision over the contract works and inefficiencies of the sub-contractors were directly affected for that situation.</p>	<p>Agreed with the observation</p>	<p>Supervision of the contract activities should be efficiently conducted.</p>

(b) The Construction works of the Kirimandala Mawatha Flood Control and water management Centre had been awarded by the Corporation to a Client for an amended Project Cost of Rs.563.26 million. The cost incurred for the project up to end of the year under review amounted to Rs.297.63 million. The accumulated loss incurred from the project amounted to Rs.108.57 million. Incurring of project's costs exceeding the agreed BOQ rates was attributed for this situation.

Due to the lower of estimated cost than the Engineer's estimate, when awarding the contract had been led to incur an accumulated loss from the project. It is expected to revise the estimate after being discussed with the clients.

Before starting the construction works of the Corporation, it should be concurred with the clients' institutions about the prices in the BOQs.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation

Management Comment

Recommendation

(a) According to the Action plan, the projects valued at Rs.211 million scheduled to be identified as at end of the year under review, but the Corporation had failed to identify those Projects. Further, 03 projects valued at Rs.7,473 million that had been scheduled to be implemented during the year under review had not been implemented. Furthermore, a sum of Rs.89.32 million had been incurred by the Corporation for 04 projects which were not included to the Action plan. In addition, it was observed that in order to make the provisions amounting to Rs.553 million for a project, which had not been included to the action Plan prepared at first, the Action Plan had been amended.

The Action Plan had been amended in September 2019 and all the implemented projects had been identified.

Only the identified projects should be included to the Action Plan and the projects included in the Action Plan should only be implemented.

4.2 Tabling of Annual Report

Audit Observation

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 Parliament within 150 days after closing of the financial year. However, the Annual report of the year 2018 had not been tabled at Parliament even up to 31 December 2020.

Management Comment

Agreed with the comment. Action will be taken to table to Annual Report in Parliament in future.

Recommendation

Table the annual reports Action should be taken according to the Circular instructions.

4.3 Sustainable Development Goals

Audit Observation

Every Government entity should take action in accordance with the Circular No.NP/SP/SDG/17 of 14 August 2017 issued by the Secretary to the Ministry of National Policies and Economic 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, targetes and manner how to reach those targets and the indicators to measure the targets had not been identified.

Management Comment

Out of the sustainable development goals which had been issued by the Ministry of Sustainable Development and Wildlife, the functions come under the scope of the Corporation had been identified and plans had been prepared to implement the functions in a coming few months period.

Recommendation

Actions should be taken to identify the sustainable Development Goals and whereas steps to be taken to achieve the planned Goals.