Land Reclamation and Development Company Limited - 2023

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Land Reclamation and Development Company Limited (“Company”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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. 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 Company as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standard for Small and Medium sized Entities.

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 Standard for Small and Medium sized Entities, 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 Company’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 Company or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Company’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company 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 Company.

1.4 Audit Scope (Resposibility of Auditors for the Audit of Financial Statement)

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 Company'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 Company'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 Company 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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company.
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company 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 for Small and Medium sized Entities

	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a)	**Section 02 – Concepts and Pervasive Principles**		
	Due to the cancellation of the economic service charge after exceeding three years by the end of the year under review, the economic service charge could not be offset for taxes due in the current year or any subsequent year. Althought of the economic service charge of Rs. 3.03 million had been shown as receivable in the financial statements, the current assets had been overstated by this amount as at the end of the year under review.	An appeal regarding this matter has been submitted to the Department of Inland Revenue. In future, when making income tax payments, it is intended to be presented these paid taxes for offsetting.	According to the accounting standard, the current assets should be correctly identified and accounted.
(b)	**Section 10 of the Standard - Accounting Policies, Estimates and Errors**		
(i)	Contrary to paragraph no. 10.19 of the standard, the company had recognized the medical allowances of Rs. 1.51 million which was related to the previous year, as expenditure for the year under review. Therefore the profit of the year under review had been understated by that amount.	Since the payments have been made, it has been recognized as an expense during the year under review.	According to the accounting standard, prior year expense should be recognized as prior year adjustments.
(ii)	According to paragraph 10.19 of the standard, errors from prior periods that impact the past should be corrected by restating the opening balances and the comparative amounts for the prior period. However, due to failure to do so the tax income and post tax comprehensive income for the current year had been over stated by Rs. 33.28 million.	Agreed with this audit observation. Measures will be taken to prevent such situations arising in future.	Financial statements should be prepared in accordance with accounting standards.

(c)	**Section 16 of the Standard - Investment Property**		
(i)	The company has retained the Kotagala land valued at Rs. 38 million with the intention of generating rental income in future. However, contrary to paragraph 16.2 of the standard, it had not been accounted as an investment property but had been accurated under property, plant, and equipments.	Since only the Kotagala factory was in operation, the land has been presented under property, plant, and equipment.	Financial statements should be prepared in compliance with accounting standards.
(d)	**Section 17 of the Standard – Property Plant And Equipment**		
	According to paragraph 17.19 of the standard, the company had not reviewed the residual values and useful lifes of buildings, plant, and equipment, which had a carrying value of Rs. 64.95 million at the end of the year under review. Furthermore, as of the end of the year under review, there were 635 fully depreciated fixed assets with a cost of Rs. 63.71 million still in use. However, any appropriate measures had not been taken to correct the estimated error in relation to these assets.	Measures will be taken in future to revaluate and account for property, plant, and equipments.	Financial statements should be prepared in compliance with accounting standards.
(e)	**Section 23 of the Standard - Revenue**		
	According to paragraph 23.17 of the standard, contract revenue and costs should be recognized based on the stage of completion of the contract during the reporting period. However, the company had recognized contract revenue based on the value of invoices certified by its engineers. As a result, the company had recognized revenue of Rs. 79.12 million for the year under review, but calculations made by the auditor based on the actual stage of completion revealed that the revenue for the year 2023 should have been approximately Rs. 54.91 million. This resulted in a discrepancy of Rs. 24.21 million, with the revenue for the year under review and it had been overstated by that amount.	The relevant estimates are prepared by the engineers based on the bill of quantities provided by our client. According to ICTAD regulations, measurements are taken during the construction stages, and bills are submitted accordingly. Thus, after the invoices are certified by the engineers of both parties, the contract revenue for the respective year is calculated.	According to the relevant accounting standard, contract revenue and costs should be recognized based on the stage of completion of the contract.
(f)	**Section 27 of the Standard - Impairment of Assets**		
	According to paragraph 27.9 (e) of the standard, assets worth of Rs. 55.42 million used for the sea sand packeting project had been impaired. However, any impairment loss had not been recognized by the company during the year under review.	Depreciation for this machinery was also provided in the year 2023. Accordingly, the company had not recognize any impairment loss during the year under review.	According to the standard, Impairment losses should be recognized and accounted.

(g)	**Section 28 of the Standard - Employee Benefits**		
(i)	The company had identified an employee gratuity expense of Rs. 1.45 million during the review year, without preparing defined contribution plans according to the standards, measuring defined benefit obligations, including both vested and non vested liabilities, discounting, and actuarial valuation. As a result, it was not possible to verify the accuracy of the identified non current liability of Rs. 18.74 million associated with this amount.	In the year 2024, actuarial gain or losses will be identified and adjustments will be made accordingly.	Acturial valuation should be made according to the Accounting standard.
(ii)	The company had not been calculated and recognized the employee gratuity expense and liability for 181 employees who were released to its parent company on a manpower basis since the year 2010, in the financial statements.	Since the corporation is reimbursed for the gratuity payments, there is no associated cost or liability. As a result, the gratuity has not been calculated	Provisions for employee benefits should be made for all employees of the company.
(h)	**Section 29 of the Standard – Income tax**		
(i)	According to paragraph 29.8 of the standard, it was challenging during the audit to determine whether the deferred tax asset of Rs. 29.82 million, based on the Rs. 99.39 million losses identified for the years 2019/20 and 2020/21, could be recovered within the next three years. Furthermore, it was observed that if sufficient taxable profits are not reported within the next three years, the deferred tax assets may decrease, and the relative increase in tax expenses could result in future financial statements failing to reflect the company's true financial position through the post tax profit.	Since it is expected to achieve a significant profit for the year 2024/25 and beyond, there is a possibility of realizing the deferred tax asset of Rs. 29.82 million on the loss of Rs. 99.39 million for the year 2020/21 within the next year.	Deferred tax assets should be recognized in accordance with the standard.
(ii)	According to Paragraph 29.16 of the standard, the company had considered a provision for doubtful debtor of Rs. 53,168 instead of Rs. 4.44 million for the deferred tax asset, resulting in an understatement of the deferred tax asset by Rs. 1.31 million. Although the revaluation gain on land according to the financial statements amounted to Rs. 34.17 million, the revaluation gain on land considered for deferred tax was Rs. 34.50 million, leading to an overstatement of the deferred tax liability by Rs. 99,692.	Actions will be taken to correct this in the year 2024	Deferred tax assets and deferred tax liabilities should be recognized in accordance with the standard.

1.5.2 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	The company owned sea sand packaging building, valued at Rs. 301.28 million, it has been assessed by the government's valuation department at Rs. 326.30 million and taken over to the parent company in the year 2021. However, the cost of the building, including water retention ponds, was reported as Rs. 331.02 million in the company's financial statements. While only the value of the building should have been deducted from assessed value, the total value mentioned above was set off against the assessed value. As a result, the company's retained earnings and non current assets had been understated by Rs. 25.03 million.	The valuation amount related to the building included in the work in progress account was removed, and the remaining values, including water retention ponds, will be removed upon the completion of the entire transaction.	Only the cost relating to the acquired asset should be removed from the work in progress account.

1.6 Accounts Receivable and Payable

	Audit Issue	Management Comment	Recommendation
(a)a	At the end of the review year, the outstanding mobilization advnce balance of Rs. 18.27 million included a balance of Rs. 15.85 million that had been outstanding for more than 5 years. Within the mobilization advance payable balance of Rs. 54.68 million, the balance payable between 1 to 4 years was Rs. 20.33 million, and the balance payable for more than 4 years was Rs. 23.99 million.	After reaching an agreement with the relevant institutions, steps will be taken to settle these funds. The remaining mobilization advance funds will be paid after the invoices are cleared by the service institutions.	Reasons for the outstanding advances not being cleared should be investigated, and legal action should be taken. As per the agreements, the contracts should be promptly terminated, and the mobilization advances payable should be settled.
(b)	At the end of the year under review, the outstanding and payable retention balances were Rs. 73.22 million and Rs. 46.91 million, respectively. Within these amounts, the balances that had been outstanding for 1 to 5 years were Rs. 16.29 million and Rs. 3.56 million, respectively, and the balances that had been outstanding for more than 5 years were Rs. 50.69 million and Rs. 43.35 million, respectively.	Out of the retention recievables, a contract worth of Rs. 24.49 million was completed this year, and the funds will be requested at the end of the year. The retention payable balance of Rs. 46.91 million will be paid to the respective contractors after being released by the company's clients and will be processed accordingly.	Steps should be taken promptly to settle the outstanding balances with arrears, and immediate actions should be taken to settle the company's long term liabilities.

1.7 Related Parties and Related Party Transactions not disclosed

	Audit Issue	Management Comment	Recommendation
(a)	According to the financial statements at the end of the review year, the balances for trade receivables and contract receivables were Rs. 27.43 million and Rs. 71.30 million, respectively, and Rs. 15.41 million and Rs. 35.25 million to be received from the company's parent company, the Sri Lanka Land Development Corporation. Additionally, of the trade receivables, of Rs. 5.86 million was due from the period between 1 to 4 years, and Rs. 7.34 million was due from the period exceeding 4 years, which should have been received from the parent company. The remaining trade receivables, amounting to Rs. 12.02 million as shown in the accounts, including Rs. 9.92 million which had been remained over 4 years without being collected.	Agree with the observation. The trade receivables and contract receivables amounting to Rs. 15.41 million and Rs. 35.25 million, respectively, were due to be received from the company’s parent company , the Sri Lanka Land Development Corporation. In the year 2024, Rs. 9.98 million was collected from trade receivables, and Rs. 34.9 million was collected from contract receivables.	Actions should be taken promptly to settle related party transactions.
(b)	According to the financial statements of the company at the end of the year under review, the trade receivables and contract receivables were Rs. 84.43 million and Rs. 31.59 million, respectively, and Rs. 23.44 million and Rs. 21.31 million had to be paid to the company's parent company. Of this, Rs. 5.53 million from the trade receivables was outstanding for a period between 1 to 4 years, and Rs. 10.22 million was outstanding for more than 4 years. Additionally, within the aforementioned trade receivables, Rs. 40.38 million had to be paid to the company’s subsidiary company, LRDC Private Limited, which was 47 per cent of the trade receivables. Of this, Rs. 1.79 million was outstanding for a period between 1 to 4 years, and Rs. 1.39 million had been remained over 4 years. Therefore, the company has failed to settle the balances to its parent company and subsidiary company and also unable to collect the outstanding receivables.	Agree with the observation. The amounts due to the parent company for trade receivables and contract receivables are now being billed to the company on a periodic basis. The amounts due to the company's subsidiary company, LRDC Private Limited, are also being paid in installments, and to date, Rs. 2.07 million has been paid from this balance.	Prompt action should be taken to settle related party transactions.

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Public Enterprises Circular No. 01/2021 dated 16 November 2021			
(i)	Paragraph no. 7.7	The Board of Directors of the parent company should establish a structure to facilitate the oversight of the performance of the subsidiaries and it should be in line with the provisions of the Companies Act No. 7 of 2007. The Board of derectors should a discussion on the performance of the subsidiary companies at least once per quarter and ensure that adequate returns on equity are being achieved. However, the company had not undertaken such actions.	The relevant officers will be instructed to discuss with the board of directors of the company in order to monitor the performance of the subsidiary company in future.	The Circular provisions should be followed.

1.9 Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
The Inland Revenue Department Circular No. SEC/2023/E/01 –07 (g) dated 29 March 2023, specifies that in cases where a statement of primary employment is not provided or where there are multiple appointments for any employee, the relevant tax form (Tax Return 07) should be filed. However, it was observed that the payments for allowances to the Board of Directors in the year 2023 had not been carried out in accordance with the guidelines in the aforementioned circular.	Payments for allowances to the Board of Directors were made in accordance with the aforementioned circular in the year 2024.	Actions should be carried out in accordance with the provisions of the circular.

2. Financial Review

2.1 Financial Result

The net profit before tax of the year under review amounted to Rs. 7.56 million and the corresponding profit in the preceding year amounted to Rs 11.46 million. Therefore, a deterioration amounting to Rs. 3.9 million of the financial result was observed. The reason for the deterioration is the decrease of contract income by Rs. 69.94 million.

2.2 Trend Analysis of major Income and Expenditure items

According to the information included in the financial statements, the following observations are made while evaluating the financial results of the company for the year under review and the previous year.

Description	2023 Rs. Million	2022 Rs. Million
Revenue	210.94	255.20
Other Income	11.71	8.74
Selling and Distribution Expenses	0.77	0.40
Administrative Expenses	76.17	78.56
Finance expenses	4.77	4.70

The following observations were made.

(a) The income of the company had decreased by 20 per cent compared to the previous year, which was mainly due to the decrease in contract income by 47 per cent in the year under review.

(b) Selling and distribution expenses had increased by 95 per cent and the main reason for this increase was the payment of a sales commission amounting to Rs.354,128 by the company.

(b) The financial cost had increased by 2 per cent Compared to the previous year, and this was mainly due to the increase in bank overdraft interest by Rs. 0.59 Million or 59 per cent.

2.3 Ratio Analysis

According to the available information, the ratios of the company for the year under review and the previous year were as follows.

	2023	2022
Debt Equity Ratio (Percentage)	9.01	(25.46)
Long Term Loan Capital Ratio (Percentage)	3.26	9.56
Gross Profit Margin (Percentage)	32.07	31.47
Net Profit Margin (Percentage)	17.20	5.43
Current Ratio	1:1.50	1:1.48
Quick Ratio	1:1.22	1:1.17
Debtors Turnover Ratio	2.13	2.81
Loan Recovery Period (No of Days)	171	130

The following observations were made.

(a) The debt to equity ratio of the company was 9.01 and minus 25.46 in the year under review and previous year respectively and it had decreased by 34.47 in the year under review. This debt to equity ratio indicates that the liabilities of the company exceed its assets and this provides evidence of a highly risk situation and also shows the possibility of the company was reaching insolvency in future.

(b) The debtor turnover ratio of the company had decreased from 2.81 to 2.13 and debtor collection period had been increased by 41 days. Accordingly, inefficiencies in debts collection were observed.

3. Operational Review

3.1 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	Production activities at the Higurakgoda and Ampara factories had been discontinued by the end of the year 2019. The equipment at the factories had remained unused and underutilized by the end of the year under review. Although it was stated that plans were in place to either rent the factory or utilize it for other business activities, action had not been taken in this regard during the year under review.	The necessary actions had been taken for rental.	The operations of the company should be conducted efficiently.
(b)	The company or the parent organization of Sri Lanka Land Development corporation had failed to acquire the leasehold rights or ownership of the lands belonging to the other government agencies extended to 2.1979 hectares of cement related production centers that have been established in the areas of Hingurakgoda, Trincomalee and Ampara for a period of 30 years, even at the end of the year under review.	The company has held the possession of the land for more than 30 years and has planned to use it for other purposes besides cement production.	The land acquisition process should be completed promptly and should be focus on conducting operations to generate income.
(c) (i)	Sea Sand Packeting Project This project had been implemented without any project eavaluation or feasibility study and preliminary cost estimated by the company Prior to the commencement of the project and the project had been initiated and implemented in 2018 based on a proposal presented by the Business Planning and Development Department of the parent company in 2018. To facilitate this, the parent company had given a loan of Rs 200 million to the company, with a 2 year grace period, an interest rate of 12 per cent per annum, and a repayment term of 10 years. The total cost incurred by the company for this project was to Rs 382.5 million. However, the company had not taken any steps to enter into an agreement regarding	The government made a policy decision to limit river sand mining, and considering the existing demand for sand, the project was initiated with the aim of promoting sea sand in 2018. Although it was planned that the land would be transferred after the commencement of the project, the project could not be implemented as planned. As a result, the land owned by the corporation could not be	A feasibility study should be done before starting a project. Initiated projects should be implemented as planned with proper management and disciplinary action should be taken against the responsible parties after the completion of legal proceedings.

	the land owned by the parent company, which was used for the continuation of the project.	transferred to the company.	
(ii)	After the project was initiated, within a short period of two years, by 2020, the parent company had reported that the project was running at a loss. Consequently, the Board of Directors had decided to terminate the project and it was decided to lease the land and building used for the project on a long term lease basis for 50 years, following a request made by a private institution on 7 February 2020 and the building had been subsequently handed over to the institution on 14 June 2021.	Due to the company incurring significant losses in the course of managing this project, it was decided to cease certain components of the project (excluding the cleaning and processing of sea sand). Since the land used for this project is owned by the corporation, it was overtaken it, along with the constructed building with the expectation that it would be leased on a rental basis to the government major share holder.	A feasibility study should be conducted prior to the commencement of the project.
(iii)	Without following proper procurement process The total cost of Rs. 211.93 million incurred by the company for the prefabricated steel structure imported from China, and for the construction of a building to the company has lodged complaints to the National Procurement Commission and the Bribery or Corruption Investigation Commission regarding the irregularities that occurred during the purchase of this steel structure. However as of the end of the year under review, these complaints were still under investigation.	The investigations into the reported irregularities during this purchase are still ongoing with the National Procurement Commission and the Bribery or Corruption Investigation Commission.	Legal action should be promptly concluded, and after the completion of such proceedings, disciplinary actions should be taken against the responsible parties.
(iv)	The water treatment plant (RO Plant), valued at Rs. 7.55 million, which was purchased for sand washing, has been installed in the building used for sea sand packaging, which was transferred to the corporation. However, the value of this plant had not been considered at the time of the transfer of the sand packaging building. As a result, the company had been unable to utilize this plant.	The water treatment plant, valued at Rs. 7.55 million, has been transferred to the corporation. Accordingly, the company has not utilized this plant.	Assets should be utilized effectively
(d)	A dividend of Rs. 4.56 million had been declared as per the board paper No. 2014/89/554 dated 10 October 2014, but the Company had failed to pay those dividends over of 09 years by the end of the year under review.	These payments will be made as soon as the financial condition improves.	The company should take immediate steps to settle the relevant liabilities.

3.2 Defects in Contract Administration

	Audit Issue	Management Comment	Recommendation
(a)	Out of the mobilization advance of Rs. 4.65 million given to the sub-contractor by the Company in the year 2014 for construction of the weekly fair in Horana. Only a sum of Rs. 2.65 million had been recovered by September 2015 and the balance of Rs. 2 million had not been recovered even by the end of the year under review. As advances had been paid to the sub-contractor without obtaining a security contrary to Section 5.4.4 of the Government Procurement Guidelines, the advance could not be recovered by the Company.	The sub contractor of this project had been informed through continuous letters and their payments have been withheld and the necessary activities are being done to recover the money.	Disciplinary action should be taken against the officials who provided advances without obtaining advance guarantee.
(b)	The value of Rs. 9.72 million contract had given to the company by the Urban Development Authority for the development of a land belonging to the Ceylon Electricity Board had been agreed to be completed on 15 May 2018 but the work had not been completed as scheduled. From the year 2019, More over the work of the contract had been stopped according to the letter of the Urban Development Authority dated 21 August 2018, No. 14/01/134/73 and it had been informed that the initial level of work done on that date was substandard and not being done properly. Due to this, the first progress bill amount of Rs. 5.75 million, which was forwarded by the company to the client on 10 December 2018, had not been certified and paid even by the end of the year under review.	The Urban Development Authority has notified regarding the suspension of the project, and steps are being taken to recover the first bill.	Reasons should be identified for the unstandardized and improperly executed work components, and the related costs incurred should be recovered accordingly.
(c)	The company had not taken action to obtain a mobilization advance from the parent corporation for the development project of Udukiri Ella Lake, received from the parent corporation as a sub contract work with a value of Rs.20.29 million and the company had spent Rs.6.90 million to complete the contract work, but any amount had not been collected by the end of the year under review.	Steps are being taken to recover the relevant funds promptly.	The recievable money should be recovered promptly.