

## **Sri Lanka Land Development Corporation - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Sri Lanka Land Development Corporation (“Corporation”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income, 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 Finance 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 Corporation as at 31 December 2022 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 on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). 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 Standards, 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 Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation 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 of the Corporation.

#### **1.4 Audit Scope (Auditor's Responsibilities for the 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 scepticism 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;

- 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 Audit Observations on the preparation of Financial Statements**

### **1.5.1 Non-Compliance with Sri Lanka Accounting Standard**

<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Sri Lanka Accounting Standard No.01 - Presentation of financial statements.	Contrary to the paragraph 29 of the Standard, an amount of Rs.118.53 million of interest payable had been stated under the compensation payable for land acquisition.	Since it takes a long time to settle the compensation payable for land acquisition and is not expected to be settled these compensation within a short period of time, since it has been categorized under the non - current liabilities.
(b) Sri Lanka Accounting Standard No.12- Income Tax		
(i) According to Note No.07, tax expenditure included in the financial statements was Rs.489.67 million and it was observed that Rs.25million of special levy paid for the Treasury was included in that expense. However contrary to the section 5 of the aforementioned Standard the inclusion of the special levy paid for the Treasury included in that expenditure, the income tax expenditure had been over stated by that value	Action will be taken to present it in the income statement as declaration from profit after tax from the year 2023.	Liabilities should be identified in compliance with the Sri Lanka Accounting Standards.
(ii) Contrary to the 61(A) (a) of the Standard, adjustment of deferred tax relating to actuarial gain of Rs.39.29 million, stated	Agreed with the observation.	Financial statements should be prepared in compliance with the Sri Lanka Accounting Standards.

in the financial statements had not been made.

Sri Lanka Accounting Standards.

(c) Sri Lanka Accounting Standard No.16-Property, Plant, and Equipment

(i) In accordance with the Section 36 of the Standard, if an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued. Nevertheless, only the vehicles worth Rs.301.39 million had been revalued in January 2020, but 160 motor cycles and a jeep cost of Rs.24.74 million and 26.47 million respectively owned to the Corporation had not been revalued even in the year under review.

Agreed with the observation.

Financial statements should be prepared in compliance with the Sri Lanka Accounting Standards.

(ii) Although the useful life of non-current assets should be reviewed in accordance with paragraph 51 of the Standard, such a review had not been made regarding the residual value of Rs.2,066.84 million of assets in the financial statements as at 31 December 2022. Further, the costs of Rs. 670.81 million of 3,344 assets had been completely depreciated and they were still in use due to the non-reviewing of effective lifetime annually.

Based on the assumptions that increased of residual value of assets at any given time by 5 percent, the depreciable value of the assets had been estimated in the future. Thus, action had been taken to depreciate the assets subjected to 5 percent of residual value.

Financial statements should be prepared in compliance with the Sri Lanka Accounting Standards.

(d) Sri Lanka Accounting Standard No.40 - Investment property

(i) In accordance with paragraph 5 of the Standard, investment property is property held to earn rentals or for capital appreciation or both, however contrary to that Narammala land and the land located in 22 lane of Colombo 03 which had been given on lease basis had been stated under property, plant and equipment without being identified as investment properties.

Action will be taken to show the Narammala land and the 22 Lane land in Colombo 03 under the investment property from year 2023.

Financial statements should be prepared in compliance with the Sri Lanka Accounting Standards.

- (ii) Contrary to the paragraph 79 (e) of Standard the fair value of 07 lands and buildings at a cost of Rs. 584.95 million had not been disclosed in the financial statements.
- The cost method was the accounting method which is following for property plant and equipment by the Corporation. Therefore we did not show a fair value of those.
- Investment property should be stated at a fair value in compliance with the Sri Lanka Accounting Standards.
- (e) Sri Lanka Financial Reporting Standard No. 08- Operating Segments
- (i) According to the Paragraph 11 of the Standard, the entity shall separately report information about each operating segment. However, identifying major segments through the maintaining of operations had not been separately reported in accordance with the standard.
- Functionality of each section has been explained in detailed from the page number 06 to 60 in the Annual Report. In addition to that income and the direct cost of main operating sections have been separately disclosed under the Notes 1 and 2 to the financial statements.
- Information regarding the each operating section should be separately reported in compliance with the Sri Lanka Accounting Standards. .
- (f) Sri Lanka Financial Reporting Standard No.13
- In accordance with paragraph 3 of the Standard in assessing invested property qualified assessors had not been engaged by the Corporation.
- In the statements of financial Position, our investment properties are shown at cost basis due to the signification in the costs incurred in obtaining valuation by an external party, the fair value is provided by an internal Committee under additional information.
- Financial statements should be prepared in compliance with the Sri Lanka Accounting Standards.
- (g) Sri Lanka Financial Reporting Standard No. 15
- (i) According to the audit tests checks had been done regarding 51 percent out of revenue from contracts in past years and final bills of 13 completed contracts were handed over to the customers, but the income had not been identified as per completion stage periodically.
- All the contract revenue accounted for the year 2022 is in compliance with the generally accepted accounting standards and certified works have been done only based on the certificates.
- In compliance with the Sri Lanka Accounting Standards contract revenue should be stated in the financial statements according to the stages

Accordingly, due to delays in certifying the bills the income in the year under review was overstated by Rs.170.95 million along with related expenses. Further the number of bills rendered relating to contracts had been done in the year under review but the related income and expenditure had not been included in the financial statements due to non-certifying by the customers. However required information had not been furnished for audit to determine that value.

completed in the contracts.

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| (ii) | Even though the contract cost amounted to Rs.13.52 million for 6 projects which had been completed and handed over to clients in previous years, the adjustments made to the contract cost for the year under review without identifying the completion stages the expenditure of the year under review had been over stated by that amount.   | On the occasions of the works are not certified by the client the relevant expenses are being carried forward to the next year as work in progress and at the same time revenue is accounted for the cost is also accounted for. | In compliance with the Sri Lanka Accounting Standards contract expenditure should be fully stated in the financial statements according to the completion stages. |
| (h)  | Sri Lanka Financial Reporting Standard No. 16- Leasing   |  |   |
| (i)  | Due to the development activities of the flood controlling in Greater Colombo and development of environment project, 144 number of houses constructed in Sudunelumpura, Kolonnawa by the Corporation incurring Rs.86.1 million and it had been given to the displaced people by transferring certificates in year 2001. As per the stand without identifying separately as debtors and interest income, a value of Rs.33.51 million receivables from these householders as at 31 December 2022, had been accounted as debtors and other income under current liabilities in the financial statements. | Although the interest income included in the debtor balance of Sudunelumpura can be identified separately, it was not necessary to account for it separately. Therefore the total annual value has been accounted as income.     | Financial statements should be prepared in compliance with the Sri Lanka Accounting Standards.  |

- (ii) It was observed that when land and buildings are being given to external parties on lease basis and on the occasions of extending the lease period of that by the Corporation without entering in to lease agreements in a formal and timely manner and collecting of lease rent is not timely being done. Further it was observed in sample audit despite having the ability to reclaim their lands and buildings from the relevant parties if the arrears were not paid that lessees were allowed to use the property without entering in to an agreement and arrears to be paid, Accordingly, past years, the rental income of Rs. 151.53 million due from agreements entered with 53 external parties by the corporation had been recognized in the year under review due to without making adjustments to previous years, as a result the income for the year under review had been overstated by that amount.
- The lease income will be accounted after signing the relevant lease rent agreement or after paying the relevant amount agreed. Accordingly agreed with the audit observation.
- Financial statements should be prepared in compliance with the Sri Lanka Accounting Standards.

### 1.5.2 Accounting deficiencies

Audit Observation	Comments of Management	Recommendation
<p>(a) In the sale of 02 acres, 03 roods and 34.51 perches land located in Muthurajawela, which had been given to the Corporation by the Government on Free Hold Basis, Accordingly it was informed by the Cabinet decision to charged only the development expenses incurred and credit the remaining amount to the Consolidated Fund of the Government. Although Rs.272.62 million had been obtained by selling that land in the year 2019 and deducting only Rs.21.02 million for the</p>	<p>Under Section 3 (a) of the Corporation Act, in case of the lands vested in this Corporation are disposed, the undeveloped value of such lands shall be paid to the Commissioner General of Lands. Accordingly, the undeveloped value to be paid has been included in the register prepared for the year then ended 31 December 2019 and it has been inquired that the way of settle the said amount.</p>	<p>According to the Cabinet decision the remaining amount should be paid to the Government Consolidated Fund or to the Commissioner General of Lands.</p>

development expenditure, the balance of Rs.251.60 million had not been credited to the Consolidated Fund even up to November 2023 and a provision had not been made in the financial statements by identifying the payable amount as a liability.

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| (b) | Currently Rs.6.23 million had been incurred for the Electronic Document Management System (EDMS) used by the Corporation had been stated under the capital working in progress in the financial statements without being identified as an intangible asset.   | Relevant adjustments will be made in the financial statements identifying this system as an intangible asset.   | If the introduced systems are used they should be accounted for as intangible assets. |
| (c) | The income tax expenditure in the year under review had been calculated as Rs. 273.29 million however the income tax expenditure for the 2022/23 assessment year had been stated as Rs.309.31million therefore the income tax expenditure for the year had been understated by Rs.36.02 million.  | Income tax for the assessment year of 2022/23 has been calculated as Rs. 309.31 million. Accordingly, action will be taken to account under provisioned amount of Rs. 36.01 million in the year 2023. | Income tax calculations should be done correctly.                                     |
| (d) | According to the schedule submitted by the land section the total lands and investment property owned to the Corporation was 1075 acres and 29.21 perches but according to the financial statements presented for the year under review the extent of lands and investment property was only 66 acres 03 roods 5.13 perches. Accordingly 1008 acres 1 rood and 24.08 perches of lands had | Action will be taken to correct in the year 2023.   | The lands owned by the Corporation should be Correctly identified and accounted for.  |



not been identified in the financial statements. Further the assessment value of Rs. 39.73 million of 03 lands that have been given under the operational lease had not been included in the schedule of land and investment property as an investment property.

- (e) Due to a negative value of Rs.2.35 million had been identified in relation to 04 projects, the contract income for the year under review had been understated by that amount. The value shown by the audit observation is true and since it is not material the manner it was accounted is correct. Only the project income relevant to the year under review should be identified.
- (f) An amount of Rs. 238.87 million had been stated in the financial statement as receivable from a subsidiary Company of Land Reclamation and Development Company to the Corporation as at the end of the year under review. However, as per books of the relevant subsidiary Company it was stated as Rs. 229.75 million. Thus, a difference of Rs. 9.12 million was observed. As well, even though the payable amount to the company as per the financial statement of the Corporation amounted to Rs. 96.95 million, according to the books of the company the corresponding balance amounted to Rs106.25million. Thus, a difference of Rs. 9.3 million was observed. Reasons for this difference had not been disclosed. Agreed with the observation. Will be correct in the year 2023. Inter related transactions with the subsidiary Companies should be properly reconciled and accounted for.

- (g) Although the lease hold rental receivable to Corporation relevant to the year under review from the land of Sasakawa building was Rs.2.44 million, due to identifying the lease rental income as Rs.7.03 million for the year 2022, the profit of the year under review had been over stated by Rs.4.59 million.
- The lease rental for the year 2022 is Rs.2.44 million, in the year 2022, the rates related to the said lease agreement were re-examined and increased effective from the date of 01 July 2018 and consequently, the arrears to be adjusted to the agreement value have been accounted for in the year under review. Accordingly agreed with the audit observation and accounting of the balance due from the year 2018 to 2021 in the year 2022 was the reason for that.
- Lease rental should be recognized in compliance with the Sri Lanka Accounting Standards.

### 1.5.3 Un reconciled Control Accounts or Records

Item	As per Financial Statements Rs. million	As per corresponding Records Rs. million	Difference Rs. million	Management Comment	Recommendation
Compensation payable for the lands in the year under review	122.43	130.36	7.93	This difference will be adjusted in the year 2023	Accurate schedules should be presented for audit.

### 1.5.4 Unauthorized Transactions

Description of unauthorized transaction	Management Comment	Recommendation
(a) A difference of Rs. 47.37 million was observed between the amounts had been reported to the Court by the Corporation as receivable for construction of the Medamulana D. A. Rajapaksa Memorial Centre and the expenses included in the financial	Action was taken to write off from the books obtaining the approval of the Board of Directors of the Corporation considering the facts included in the Honorable judicial decision. Action has been	Accurate estimates should be prepared by conducting a proper feasibility study before commencing the projects. Necessary disciplinary and legal actions should

statements of the Corporation. Due to this, it was observed that the expenditure was identified as expenditure not incurred for the project. Accordingly without taking action to recover this additional expenditure from the responsible parties as per the Board of Directors decision of the action had been taken to written off against the profit and remove from the books of the Corporation even without obtaining the approval of the Treasury.

taken to inform the Department of Public Enterprise of the General Treasury by this time regarding this write - off.

be taken by holding proper investigations against the officers who prepared documents with errors.

- (b) Awarding of contract or obtaining provision from the line Ministry for implementing the project of constructing a linear park and improving drainage associated with the Athurigiriya Kothalawala expressway interchange had not been made. Accordingly on the verbal instructions of the President this contract had been commenced on the date of 15 December 2020, however the approval of the secretary to the Ministry or the General Treasury had not been obtained for that. And also a comprehensive feasibility study on the project proposal should be carried out in pursuance of the recommendations of the National Planning Department as specified in the Cabinet decision such a study had not been done. A sum of Rs.213.95 million from the Corporation's funds had been spent by the month of December 2022 for the project and the value of the works completed as at the end of the year under review amounting to Rs.191.92 million had been stated as work-in progress. Furthermore, due to failure to entrust the maintenance of the constructed

Since the estimated cost for this project was Rs. 796 million and due to the expansion of the scope, according to the problematic situation of providing provisions for this project is being decided not to undertake phase 2 of the project by the Management. The total expenditure incurred for this project as at the date of 10 December 2022 was Rs.213.95 million. Accordingly, only the works related to the 1.5 km long section as initial phase under the said project have been totally completed.

Projects should not be started without provision in the annual estimates and without proper prior approval.

project to the Kaduwela Municipal Council the Corporation had incurred approximately Rs 3.81 million for maintenance up to November 2023.

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| <p>(c) Due to the cost of Rs.83.3 million was incurred without prior approval of the Cabinet of Ministers, exceeding the limit approved by the Cabinet of Ministers for the purchase of a Rs. 60 million an amphibious machine. For the Beire Lake cleaning project, the cost difference of Rs.23.3 million had incurred by the Corporation fund According to the arbitration conditions with the supplier regarding payments settlement a sum of Rs.94.19 million and Rs.11.73 million as the interest for late payments had been paid for the machine.</p> | <p>Investigations are conducted in Criminal Investigation Department regarding these purchases, and court procedures are ongoing.</p> | <p>The projects which are initiated on the basis of treasury allocations should be implemented with proper management as planned and disciplinary action should be taken against the responsible parties.</p> |
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**1.5.5 Documentary Evidences not made available for Audit**

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>(a) Performance reports showing the financial and physical progress of any project carried out by the Corporation were not submitted for audit except projects that are implemented based on Treasury provision Due to that it was impossible to evaluate performance of those projects in audit.</p>	<p>Instructions are given to the relevant officers to submit performance reports in which stated financial and physical progress as requested by the audit.</p>	<p>Audit evidence /information should be promptly submitted to the audit as per the provisions of the National Audit Act.</p>
<p>(b) An amount of Rs 4.31 million had been included in the financial statements as expenditure for the flood control project of the Panadura City which was no any physical and financial progress had been obtained as per the progress report. Required details had not</p>	<p>Answers not received.</p>	<p>Payments should not be made without achieving financial and physical progress.</p>

been presented for audit for the confirmation of the accuracy and the relevance of this expense.

## **1.6 Accounts Receivable and Payable**

### **1.6.1 Receivables**

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>The debtors and other receivable balance of Rs.5,316.38 million included in the financial statements in the year under review, out of the trade debtors balance of Rs.1,922.12 million the balance remained receivable since a period between 2 and 5 years was Rs. 611,11 million and the balance exceeding 05 years was Rs.122.79 million. As well the total amount of receivable from the Client Projects to the Corporation included in that debtors and other receivable balance was Rs.1,077.88 million and out of that Rs. 210.45 million had been remained since a period between 4 and 5 years and Rs.122.02 million had been more than five years.</p>	<p>Agreed with the audit observation.</p>	<p>Steps should be taken to promptly recover the money receivable to the Corporation and the debtor balances should be verified.</p>

### **1.6.2 Payables**

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>(a)(i) The balance of refundable deposit included in the trade and other payable balance of Rs.3,230.58 million stated in the financial statements was Rs.94.26 million and out of the Rs.45.06 million of refundable deposit which included in that balance payable by the end of the year under review relating to the tenders had been awarded by the Corporation a balance of Rs.11.46 million were remained</p>	<p>This balance includes the value of deposits for which re-deposits had not been claimed up to the 31 December 2022.</p>	<p>Action should be taken in terms of the 570 and 571 of the Financial Regulations.</p>

from 3 to 5 years, Rs.14.39 million  
from more than 5 years.

(ii) As such in the balance of contract creditors of Rs.1,574.19 million included of contract creditors of Rs.1,347.43 million and a creditors balance of Rs.4.74 million and remained unsettled since a period between 2 and 4 years and the balance more than a period of 04 years was Rs.210.5 million.

Agreed with the audit observation.

Action should be taken to promptly settle the unsettled balances.

(b) Even though an amount of Euro 575,000 equals to Rs.85.67 million which was payable in the year 2011 for foreign company for excavating sea sand, action had not been taken to settle up to 31 December year under review and this liability had been increased up to Rs.222.48 million as at that date.

On the date of 26 June 2008 the Deputy Commissioner of Inland Revenue (International Unit) informed that a sum of Euro 575,000 was due by Rodhe Nielsen on that date and the amount would be withheld pending further instructions. So it is not possible to pay the amount until the Inland Revenue Department provides further instructions on how to proceed.

As there is a risk of an exchange loss in settling the liability due to the devaluation of the rupee, arrangements should be made to promptly settle the balance due.

## 1.7 Related Parties and Related Party Transactions not disclosed

Audit Observation	Management Comment	Recommendation
(a) In accordance with the Sri Lanka Accounting Standard No.24 and according to the Conceptual frame work the related party transactions of goods, properties, sale of other assets, leasing, or transfers between the Corporation and the Group should be disclosed in the financial statements in detail and quantitatively, but those information had not been	Transactions made between the Corporation and the Group had been stated under the Notes number 22.2.1 and 22.2.2 of the financial statements.	Adequate disclosures should be made in the financial statements. In compliance with the Sri Lanka Accounting Standards.

disclosed in the consolidated financial statements.

(b) The sea sand packing and selling project

- (i) It had been decided by the Board of Directors of the Sri Lanka Land Development Corporation on 4 October 2018 to packing and selling sea sand should be start as a commercial business by the Land Reclamation and Development Company and a loan amounting to Rs.200 million was given to the company on the date of 07 May 2019. For that a land owned to the corporation was given to the company for the construction of a building without signing a lease agreement between two parties to carry out the construction. Even though, Rs. 382.50million had been incurred for the project which is high capital investment by the date of 14 June 2021, any project evaluation or a feasibility study had not been done before commenced this project Furthermore the project had ceased in the year 2021. And action had been taken to transfer the relevant land and the sand packing center to a private institute on lease basis.
- The financial facilities needed by the Land Reclamation and Development Company (REDECO) for the project of packing and selling sea sand had been implemented in the land owned to the Corporation was provided by the Sri Lanka Land Development Corporation. Although the main objective of starting this project was increasing a main income source to the REDECO Company that project was not succeed as expected.
- The project should be started with a proper feasibility study.

**1.8 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.**

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R. 757 (2)	If any differences shortages and misplacement is observed after the receipt of annual board of survey reports, the Accounting Officer is required to take appropriate actions in that respect. However, in respect of shortages of Rs.4.1 million and excesses of Rs.5.2 million, which were observed in the stock verification, necessary adjustments had not been made even by 31 December 2023.	Identifying the excess and shortages identified in the annual board of survey the reasons are inquired from the relevant parties responsible for that	Should be act in accordance with the Financial Regulations.
(b) Public Finance Circular No.01/2016 dated 08 January 2016	Services of an external persons could be obtained to fulfill an urgent services required and if it is personally satisfied that there is no qualified person in the entity, the service of an external person could be able to obtain only for two months with the personal approval of the secretary to the Ministry, as contrary to that 3 consultants had been recruited and Rs. 3.7 million of consultancy fee had been paid for the year under review.	The Corporation has taken action to obtain the service of three officers one who has specialized knowledge in the field of irrigation construction and long term service experience as an irrigation engineer in the Sri Lanka Irrigation Department, an expert in the financial field and an officer with specialized knowledge of SAP computer software.	Action should be taken as per the provisions of the Circulars.



(c) Public Enterprise  
Circular  
No.01/2021 dated 16  
November 2021

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| (i) Paragraph 2.3 of Guideline  | The Corporate Plan for the period of 5 years should be prepared as noted in Annexure 1, and this plan should be updated each year in line with the changes in the business environment and the Corporate Plan should be submitted to the General Treasury not later than 15 days before the commencement of the ensuing year, but a Corporate Plan had not been submitted for the year 2022 by the Corporation. | The Corporate Plan prepared for the year 2023-2024 is currently being updated for the year 2024.   | Action should be taken as per the provisions of the Circulars. |
| (ii) Paragraph 5.3 of Guideline | 30 percent of the profit after tax should be given to the Consolidated Fund. Even though the profit after tax for the year under review calculated to Rs. 81.4 million had to be paid to the Consolidated Fund, the Authority had only paid Rs. 25 million.   | Agreed with the audit observation and remitted to the General Treasury during the year 2023.   | Action should be taken as per the provisions of the Circulars. |
| (iii) Paragraph 3.2 of Manual   | Requests pertaining to pay structure should be submitted by entities with a Board approval and recommendations of the Line Ministry, for the approval of the Director General, Department of Management Services with a copy to Director General, Department of Public  | With the aim of achieving the desired development goals by retaining the professionals employed by this corporation, which operates on a self – financing basis and focuses on | Action should be taken as per the provisions of the Circulars. |

Enterprises. However, the Corporation had paid the professional allowances for the 3 periods increasing by 50 percent in each period only with the approval of the Board of Directors. Accordingly the value of professional allowances had been paid without approval of the General Treasury was Rs. 7.93 million during the year under review.

engineering works the corporation has arranged to pay allowances to its professionals. This decision takes in to consideration the practices employed in other government institutions parallel to the professionals on the approval of the Board of Directors.

(iv) Paragraph 7.7 of Manual The Board of Directors of the parent entity must establish a structure that facilitates oversight of the performance of the subsidiary companies and it should in line with the provisions of the Companies Act No.7 of 2007. As such, the Board of Directors should be discuss the performance of the subsidiaries at least quarterly and should ensure that an adequate return on investment could be obtained.

Instructions have been given to the officers by now. Action should be taken as per the provisions of Circulars.

(d) Section 9.6 of the Trade and Investment Policy Circular No. 01/2018 dated 15 February 2018. It has been allowed to import motor vehicles on tax concession basis for the public officers based on their official ranks as a privileged to them. However, 2/3 of the loan interest that paid on loans obtained to import the motor 2/3 of the interest on the loan amount obtained by the staff officers of the Corporation will be reimbursed by the Corporation upon the approval of the Board of Action should be taken as per the provisions of the Circulars.

vehicles by 12 officers Directors. amounting to Rs. 2.23 million had been reimbursed by the Corporation up to the end of the year under review without obtaining the approval of the General Treasury and obtaining only the Board approval.

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| (e) | Decision No. අමුණ/22/1069/604/006 dated 07 August 2022 Cabinet of Ministers | In terms of section 7 of the Appropriation Act No. 30 of 2021 under the limitation of non-priority of government expenses under the vote No. 123-02-21-002-2506 implementing through the provision of General Treasury the provisioned amount had been deducted from Rs. 1,000 million to Rs. 500 million. Accordingly the maximum expenditure able to be incurred was Rs. 500 million. Even though after deducting the amount should be paid for the year 2021 was Rs. 260.87 million from that Rs.500 million the balance was Rs.239.13 million under that vote Rs. 768.19 million had been incurred for the year under review. Accordingly under that vote Rs. 529.06 million had been incurred exceeding treasury provisions. | Since the activities related to flood control under the scope of the Corporation are carried out under this budget head, and are considered as national interest and the Board of Directors paper No HSB/5616 dated 28 September 2022 which directed to bear the cost exceeding under a maximum of Rs.278.866 million was approved in the Board of Directors meeting held on 29 September 2022. | Action should be taken under the approved budget limits and in compliance with the Cabinet decision. |
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## 1.9 Non-compliance with Tax Regulations

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
An amount of Rs.96 million income received from the investment property had been realized on the date of 18 October 2022 by the Corporation and in terms of the Inland Revenue Act No. 24 of 2017, action should be taken to calculating capital gain related to that and tax payable on that, and pay within a month and send relevant report to the Department of Inland Revenue however action had not been taken accordingly even 2 months has passed as at the date of 31 December 2022 being realizing the asset.	Agreed with the observation.	Action should be taken as per the provisions of the Inland Revenue Act.

## 1.10 IT General Controls

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) In General Accounting Procedure income generated and the expenditure incurred relevant to the year by an entity, after adjusting to the income statement relating to the year under review and the net profit/ loss generated after adjusting to the related income account, the values of the relevant income/expenditure will be zero value. However, in the new accounting software package of the Corporation credit and debit balances relevant to 48 income accounts were Rs.24,770.11 million and Rs.4.75 million respectively, Further debit balance of Rs.11,306.03 million had been shown relevant to 9 cost of sales accounts as such credit and debit balances relevant to 133 expenditure	Agreed with your observation.	Issues with the accounting software of the Corporation should be promptly solved.

accounts were Rs.11,680.32 million and Rs.2,358.13 million respectively had been stated as opening balances in the ledger.

- (b) Further the trial balance prepared including items entered in the income statement and the statement of financial position could be generated at the once however, relevant software has not been developed as per fulfill the requirement and it was observed in audit that the trial balance has been generated two separate occasions.
- Your observation is correct. The two trial balance reports that obtained by the accounting soft ware are combined and submitted to the audit as a single report. Issues with the accounting software of the Corporation should be promptly solved.
- (c) As per the fixed assets register it was observed that cost of Rs. 8092.30 million of asset units of 10,608 and it was able to obtain only a cumulative value relevant to this each asset category through the new Software of Accounting Programme (SAP) more over the new Software of Accounting Programme had not been developed to obtain detailed information relevant to each asset.
- Agreed with the observation. Issues with the accounting software of the Corporation should be promptly solved.

## **2. Financial Review**

### **2.1 Financial Result**

Profit before tax of the corporation for the year under review is amounted to Rs.761 million and the corresponding profit for the preceding year amounted to Rs. 1263 million. Therefore, deterioration of Rs.502 million of the profit before tax was observed. The decrease of income by Rs. 2,663 million that the income of projects implemented on the provisions of treasury, client project income and income of sales of sand and also the compensation amount of Rs. 753 million which had to be paid according to a arbitration decision had been attributed for this. However the deterioration affected to the profit had been less due to interest income received on fixed deposits during the year under review by Rs. 816 million, exchange profit by Rs. 296 million, income received by leasing land and buildings by Rs. 164 million had been increased and Rs. 96 million had been earned by selling lands.

## 2.2 Trend Analysis of major Income and Expenditure items

According to the information included in the financial statements, the following observation were made based on the analysis made relating to the financial result of the year under review and the preceding year.

Year	2022	2021
	Rs.million	Rs.million
Turnover	3,542	4,441
Government Contribution and other	748 -----	2,352 -----
	4,290	6,793
Direct Expenses	2,397 -----	4,131 -----
Gross profit	1,893	2,662
Profit before tax/(loss)	761	1,263

- (a) The financial revenue had been increased in the year under review by 223 percent with compared to the preceding year and the interest income of fixed deposits increased from Rs, 201.56 million to Rs, 1,017.57 million by 405 percent had been mainly attributed to this. And also the matured financial assets had been increased by 85 percent in the year under review with compared to the preceding year and fixed deposits investment had been increased from Rs, 3,680 million to Rs, 6,810 million by Rs, 3,130 million in the year under review and more amount out of these fixed deposits had been invested using deposits which are unsettled timely obtained from the employees of the Corporation.

## 2.3 Ratio Analysis

- (a) Compared with the preceding year, the gross profit ratio had increased from 39.18 per cent to 44.13 per cent. For this situation was mainly attributed to increasing the income from the sale of land by Rs. 96 million.
- (b) The net profit ratio which was 15.06 percent in the previous year had been decreased to 6.3 per cent in the year under review the compensation amount of Rs. 753 million which had to be paid according to arbitration decision had been mainly attributed to this.
- (c) The current ratio which was 2.29:1 in the previous year had been decreased by 0.24 in the year under review and increase the trade and other payments by Rs. 1564 million had been attributed to this. And also the quick ratio had been decreased from 1.85:1 to 1.69: 1in the year under review.
- (d) The leverage ratio had decreased from 18.12 per cent to 15.08 per cent and decreased the value of loan amount by Rs. 266.9 million had been attributed to this.

### 3. Operational Review

#### 3.1 Identified Losses

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) The Corporation had started a new subsidiary named Waste 2 Wealth (Pvt) Ltd investing Rs.5 million on 04 November 2019. However, the operations of the Company was suspended and there was a uncertainty of recovering the sum of Rs.2.46 million that receivable to the Corporation.	Since there was no need to continue this company further to ahead on subsequent changes in policy decisions, by that time the amount held by Waste 2 wealth (Private) Limited Company was recovered from the corporation, as The remaining amount was spent by the company and cannot be recovered.	A feasibility study should be done before starting the new projects.
(b) A sum of Rs.5.53 million receivable to the Corporation as at 17 February 2015 relating to the construction of the second phase of the Horana bus stand had not been recovered from the Urban Development Authority even by the end of the year under review, further it was observed that according to the cost reports prepared by the Corporation, the Corporation had occurred a loss of Rs.12.35 million due to the suspension of the project.	The amount to be charged has been presented as bill and claims in the final bill, on 24 August 2015 however the Urban Development Authority has not taken the necessary measures to date.	The reasons for the unsettled bills should be investigated and steps should be taken to recover the money immediately.
(c) A loss had incurred in the year 2021 and during the year under review was Rs.6.81million and Rs.8.5 million respectively from the Agricultural Development Project implemented by the Corporation at the Kirimandala Mawatha from the year 2020 and the total cost incurred by the Corporation from the project was Rs. 22.08 million. In the year 2021 out of that labour cost was Rs. 10.71 million that was 99.63 per cent and in the year under review	At the beginning, a significant number of workers had to be employed to prepare the land suitable for cultivation, so significant cost had to be incurred in the years of 2020 and 2021.	A feasibility study should be done before starting the new projects.

the labour cost was to Rs. 9.18 million that was 81.02 per cent.

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| <p>(d) The land located at Kelaniya Wedamulla which had been assessed in the year 1995 at a leased value of Rs.35.5million for 50 years of lease period. However the lease period has been extended for 99 years but the value of lease rent had not been changed and only added Rs.0.25 million to the previous value by the Corporation due to this it was observed that the annual lease rent charged for this land is under stated.</p> | <p>As per the valuation report dated 04 December 1995 for the Kelaniya Wedamulla land had been given to a private company, in the valuation report dated 20 October 1996 is lower than the amount stated in the valuation report for a period of 50 years. However a higher value is recorded in the valuation report approved by the Board of Directors has been given at a Rs 35.5 million in a lease term of 99 years.</p> | <p>The annual lease rent charged for the land should be assessed accurately and in a timely manner.</p> |
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### 3.2 Management Inefficiencies

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>(a) Due to the delay in the payment of compensations related to the lands acquired by the Corporation during the period from 1981 to 2005, the compensations payable for those lands was Rs.122.43 million and the related interest was Rs.118.53 million as at 31 December in the year under review. Accordingly the interest payable by the end of the year under review was increased by Rs.5.89 million than the preceding year. And also it was further revealed that the number of unauthorized occupants had been increased due to the process of acquiring these lands had been in progress over a period ranging from 14 to 40 years.</p>	<p>The payments of compensation are made by the relevant Divisional Secretariats. Many reasons such as shortage of knowledgeable officers, transferring of officers, delays in valuation reports, delays in preparing of survey plans by the Survey Department, referring to the Court when it is not confirmed the ownership of land and implementing of Court proceedings, referring to the compensation appeal</p>	<p>The compensations for the lands should be paid in timely manner in order to minimize the interest payables and action should be taken to remove unauthorized occupants.</p>



Board of compensation issues etc. were affected to land acquisition process.

- (b) In order to lease a block of land belonging to the Corporation, an extent of 22 acres 02 roods and 37.14 perches, along with a building with 55900 square feet situated in Muthurajawela, had been leased to a private company for Rs.2,195.79 million on a 50 year long-term lease basis, a memorandum of understanding had been entered into on 02 June 2021 and an advance of Rs. 500 million had been obtained for this purpose, and no steps had been taken to secure the remaining amount of Rs. 1,695.79 million and to execute a formal lease agreement even by November 2023.
- In view of current economic crisis it is difficult to pay full value of the land at once, therefore permission has been requested to pay in installments and accordingly a Cabinet Paper has been submitted as per the approval of the Board of Directors to pay in installments with the interest charged at prevailing bank interest rates.
- Should be entered into a formal lease agreement and lease value should be promptly recovered.
- (c) The Project for the Construction of Compost production center at the Muthurajawella garbage management Park had been started by the Wet Land Management Division of the Corporation. The construction works of the building No. 3 of the building complex for the Compost factory, only piling works had been completed up to end of the year under review incurring Rs.75.80 million. Although it has been lapsed of 4 years for the Construction works, remaining constructions had not been completed as per estimate even by November 2023.
- This contract was terminated upon the agreement of the both parties in accordance with the circular of controlling public expenditures issued by the Ministry of Finance.
- Project should be initiated with proper planning and completed within the set time frame.
- (d) The construction works of the new 07 storied office building of the corporation was estimated to Rs.400 million and scheduled to be
- Considering the current financial strength of the Corporation and in accordance with the
- The constructions should be done quickly and the expected benefits

commenced the construction works on 22 September 2018 and planned to be completed as at end of the year 2019. After being incurred amounting to Rs.10.27 million for the piling works, the Contract activities had suspended by the Corporation on the date of 03 April 2019 due to financial inabilities of the selected contractor. Nevertheless, the Corporation had failed to select suitable contractor for the construction works up to end of the year 2023.

Government Circulars the related construction work is expected to be carried out in the near future. should be achieved.

- (e) A cafeteria had been constructed by the Corporation at a land located at Kibhulawela which is belonging to the Urban Development Authority (UDA) without being entered into an agreement and it had been given to a Private Company on leased basis in the year 2017. Since ownership of the land is vested with the UDA it was impossible to recover the rent amounting to Rs. 24.58 million up to the year under review to the Corporation, though the cafeteria is owned by the Corporation but the ownership of the land had not been vested to the Corporation.
- Officers have been instructed to take over the relevant land or to take the necessary steps to cover the cost.
- Prompt actions should be taken to acquire the said land and to recover the outstanding rent amount.
- (f) As per the Note No. 14 ( Statutory liabilities) under the current liabilities of the statement of financial position stamp duty payable as at 31 December 2022 was Rs.7.78 million and out of that stamp duty payable relating to transferring lands was Rs.7.7 million. When checking the age analysis relevant to that it was observed that 93 percent out of the stamp duty payable had exceeded more than two years. Accordingly non -payment of these stamp duty for
- This stamp duty will be paid as soon as this land is legally transferred to the Urban Development Authority through a title deed. In addition to this other items will be paid either at the time of land transfer or at the time of signing a lease agreement.
- The lease agreement or transfer of land should be completed promptly and stamp duty levied should be paid.

a long period of time was a problematic issue and it was observed that the reason for this was no action had been taken to settle lands by properly paying stamp duty soon as ended transferring the relevant land.

- (g) The Corporation had entered into a contract agreement with a foreign private company in the year 2018 to excavate and pumping 4 million cubic meters out of the sea shore for supplying of sand for the construction industry. However, the project had been suspended on the date of 10 April 2020 by the top management as per their own willingness before the completion of the scope being agreed without a fair reason. In that occasion corporately had not been consider the financial loss to the Corporation. Due to terminate the agreement. Corporation had not paid attention for such facts that the extra cost to be incurred for the project, the contractor has been released to another project before ending the written agreement had been with the contractor non-giving of proper instruction to the contractor as per the agreement regarding the works should be fulfill by the contractor was problematic in audit. Arbitration has been made by the aggrieved party and the Corporation has imposed to pay USD 2,073,976 (Rs. 753.08 million as per the foreign exchange rate was as at the date) to the respective foreign private Company as compensation by that decision. Accordingly the whole amount had been identified as compensation payable in the financial statements of the year 2022. In addition to that after deducting the
- According to the instructions of the Attorney Generals Department the reason for the termination of this contract is that there is not enough swamp land for reclaimed cannot be used as a reason for terminating this contract, it has been advised that this contract can be terminated based on the other points mentioned in the related letter.
- On the advice of the Attorney Generals Department as mentioned in your observation the contractor has been notified that the contract will be terminated by the letter dated 10 April 2020 No. PBD/ 38A
- As per the clauses of the bilateral agreement dated 5 March 2019, this contractor temporarily Stopped dredging and pumping on 20 March 2019 for the maintenance of the vessel.
- On the date of 19 November 2019 the contract was given to the contractor by the Corporation in
- The responsible parties should be identified and disciplinary investigations should be conducted and compensation should be recovered.

amount of income tax USD 181,484.21(Rs. 60.2million) has paid by the Corporation on behalf of the contractor, the amount of compensation payable for contractor and USD 4,035,777.18 (Rs. 1,338.87million) relevant to the final bill had been paid for the contractor in the month of November 2023. It was observed that paying a large amount of compensation is inversely affected to the liquidity of the Corporation. However, due to action carelessly taking by the officers of the Corporation, this compensation had to be paid as per the terms and conditions of the agreement further, disciplinary actions had not been made to identifying the responsible parties for that.

accordance with the clauses mentioned in the additional agreement to resume the project work.

The relevant evidence was submitted to the arbitral tribunal through Annexure No. SOD –R15 which was included with the defense submitted by the Corporation.

In the e-mail message dated 13 April 2018, it was stated that in terms of condition 3.6.3 of the supplementary Agreement dated 5 March 2019, it is not the responsibility of the Corporation to compensate the fishermen.

All amounts payable to the contractor (excluding legal interest) as per the order of the arbitral award have now been paid.

Since the income earned from the sale of sand, has been invested in fixed deposits and interest has been earned from it, it is informed that there was no inverse impact on the Corporation's liquidity due to this compensation had been paid.

(h) A land located in 22 lane in Kollupitiya, had been given on lease rent basis to the Sasakawa Memorial Sri Lanka and Japan cultural center for 30 years and that lease period had

Based on the policy decision taken by the Board of Directors of the Corporation considering the diplomatic

An agreement should be entered in to regarding this land and building and due lease rental should be

been over by the date of 30 June 2017. As per the new assessment report which had taken from the Chief Assessor of Government by the Corporation on the date of 21 July 2017 for the extension of that lease agreement, the annual lease rent should be recovered on 30 years lease rent basis was Rs.12.68 million. But Sasakawa Trust has submitted an appeal informing that it was difficult to pay that lease rent and accordingly as per the decision of the Board of Directors the annual lease rent had been deducted up to Rs.1.59 million. It was observed in audit that due to this reduction the Corporation lost an annual rental income of Rs.11.09 million. As well an approval had been given by the Board paper No. HSB/5579 dated 30 August 2020 to extent the lease agreement up to 2024 with 10 percent of increasing in tax amount. However there had not been entered in to any agreement in between the Corporation and the Sasakawa Trust regarding this land and building up to the date of audited 24 November 2023.

relationship and cultural bond related to this lease, an annual increase of 10 percent has been applied to this lease starting from 01 July 2017.

The legal department of this Corporation has drafted the lease agreement, but the Sasakawa Foundation has not been able to sign the agreement due to the delay in their approval of the Board of Directors.

However after collecting the annual tax money in future the related lease agreement will be signed.

### 3.3 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) For the purpose of minimizing the security, environmental and social damage caused to the approximately 155,000 people residing in the Kelaniya, Biyagama, Wattala and Peliyagoda Divisional Secretariat divisions and the factories located therein from the floods occurring in those divisions, the Mudun Ela development project had been started at a project cost of Rs.3,000 million	It has been identified that if the relevant land is developed without constructing the proposed Oliyamulla pumping station, the surrounding areas may be subjected to flooding conditions and it has also been informed that after the construction of the said pumping	The construction of the two pumping stations should be completed promptly to achieve the desired results

under the Treasury allocated in the year 2016 and planned to be completed as at end of the year 2021. However it was impossible to complete the project activities the time duration of that had been extended up to 31 December 2025. The financial progress and the physical progress of the project as at the end of the year under review were only 68.05 per cent and 68.5 per cent respectively.

In addition to that it had been proposed to construct 02 pumping houses in Oliyamulla as phase I and phase II under this project, with the expectation of completion by the end of 2020 and the constructions of the pump house under the phase II had been started on 26 March 2018. Even though the construction thereof had not been completed even by the end of the year under review the two 5M<sup>3</sup>/S water pumps purchased at a cost of Rs.83.40 million on 20 August 2018 even it has been lapsed of 5 years were remaining idle.

station the rest of the land located along the top canal can be developed.

Funding for phase 1 of the Oliyamulla water pumping station has not been provided by the treasury, so its works has been suspended and only the construction work for phase II is currently being carried out. All the necessary facilities were provided to install water pumps from the month of December in the year 2022. However due to payment issues as per the contract, the contractor refused to install the pumps and now it resorted to arbitration.

- (b) According to the Section 2 (b) 1 of the Sri Lanka Land Development Corporation Act No. 15 of 1968, Although the Corporation should identify the low-lying, marshy, waste or swampy lands situated at provincial level throughout the island and publish them by Gazette notifications to control unauthorized reclamation of such lands and carry out their supervision, the Corporation had identified such lands and published in the Gazette only in 07 provinces by the end of the year under review. The Corporation had failed to prevent unauthorized reclamations

After receiving the recommendation related to the declaration of swampy, barren and marshy lands located in seven provinces, it can be forwarded to the Ministry of Lands. The maps and schedules related to the Northern Province have been received and have been directed for the translation of schedules. When obtaining the recommendations, the recommendations of the

Targeted lands should be identified and published through the gazette and the development of the lands to be developed should be expedited.

and occupations on the lands of which the boundaries had been published in the gazette. For example even though the Corporation had identified 1,107 unauthorized constructions and fillings in 09 water basin regions in area of 399.91 hectares under 05 Divisional Secretarial Divisions during the period from the year 1996 to the year 2019, the Corporation had failed to remove those identified unauthorized constructions up to 31 December of the year under review. According to Section 8(a) of Act the lands, acquired to fill and develop should be developed by the Corporation for the use of construction of buildings, for industrial commercial and agricultural activities. However, it was observed that out of lands extent of 800 acres that had been acquired by the Corporation in Muturajawella Mudun Ela area, in the year 1995 had only been developed 400 acres that was 50 Per cent out of the land even after being lapsed of 25years.

Divisional secretaries given through the Land Commissioner General and referring to the Land Ministry, a considerable time period had been expended. Under the Greater Colombo Flood Control Project nearly a thousand acres of swamp lands were taken over by the Government as a water reserve in the year 1991. Unauthorized activities in these areas are very high and the Corporation is taking all measures to control such activities. A portion of the land proposed to be developed in Muthurajawela is used to store sea sand and a portion has been used for waste management projects. The remaining 51 acres of land has been filled and developed by pumping sea sand.

- (c) As per the Gazette notification No. 1662/17 issued on the date of 14 July 2010 by the Corporation action should be taken to protect the reservation lands in canals in the Western Province, even though 12 years has been lapsed by the end of the year under review the aforesaid Gazette being issued no effective measures had been taken to identify those reservation lands or remove the unauthorized occupants from the reservation lands.
- According to the Gazette Notice 1662/17 issued on 14 July 2010, the reserve quantities to be placed corresponding to the canal surface have been published. Accordingly copies of the relevant gazette have been sent to the local authorities instructing them not to allow any construction in the reserved lands of the canals in the Western
- Actions should be taken to prevent illegal reclamation according to the powers and objectives of the corporation.

Province.

The illegal constructions in the canals acquired by the Corporation are being implemented according to the law and removal activities are carried out.

### 3.4 Idle or underutilized Property, Plant and Equipment

Audit Observation	Management Comment	Recommendation
<p>(a) The allocated provision of the Treasury amounting to Rs.800 million in order to implement the Beira Lake cleaning Project to removing of sediments, Treasury allocation of Rs.216 million had been allocated to procure required machinery and equipment. However, exceeding that limit, 2 machines value of Rs.320.7 million had been purchased by the Corporation in August 2019 and a sum of Rs.219 million had been paid by the Corporation as installments for those machineries by December 2023. However it was informed that by the letter of Secretary to the Cabinet of Ministers No.20/1512/306/027TBR dated 09 April 2021 to take action to identify the party who should be responsible for the loss in the aforesaid procurement procedure, but steps had not been taken to identify the responsible parties for that up to December 2023. Furthermore, those machines were kept in idle at the Beira Lake site over 4 years without being used.</p>	<p>The Current situation of the 2 machines had been purchased removing of sediments in the Beira Lake which was mentioned in your observation is as follows. The Cabinet approved value of the 12 inches Cutter Suction Dredger machine is Rs.150 million and the value of the invoice is Rs.244.7 million. Cabinet approved value of 12 inch booster pump is Rs.66.0 million. The invoice value of this machine is Rs. 75.99 million (without VAT). A Cabinet memorandum which was prepared for getting approval for purchasing of relevant machine by using the Sri Lanka Land Development Corporation Fund had been forwarded to line Ministry. Investigations and judicial proceedings by the Criminal Investigation Department related to the purchase of</p>	<p>The projects which are initiated on the basis of treasury allocations should be implemented with proper management as planned and disciplinary action should be taken against the responsible parties.</p>



the above mentioned machines are currently on going and further actions in this regard will be taken based on their decisions and after receiving the necessary approvals.

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| (b) | 6 trade stalls had been constructed by the Corporation situated near the Bellanwila temple were kept in idle without being taken action to lease out from the year 2016 up to 31 December 2023. Due to this the Corporation had lost of Rs. 3.6 million for the year under review, and Rs.21.6 million for the year 2016 to 31 December 2021 and total of Rs.25.2 million was observed. | Although bids and request for proposals (RFP) were invited through the national competitive bidding process on several occasions for the 6 Trade Stalls that were suspended, no positive and financially viable responses were received. Therefore advertisements were displayed with the aim of obtaining direct proposals stating the possibility of providing those stalls there were no satisfactory responses received. | Formal steps should be taken to generate revenue by providing the stalls to the buyers in a transparent manner. |
| (c) | Due to the termination of sea sand mining and pumping to the land by the Corporation, the unavailability of sea sand stock for sea sand refining and processing activities the value of Rs.93.67 million machinery and equipment acquired from a subsidiary company could be idle.  | All the activities are being prepared to carry out the project of offshore sand mining and pumping to the land in the year 2024. Therefore there is not a constant risk that the machinery acquired by the company becoming idle in the future.  | The relevant machinery should be used efficiently and effectively.  |

### 3.5 Delays in Projects or Capital Work

	<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	For the execution of drainage systems improvement project in the Kerawalapitiya area with an estimated	In order to connect the end of the proposed road to the related road, it is necessary	The construction works undertaken by the corporation should be

value of Rs.41.44 million, a mobilization advance amount of Rs.18.02 million had been obtained from the Road Development Authority on 05 February 2018. Bills valued at Rs.15.60 million had been submitted after deducting Rs.6.22 million as mobilization advance to the Road Development Authority for making payments by 28 May 2018. Since the Road Development Authority, the contract awardee, had not removed the houses to proceed with the remaining work of the project, the Corporation had been compelled to abandon the project and accordingly, it was observed that the flood is occurring in the area due to the blockage in the drainage systems.

- (b) The Kolonnawa Storm Water Drainage and Environment Improvement Project with an estimated cost of Rs.8,700 million, which was initially planned to implement under the World Bank aids, according to the Cabinet decision it was subsequently planned to be implemented under the Treasury allocation. The project, which was initiated in the year 2018, and it should have been completed within 05 years. However, only the improvement of a 450- meter sub-canal, which connects to the Passenna Canal over a distance of 4.1 kilometers and 05 culverts, had been completed even by the end of the year 2021. The physical progress of this project was as low as 6 percent and non- receiving of Treasury Provisions as planned was lead for this.
- Under the Kolonnwa Storm water Drainage and environment improvement project of the canal length of 450 meters which is joint to the Passenna Canal had been completed and not only that the construction of 5 culverts belonging to the same canal had been completed by the year 2021. For the year 2022 Rs.100 million and for 2023 Rs.250 million treasury allocation have been received and the project components such as preparation of detailed engineering plans, construction of 2 lakes, laying of gabions in the sand, 3 culverts are being completed by utilizing those funds and further
- The related benefits should be provided to the general public by completing the construction works promptly.

canal maintenance works are also being carried out in Kolonnwa area. The surveying of the proposed land acquisition for this project is underway.

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| (c) | <p>A sub-access road had been constructed at a cost of Rs.112 million by the year 2018 before acquisition the proposed land for Madinnagoda Housing project, However the land could not be acquire up to December 2023 the money incurred for that had been an idle expenditure.</p> | <p>This corporation identified the proposed works, prepared its plans and carried out the work of constructing the road. Simultaneously, it was proposed to remove the unauthorized constructions adjacent to it in order to connect its last end to the adjacent road. Accordingly, the removal of unauthorized construction could not be done unexpectedly in the prevailing environmental conditions.</p> | <p>The land acquisition process should be completed expeditiously and the project should be completed.</p> |
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### 3.6 Defects in Contract Administration

**Audit Observation**

An amount of Rs. 61.58 million receivable since the year 2014 for the Corporation for construction of unit “ A” laboratory building of Atomic Energy Authority had not been recovered by the Corporation even by the end of the year under review. The cost incurred for micro piling amounting to Rs. 46.40 million by the Corporation the Atomic Energy Authority had not agreed to reimburse due to disagreement on planning errors of the building. Nevertheless, the Corporation had not taken any disciplinary action against the responsible parties for this.

**Management Comment**

As this building was constructed under the Design and Built method the Corporation is taken action to reimburse it from the Atomic Energy Authority.

**Recommendation**

According to the agreement the responsible parties should be identified and legal action should be taken.

### 3.7 Human Resources Management

Audit Observation	Management Comment	Recommendation
(a) The approved cadre of the Corporation as at 31 December 2022 was 1,800 and the actual cadre as at that date was 1,331. Similarly there were 469 vacancies and 29 excess. There had been vacancies in 7 posts in permanent cadre in the posts of top management of the Corporation by the end of the year under review. Recruitments had been made for 3 posts by the December 2023 and recruitments had not been made for the rest of 4 posts even by the December 2023.	The approved cadre of the Corporation up to 31 December 2022 was comprising with permanent 1649 and 151 contract basis Employees totaling 1800. The actual cadre as at that date was 1,360. Thus 289 vacancies were existed in the permanent cadre and also based on the existing service requirement requests have been submitted to the Management services Department to formally recruit suitable candidates for several vacancies including the senior management level of the Corporation's approved number of employees, however the relevant approval has not been received yet.	The vacancies should be filled up on the approved cadre and the officers who were employed outside the approved cadre should be disclosed.
(b) Although the post of Deputy General Manager Human Resources in the approved cadre has been vacant by the December 2023 and action had been taken by the Corporation to employ a retired officer who was over 60 years of age in this position on contract basis from 12 October 2020 to 31 December 2023 without approval of the Cabinet of Ministers. In the actual cadre information submitted to the audit this officer had not been included in the number of contract basis officers are in service.	Based on the recommendations given by the investigation board regarding the recruitment to the position of Deputy General Manager Human Resources, the Board of Directors as well as the secretary to the Ministry approved it with the consent of the approval of the Prime Minister then the Minister of Urban Development and Housing had been received. As well the draft Cabinet Memorandums required for that had been submitted to the Cabinet Ministry for the submission of the Reviewing Committee of Cabinet of Ministers.	Action should be taken as per the provisions of Circulars.
(c) During the year under review, while there were 76 permanent security service officers in the approved cadre of the Corporation, Rs.59.5 million was paid to the LRDC	Due to the implementation of development projects throughout the island by the Corporation during the year under review and no enough	The existing employees should be employed effectively and efficiently.

security service for providing security service to the Corporation during the year under review As such under the PL-01 category even there are 347 of permanent cadre out of 412 approved labour position an amount of Rs.450.61 million had been incurred by the Corporation during the year under review for obtaining man power service from LRDC Service Private Company, And also Rs.107.34 million had been incurred for the cadre has taken from the REDCO Company for fulfilling the activities of the Corporation during the year under review .

security guards are being employed in the Corporation, action will be taken to have security services from the LRDC service company for maintaining the security services continuously in the established work sites and work places all over the island.

#### **4. Accountability and Good Governance**

##### **4.1 Submission of Financial Statements**

###### **Audit Observation**

As per the paragraph 6.6 of the Operational Manual Public Finance Circular No.01/2021 dated 16 November 2021 the financial statements relating to the year 2022 should be handed over before the date of 28 February 2023 by the Corporation, but the financial statements handed over to the Auditor General for audit on the date of 20 August 2023 after a delay of more than 6months.

###### **Management Comment**

Agree with the observation.

###### **Recommendation**

The financial statements should be submitted as per the circular instructions.

##### **4.2 Annual Action Plan**

###### **Audit Observation**

The action plan had not been prepared using standard format as per the Public Finance Circular No.01/2021 dated 16 November 2021. And further, the activities should be listed in logical sequence and in detail and assigning responsibility to specific officers for carrying out each activity and indicating

###### **Management Comment**

In the year 2021 and 2022 in the situation of economic crisis and uncertainty that prevail in the country a significant number of projects had to be identified as the projects to be identified in future, under the employer projects and when preparing the action plan, only the afore mentioned information had to be

###### **Recommendation**

Action should be taken as per the provisions of Guideline on Public Enterprises Corporate Governance.

specific time target should be included in the action plan. made to achieve those activities. And also activities should be connected with the objectives need to be accomplished however the action plan for the year under review had not been prepared as per by the Corporation.

### 4.3 Corporate Plan

Audit Observation	Management Comment	Recommendation
<p>A Corporate Plan had been prepared only for the period of 5 years from 2018-2022 but in that plan the facts had not been included that a function which had conferred by the corporate Act to identifying the low lying, marshy, waste or swampy and specify were in island wide published in Gazette by Order as able to controlling and supervision of reclamation unauthorized lands and any area of land on a canal bank, identifying as a canal reservation as per avoiding building or any structure whether temporary or otherwise in that reservation area declared by Order published in the Gazette.</p> <p>Further, the Corporation has not taken adequate steps to achieve strategies identified in the corporate plan even by the end of the year under review and the progress achieved as per the Key Performance Indicators introduced had not been evaluated. As well the financial statements have been anticipated relating to the period of time 2018-2022 had not included in the Corporate Plan.</p>	<p>A comprehensive plan has been prepared for the years 2023-2024 that includes the future projects of the Corporation related to the measures taken in connection with the holding unauthorized reclamations in the amendment Act.</p> <p>The relevant forecasted financial statements will be included in the corporate plan in the future.</p>	<p>Including tasks mentioned in the Act should be included in the corporate plan and adequate steps should be taken to achieve the strategies.</p>