

## **Sri Lanka Land Development Corporation - 2020**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the Sri Lanka Land Development Corporation for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Financial Act No.38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Sri Lanka Land Development Corporation as at 31 December 2020, 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**

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

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

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

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

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

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

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the National Physical Planning Department of Sri Lanka is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

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

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

## 1.5 Financial Statements

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### 1.5.1 Internal Controls over perpetration of financial statements

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

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

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Audit Observation	Management Comment	Recommendation
(a) According to the Sri Lanka Accounting Standard – 01, (LKAS – 1), the assets, liabilities, income and expenditure should be presented in the financial statements on their fair values. However, except the motor vehicles, the value of property, plant and Equipment (PPE) cost of Rs.1,827.37	It had been proposed by the Auditor’s report to show the revalued amount of lands under the Property Planed and Equipment (PPE) in several instances. Hence, the motor vehicles held as at 31.12.2019 had been revalued by a independent committee with the participation of an officer of the Department of Motor Vehicles and action	According to the LKAS, the fair value of the assets should be shown in the financial statements.

million had been shown in the financial statements without being ascertained the fair value of the PPE. had been taken to brought those values to the financial statements.

- (b) According to paragraph 36 of the LKAS – 16, if an item of PPE is revalued the entire class of the PPE to which those assets belong should be revalued. However, a Jeep cost of Rs.26.47 million belonged to the corporation as at end of the year under review had not been revalued. Agreed with the observation. Even though the motor vehicles held as at 31.12.2019 had been revalued, the motor cycles include thereto had not been revalued. The error highlighted in the audit report will be rectified. According to the LKAS, the assets should be shown in the financial statements.
- (c) Due to not reviewing of useful life of non-current assets in terms of paragraph 51 of the LKAS 16, estimation error of useful life of the fully depreciated assets which are still in use, the cost of Rs. 492.81 million, has not been rectified even in the year under review according to the LKAS–8 Agreed with the observation. Based on the hypotheses that increased of repossess value of assets at any given time by 5 per cent, the depreciable value of the assets had been estimated form the year 2021. Thus, action had been taken to depreciate the assets subjected to 5 per cent of residual value. According to the LKAS, the assets should be shown in the financial statements.
- (d) According to paragraphs 24 and 25 of the LKAS 27, the parent company and subsidiary companies should apply similar accounting policies when preparing the consolidated financial statements. Although the Corporation had changed its stock valuation policy from First in First out (FIFO) basis to Weighted Average Cost method (WAC), the LRDC services private Ltd, the subsidiary Company of the Corporation, had applied FIFO method for stock valuation. However, without being made necessary adjustments, consolidated financial statements had been prepared. Agreed with the observation. The stock valuation method of the subsidiary companies had been changed to weighted average method from the year 2021 According to the LKAS, the assets should be shown in the financial statements.
- (e) Action had not been taken to ascertain the fair value of two investment properties, cost of Rs.158.28 million according to the LKAS 40, and shown in the financial statements even in the year under review. In order to revalue the lands, a huge cost has to be uncured. Hence, the lands had not been revalued to disclose the vehicle amounts in the financial statement. However, when revalue the lands for another purpose, then action will be taken to According to the LKAS, the assets shown in the financial statements.

disclose the fair value based on that valuation.

### 1.5.3 Accounting Policies

Audit Observation	Management comments	Recommendation
(a) A contract which was commenced on 14 December 2018 and scheduled to be completed on 14 August 2019 had been completed on scheduled date. Further, although the Standard Technical Committee (STC) recommendations had been received in the year 2020 relating to a contract, it was failed to obtain the final work done certificate. As a result, the contract revenue amounting to Rs. 3.29 million had not been accounted in the year under review.	According to the accounting policies, the contract revenue should be accounted only after receiving the Engineer's certificate. Due to not receiving of Engineer's certificate relating to this project for the year 2020, it could not be able to account the revenue. Although the recommendation of the slandered Technical (STC) Committee certified, the Client ( 34 Projects) had not issued work certificate. However, the contract revenue for the year 2021 had been accounted.	Action should be taken to complete the contract works on scheduled dates and to obtain the Engineer's certificate. As well the revalue should be accounted relating to the relevant financial year.
(b) Due to not obtaining of Engineer's work done certificate for 3 contracts, the contract revenue amounting to Rs.33.09 million had not been accounted. As a result, the contract revenue of the year under review had been understated in the year under review	According to the STC's recommendations, a long period had been obtained by the UDA to approve the bills. However, based on the work completing certificate issued the year 2021, the project income had been accounted in 2021.	Correctly computed contract revenue should be brought to the financial statements.

### 1.5.4 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a) Without having the external Engineer's certificate, the contract revenue amounting to Rs. 64.68 million relating to 2 contracts had been identified and accounted in the year 2020.however, work done certificate of the Engineer had not been received up to 31 December 2020.	Agreed with the audit observation. Although accounting to those 2 contracts revenue had been done based on the work certificates issued by the clients/consultancy firm, the certificates had not been signed by the work certified officer. Further, payments for 3 bills had been made under the UDA, without having work done certificates with the authorized signature.	Revenue should be accounted after being obtained the relevant work done certificates as per the accounting policy.

Nevertheless, all the bills had been certified even with the subsequently furnished bills.

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| (b) Due to accounting of prior year contract expenses amounting to Rs. 6.21 million relating to 3 contracts as the expenditure of the year under review, the contracts' profit for the year under review had been understated by that amount in the year under review.  | Due to the reasons of delays in submission of bills by the Contractors, additional information had to be find out to check the accuracy of submitted bills etc., in some instances, accounting of contract expenses relating to the relevant year had been omitted.  | The expenditure relating to the contracts should be accounted within the relevant year. |
| (c) According to paragraph 28 and 29 of the LKAS – 38, the license renewal fees cannot be capitalized. However, due to capitalized of software renewal fees amounting to Rs.1.2 million in the year 2020 as work-in-progress, the capital work-in-progress and profit of the year under review had been overstated by that amount respectively.   | Agree with the observation, this accounting error had been corrected in the year 2021  | Action should be taken as per the LKAS.   |
| (d) Even though the Corporation had decided to write off receivable in arrears and terminate the charges collected from Wattala Mabole Urban Council on dispose of garbage to the Kerawalapitiya garbage disposing site since the year 2018, action had not been taken by the Corporation to write-off the receivables and provisions for doubtful debts thereon amounting to Rs. 13.04 million up to end of the year under review. | The kerawalapitiya garbage disposing site is situated in the Wattala Mabole urban council area. Hence, then management of the corporation had decided to write-off the receivable amount of Rs. 13.04 million. Therefore, action will be taken to write-off the receivable after obtaining the Board approval. | None receivable balances should be write off by the corporation.                        |
| (e) Even though sum of Rs.155,458 had been increased by the Corporation for 2 consultancy services during the year under review, the consultancy revenue thereon had not been identified and accounted. While, the consultancy service expenditure amounting to Rs. 19.96 million related to 9 consultancy services and consultancy revenue of Rs.27 million had not been identified according to each of the consultancy projects. | The project consultancy services are provided by the Research and Design Division of the Corporation. The expenses of the Research and Design Division are absorbed to the overhead costs. Hence, the consultation expenses relating to each project could not be separately identified.                       | The expenditure of the projects should be separately identified and accounted.          |

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| (f) Due to not accounting of payable royalties on sand sale income from September to December of the year under review, the royalty payables had been understood by Rs.13.2 million. In turn, due to not adjusting of the royalty expenditure to the sand sale income, the sand sale income and profit for the year overstated by Rs.13.2 million  | Accounting mistake was existed. Action has been taken to rectify the mistaken in the year 2021   | The relevant expenditure for the year should be accounted.   |
| (g) A subsidiary Company named Waste Wealth Pvt. Ltd. had been established by the Corporation on 04 November 2019 by investing a sum of Rs.5 million as initial investment. Subsequently, the operational activities of the Company had been suspended on 01 June of the year under review and when suspending the activities, the receivables to the corporation amounted to Rs.2.46 million. However, without having possibility to recover the above receivables, it had been shown under the current assets as prepayment. As a result, the current assets had been overstated by that amount. | A sum of Rs. 5 million had been given by the corporation for this function with the approval of the Board. After that, due to changes of policies, a requirement to continue the Company was not existed. Thus, money possessed by the company at that time had been acquired by the corporation. The unrecovered money about Rs. 2.46 million will be write-off as expenditure after obtaining the required approval. | Unrecoverable receivables should be write off after obtaining the required approvals.  |
| (h) Even though the construction work of the compost production site (leachate collection pit for windrow pad of waste park Kerawalapitiya) had been completed incurring a sum of Rs. 16.24 million and compost production activities had been started in January 2020, the construction cost had been shown under work-in-progress up to end of the year under review.  | Agreed with the observation. Required capitalization activities will be done for the year 2021   | The construction activities should be correctly categorized and accounted.   |
| (i) The receivables from the Waters Edge Company for development of the Railway cafeteria at the Diyatha Uyana in 2017 amounting to Rs.88.42 million and the interest thereon amounting to Rs.33.64 million had not been recovered for over 3 years. An agreement thereof had not been   | In order to enter into a agreement, written requests have been made in several times. However, due to lack of the consent for that an agreement had not been signed. In order to enter into an agreement for payment of installments, the approval of the Board  | Action should be taken to enter into the agreements when conducting the development activities and only the recoverable interest |

signed between the Corporation and the Waters Edge Company up to January 2022. As a result, it was doubtful to recover the receivable interest amounting to Rs.22.39 million which was accounted as receivables since the year 2018.

will be obtained. According, the receivable in arrears will be recovered. Receivables form the Water's Edge Ltd had been accounted relating to the years of 2017, 2018 and 2019 on accrual basis and related interest also had been accounted. But, the officers informed that after being signed the installment payment agreement, required adjustments will be made for changes in interest income.

should be accounted.

(j) The mobilization advances received related to the work-in-progress, temporally suspended works, 17 uncompleted abandoned projects and suppling of a consultancy service amounting to Rs.370.09 million were also included in the advance account balance shown in the financial statements amounting to Rs.4,032.85 million. Out of that mobilization advances, sums of Rs.111.5 million, Rs.5.8 million and Rs. 52.10 million were remained as unsettled advances in the financial statements for over periods of 2-3 years, 3-4 years and over 5 years respectively, due to not accounting of advance settlements on due dates after being received the money for settlements of bills.

It is confirmed that the mobilization advance amounting to Rs. 370.99 million as at end of the year under review has not been settled and it was related to the current work-in-progress. Several projects which are not furnished bills though the projects were completed and the projects which were temporally suspended are also include in the above balance. No any balance relating to receiving of dues offer completing the works and recovering of advances were included to the above balance. However, those balances had been settled as at end of 2021. The advance relating to the Beliatta urban development project amounting to Rs. 52.10 was existed as unsettled for over 5 years. The balance is still in as unsettled due to the lack of an agreement between two parties.

Action should be taken to complete the contracts which were to be completed and the advances remaining as unsettled for long period of time should be settled as early as possible.

### 1.5.5 Un-reconciled Control Accounts or Records

	Item	Value as	Value as per	Difference	Management	Recommendatio
		per financial	correspondi			
		statements	ng records		Committee	n
		Rs. Mn	Rs. Mn	Rs. Mn		
(a)	Trade creditors and other payable expenses	1,290.9	1,354.9	64.0	The difference between the detailed account records and annual report was Rs. 65 million. The	Balances in the financial statements should be reconciled with the



reason for the corresponding difference was balances. adjustment of payment of advance amounting to Rs. 65 million to the trade creditors balance and show the net balance when presenting the financial statements.

(b)	The value of performance bound included in the miscellaneous and security deposits balances.	23.48	27.40	3.92	Action will be taken to rectify the mistakes took place in the year under review relating to the payable royalty account during the coming year.	Balances in the financial statements should be reconciled with the corresponding balances.
(c)	The value of work-in-progress related to the Bairre Lake Project.	46.88	47.96	1.08	Comment has not been given	Balances in the financial statements should be reconciled with the corresponding balances.

### 1.5.6 Lack of Evidence for Audit

Audit observation			Management Comments	Recommendation
(a)	Due to not available of required evidence, the following items could not be satisfactorily vouchered in audit			
	Item	Rs.Mn.	Evidence not made available	
(1)	Refundable deposits.	4.27	Date of the deposits and particulars of the contractor (Project) and a schedule including the work details.	Comments not given Action should be taken to furnish the evidence required for audit.

(ii)	Mobilization advances	1.12	The recipient and date of the advance payment relating to project of Nuwaraeliya Babarakele housing Project.	Comments has not been given	Action should be taken to furnish the Evidence required for audit.
(iii)	EPR systems	4.60	Documents relating to selected contractor for S/197/17 procurement and a detailed schedule for the purchased equipment including computers and dongles	Comments has not been given	Action should be taken to furnish the Evidence required for audit.
(iv)	Payment for rented mortar vehicles	9.32	A detailed schedule including all motor vehicles obtained on rental basis	Comments has not been given	Action should be taken to furnish the Evidence required for audit..
(b)	The vouchers should be furnished for payment after being prepared them in prescribed forms correctly and completed manner. However, 4 vouchers that furnished for audit totaling Rs. 15,794,198 had been furnished without obtaining the approvals and attaching supporting documents.			Comments has not been given	Action should be taken to furnish the Evidence required for audit.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Accounts receivable

	<b>Audit observation</b>	<b>Management Comments</b>	<b>Recommendation</b>
(a)	The receivable balance and at end of the year under review for a period of 4-5 years amounted to Rs. 44.04 million and receivable balances for over 5 years amounted to Rs. 163.21 million. The receivable balance from the “Sudu Neluma” Housing Project that included in the above receivable balance amounting to Rs. 28.55 million and out of that a sum of Rs. 28.43 million had been provided as bad debts. Further receivable from the clients’ projects	The debtor balance shown in the financial statements of the year under review that remained as unsettled for a period of 4-5 years amounted to Rs. 44.04 million and out of that unsettled balance, a sum of Rs. 41 million had been recovered as at end of 2021. Out of the receivable balance for over 5 years amounted to Rs. 163.21 million, a sum of Rs. 26 million was kept by the clients and that	Action should be taken to recover the receivables as soon as possible.

amounted to Rs. 607.35 million. Out of that balances, sums of Rs. 40.92 million and Rs. 136.25 million were remained as unsettled for period of 4-5 years and for over 5 years respectively. As well, confirmation of debtors balances for audit amounting to Rs. 1,134.86 million. Out of that amount any confirmation had not been received by audit.

amount has become unrecoverable balance. Required provision for doubtful debts had been provided thereon. Another sum of Rs. 136 million was connected to the projects conducted by the Corporation and out of that, a sum of Rs. 34 million had been recovered during the year 2021. In addition, another sum of Rs. 75.76 million was related to the expenditure incurred for project conducted on behalf of the Atomic Energy Authority. Recoverability of remaining balance is doubtful And provision for doubtful debts had been made thereon. The pandemic situation of the country also affected to this situation. The Land and Legal Divisions of the Corporation had taken actions to recover the receivables.

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| (b) | Action had not been taken by the Corporation to recover the payment for the valuation fee of 15 land plots amounting to Rs. 3.71 million that should have been recovered from the rented parties since a period of 1-5 years. | The valuation fees which should be recovered from the rented parties had already been recovered and many renting out functions had been finalized up to now. | Action should be taken to recover the receivables to the Corporation by completing related functions efficiently. |
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### 1.6.2 Accounts Payables

<b>Audit observation</b>	<b>Management Comments</b>	<b>Recommendation</b>
(a) The following observations are made relating to trade and other payables amounting to Rs. 1,439.96 million.		
(i) Out of the refundable tender deposit balances as at end of the year under review amounted to Rs. 42.88 million, sums of Rs. 8.45 million, Rs. 3.75 million , Rs. 2.79 million and Rs. 8.1 million were remained as unsettled for the period of 2-3 years, 3-4 years, 4-5 year and	Agreed with the observation. The deposits which liability period were exceeded will be considered as income as per FR 570 and 571.	Action should be taken to recover the receivables as soon as possible.

for over 5 years respectively. However, action had not been taken by the Corporation in that regard in terms of FR 570 and 571.

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| (ii)  | The lands valuation fees which recovered from the customers when renting or selling the lands amounting to Rs. 8.19 million had not been remitted to the Valuation Department. Out of the above amount, sums of Rs. 0.279 million , Rs. 6.572 million and Rs. 0.441 million were remained without being remitted for the periods of 2-3 years, 4-5 years and over 5 years respectively. | Comment has not been given   | Prompt actions should be taken to settle the payables by the Corporation.                                   |
| (iii) | Even though stamp duties had been charged for the customers to register the land deeds, the refundable stamp duties that retained due to not signing of rent agreements since the year 2006 amounting to Rs. 10.4 million had not been refund even as at end of the year under review and accounted for as other payables.  | Stamp duties charged for registration of deeds up to end of the year under review amounting to Rs. 10.4 million was retained due to not signing at agreements. It is agreed to take necessary action in that regard in the coming year, because it is not necessary to maintain such a balance due to lapse of agreement periods by considerable time and not signing of the agreements.   | The corporation should take action to settle the payables according to the applicable laws and regulations. |
| (iv)  | Out of the creditor balance amounting to Rs. 381.6 that included in the contract creditors' balance amounting to Rs. 924.85 million, sums of Rs. 57.25 million and Rs. 2.27 million were remained as unsettled for the period of 2 – 5 years and over 5 years respectively.   | The unsettled contract creditor balance as at end of the year under review was remain as unsettled for a period of 2-5 years amounted to Rs. 59.3 million. Out of that mount, sums of Rs. 15.4 million and Rs. 80.3 million had been settled up to 31.3.2021 and 31.3.2022 respectively. Particularly that balance comprises with retention money of the contractors. Unsettled retention money relating to the Mdadamulana memorial constructions project was also included in the above balance. Action will be taken to settle the above retention money amounting to Rs. 9.26 million based on the legal clearance given by the Attorney General 22.03.2022. | Prompt actions should be taken by the Corporation to settle the payables.                                   |
| (b)   | Thirteen balance confirmation letters had been sent to the creditors totaling of Rs.  | A creditor, Ceylon Steel Corporation, had obtained a cheque amounting to Rs.   | Action should be taken to reconcile   |

45.22 million as at end of the year under review. However, only 4 letters relating to 3 credit balances amounting to Rs. 10.10 million and one debit balance amounting to 15.2 million received. Out of the confirmations received, two balances were matched with the Corporation records and the debit balance amounting Rs. 15.2 million had been rejected by the creditor. As well, one balance was deviated from the Corporation's records by Rs. 0.43 million.

6.46 million. As that cheque amounting to Rs. 6.46 million had been accepted, the difference of Rs. 0.43 million in Corporation's record could not be accepted. The creditor balance amounting to Rs. 15.2 million was 20 per cent of advance given to the Analytical Instrument (Pvt) Ltd to purchase the Booster Pump for the Beirre Lake Project and advance was given from cheque No. 316719 dated 30.09.2019. Thus, rejection of the balance of the Analytical Instrument (Pvt) Ltd. may be a mistake.

the balances with the Corporation's accounts and necessary corrections should be made.

## 1.7 Related Party Transactions

	<b>Audit observation</b>	<b>Management Comments</b>	<b>Recommendation</b>
(a)	According to the financial statement of the Corporation, receivable balance from a subsidiary Company, Land Reclamation and Development Company, amounted to Rs. 564.90 million. However, as per books of the Company the corresponding balance amounted to Rs. 562.78 million. Thus, a difference of Rs. 2.12 million was observed. As well, even though the payable amount to the company as per the financial statement of the Corporation amounted to Rs. 57.72 million, according to the books of the company the corresponding balance amounted to Rs. 68.29 million. Thus, a difference of Rs. 10.57 million was also observed.	Comments had not been given.	The transactions with the subsidiary Companies should be correctly recorded
(b) (i)	Out of the short term loans receivable from the related parties amounting to Rs. 383.10 million, an advance given to the Land Reclamation and Development Company on 30 October 2019 to pay the salaries amounting to Rs. 40 million was also included. However, action had not been taken to surrender that advance up to end of the year under review.	Action has been taken to recover this amount form payables to the Land Reclamation Development Company.	The transactions with the subsidiary Companies should be correctly updated.
(ii)	According to sub-contract agreements signed with the Land Reclamation and Development	For sub-contract of the Werasgaga Project, an advance amounting to Rs.	The transactions with the subsidiary

<p>Company to conduct the sub-contracts related to the Corporation's contract, the mobilization advances amounting to Rs. 4.89 million had been given for 5 contracts during the years of 2008, 2011, 2017 and 2019. Out of the advances given to the Company a sum of Rs. 2.37 million had not been recovered even in the year under review though it has been lapsed over 3 years.</p>	<p>2.75 million had been given. Since the solar power project at Suriyamal Mawatha was not implemented as per schedules, requests had been made to settle the advance of Rs. 2.75 million. However, it was unable to recover the advance so far. Action will be taken to recover the advance in future.</p>	<p>Companies should be correctly carried out.</p>
<p>(iii) The rent amounting to Rs. 8.06 million for the lands and buildings given to the Land Reclamation and Development Company on rental basis had not been recovered for the period from 2003 to 2020.</p>	<p>It has been informed to the Company to pay the building rent for the period of 2003-2012. However, due to the week financial position of the Company the rent had not been paid. Monthly rent for the period from 2012 to December 2021 had been settled by the Company.</p>	<p>The transactions with the subsidiary Companies should be correctly carried out.</p>
<p>(c) According to the financial statements of the Corporations, the receivable mobilization advance as at end of the year under review from the Land Reclamation and Development Company amounted to Rs. 4.87 million. However, as per the corresponding payable balance shown in the financial statements of the Company amounted to Rs. 4.4 million. Thus, a difference of Rs. 0.47 million was observed.</p>	<p>Comments had not been given.</p>	<p>The transactions with the subsidiary Companies should be correctly carried out.</p>
<p>(d) Even though out of the loans given to the Land Reclamation and Development Company for the Sea Sand Packing Project from 2019 to 2020 amounting to Rs. 479.21 million, any amount had not been settled up to end of the year under review. Further, due to lack of demand for Sea Sand, the project had been suspended, and it has been decided in June 2019 to recover the receivable form the Company by selling the land and building belonged to the Company, to another Company. However, the activities had not been finalized up to end of the year under review.</p>	<p>Action has been taken to handover the building, extent of 200x30m, which had been constructed by the REDECO in the land belonging to the Corporation (Plan No. 370/SLLRDC), to the LITRO Gas Company on 14.06.2021 as per the memorandum of understanding. According, action will be taken to make the adjustments in the current account maintain for the company in order to release the Company from their liabilities amounting to Rs. 326,390,000.</p>	<p>Prompt actions should be taken to release the liabilities of the Company.</p>

## 1.8 Non-compliances with Laws, Rules, Regulations and Management Decisions.

	Reference to Laws, Rules and Regulations etc.,	Non-compliance	Management Comment	Recommendation
(a)	Financial Regulations of the Democratic Socialist republic of Sri Lanka	(i) The ad-hoc advances totaling Rs. 10,344,835 had been given in 29 instances exceeding the 100,000 limit during the year under review contrary to this regulation. Further, even though it was promised the Chairman of the Corporation in the preceding year to obtain the Treasury approval for make the advance payment exceeding the limit, that approval had not been obtained up to end of the year under review.	Agreed with the observation since it is not enough the advance of Rs. 100,000, compared with values of works that has been conducted by the Corporation, action had been taken to increase the advance limits up to Rs. 200,000 with the approval of the Board of Directors. As well, directions have been given to the Officers to obtain the Treasury approval proving requirement of increase the advance limit.	Should be complied with the Financial Regulations.
(1)	F.R.371(2)(b)	(ii) The ad-hoc advances that had been given on 60 instances the officers amounting to Rs. 6,370,980 were settled after delaying of 35 to 350 days. As well, action had not been taken to surrender the special advances given to the Officers in 35 instances amounting to Rs. 773,725 even up end of 31 December 2020. Also, the excess expenditure, amounting to Rs. 76266, which had been incurred by the Officers exceeding the given advances, had not been settled by making payments to the officers in order to	Lockdown of the country due to COVID Pandemic situation, settlement of advances had been delayed during the year 2020. The reasons for the delays were attached to the relevant vouchers. As well, instructions had been given to the officers make the settlements of ad-hoc advances within the respective periods. The ad-hoc advances given at the end of the year were shown as unsettled advance balances and those balances and those balances had been	Action should be taken according to the financial Regulations.

account the expenses and to settle the advances. surrendered during the year 2021.

(iii) The special advances that had been given in 11 instances to 8 Officers ranging from Rs.10,000 to Rs. 700,000 and totaling Rs. 1,666,480 had been settled after being lapsed of 01 to 161 days without being utilized for the desired purpose and kept in hand. It is informed that the reasons for the delays to make the settlement of interim advances had been obtained in writing from the respective officers and attached to the vouchers. An advance of Rs. 1,400,000 had been paid to the Accountant, Mr. E.A.A. Jayarathne, due to the urgent requirement existed to make the payment in the special condition prevailed in the country owing to COVID pandemic. Action should be taken according to the financial Regulations.

(iv) Even though ad-hoc advances can be paid only on special purposes, ad-hoc advances totaling Rs. 4,693,525 had been paid in 49 instances ranging amount from Rs. 7,000 to Rs. 200,000 to perform regular activities of the Corporation such as construction works and the procurement which should be conducted following the tender procedure. Due to COVID 19 situation prevailed in the country since the year 2020, the ad-hoc advances had to be given with a view to continuously carrying out the construction works without interruptions subject to limitation of staff attendances. All the ad-hoc advances had been granted having the required approvals where necessary. Action should be taken according to the financial Regulations.

(b) Section 8 of (a) of the Urban Development (Amended) Act, No. 04 of 1982 Without being obtained the approval from the respective Local Government Authority, the Corporation had constructed its new Head Officer Building in the year 2008. Even though the payables to obtain the approval thereto amounting to Rs. 12.04 million was shown in the accounts since the year 2008, action had not been taken to settle the liability even up to end of the year. Action have been begun to obtain the approval from the Sri Jayawardanapura Urban Council for new office building since the year 2008. As per the instructions given by the Urban Council required consents from the Fire Department of Urban Council, the Central Environment Authority, the Urban Development Action should be taken to settle the liabilities after being obtained the approval that required as per the Urban Development Authority Act.



year under review.

Authority and new Survey plan had been prepared and it had also been furnished to the Urban Development Council for the approval. After finalizing the above functions, it could be able to obtain the required approvals.

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| (c) | Section 83 of the Inland Revenue Act, No. 24 of 2017  | Even though it should be furnished a name list of the officers those who were not given approvals to deduct their PAYE tax from their salaries from 01 April 2020, that officers name list had not been furnished to the Inland Revenue Department for the assessment year of 2020/21.   | Comment had not been given.  | Action should be taken according to requirement of the Act.    |
| (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, two of the bank loan interest that paid on loans obtained to import the motor vehicles by 12 officers amounting to Rs. 772,284 had been reimbursed by the Corporation during the year under review obtaining only the Board approval. | Action had been taken by the corporation to pay 2/3 of loan interest on loan obtained from the Bank of Ceylon to import the Motor Vehicles on duty free basis subject to the provisions in the Trade and Investment Policy Circular No. 01/2018 dated 15.2.2018 as per the approval given by the Board of Directors. | Action should be taken according to the circular instructions. |

## 1.9 General Controls over Information Technology

<b>Audit observation</b>	<b>Management Comments</b>	<b>Recommendation</b>
The contract for design, implementation and maintained an ERP system for the functions of finance, supply and stores, had been awarded for an estimated cost of Rs. 4.6 million on 18 September 2017. Although it was scheduled to be completed the contract works within 120 days from September 2017, the	Advice with the observations old software system has been parallel run with the new ERP system since 01/01/2019. However, due to delays occurred in data input process to the new ERP System, the financial statements of the years 2019 and 2020 had been prepared using the old software package.	When awarding the contracts, proper evaluations should be conducted and action should be taken to obtain maximum benefit according to the invested funds.

contract had not been completed and an agreement had not been signed for the contract up to end of the year under review even after lapsed of 3 years. A sum of Rs.12.97 million had been incurred for the contract as at 31 December 2020. However, the Contractor had failed to design the system in order to perform the expected works. As a result, preparation works of financial statements for the year 2020 had to be carried out using previously used software package of softlogic BPO.

## **2 Financial Review**

### **2.1 Financial Results**

According to the financial statements, profit before tax of the Corporation for the year under review amounted to Rs. 2500.79 million and corresponding profit for the preceding year amounted to Rs. 823.62 million. Thus, compared with the preceding year an improvement in the profit before tax of the year under review amounting to Rs. 1,677.17 was observed. Increase of land selling income and income received from Urban Agriculture and Environmental Development Projects by Rs. 2,233.78 million and Rs. 173.96 million respectively and decrease of the cost of sales compared with the preceding year by Rs. 1,082.93 million were mainly attributed for the improvement of profit before tax of the year under review.

### **2.2 Analysis of main Income and Expenditure Items.**

According to information included in the financial statements, the following observations are made based on the analysis made relating to the financial result of the year under review and the last four years.

Year	2020	2019	2018	2017	2016
	Rs.	Rs.	Rs.	Rs.	Rs.
Turnover	4,987	3,789	4,730	4,125	2,181
Government Contribution	2,379	2,787	2,367	2,969	5,630
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	7,366	6,576	7,097	7,184	7,811
Direct Expenses	3,599	4,682	4,500	4,966	5,603
Gross Profit /(loss)	3,767	1,894	2,597	2,218	2,208
Profit before tax	2,501	824	1,620	1,386	1,477

- (a) Compared with the preceding year, the finance income was decreased by 17 per cent.
- (b) Out of the total income of the Corporation for the year under review, 68 per cent was generated from operational activities of the Corporation and 32 per cent was received as government grants.

- (c) Compared with the preceding year, the selling and distribution expenses of the year under review was increased by 85 per cent from Rs. 77.12 million to Rs. 142.89 million and increased of the Provision for doubtful debts was the main reason for that increase.
- (d) Compared with the preceding year, the income of the year under review increased by 12 per cent and the profit before tax was increased by 203 per cent.
- (e) Compared with the preceding year, the land reclamation and development income and income from construction project were increased by 68 per cent and 51 per cent respectively.

## 2.3 Ratio Analysis

- (a) Compared with the preceding year, the net profit ratio of the year under review was increased from 10 per cent to 34 per cent. Increase of land selling income and income form wetland management projects were main reasons attributed for this situation.
- (b) As a percentages of total assets and equity, the current liabilities as at end of the year under review were increased by 35 per cent and 76 per cent respectively.

## 3. Operational Review

### 3.1 Uneconomic Transactions

Audit Observation	Management Comment	Recommendation
<p>A difference of Rs. 47.37 million that was shown between the reported amounts to the Court as further receivable amount for construction of the Medamulana D. A. Rajapaksa Memorial Centre and the amount shown in the account had been written-off considering that the expenditure was not related to the Project. The Treasury approval had not been obtained for the write-off as per F.R. 113, and further examination had not been conducted to recover the receivable from the responsible officers.</p>	<p>The total cost incurred for this project had been furnished to the Attorney General's Department by the Corporation.</p> <ul style="list-style-type: none"> <li>• The official estimate of these constructions amounted to Rs. 33.94 million.</li> <li>• After being conducted an independent examination based on an independent evaluation and standard measurements (SLS 572) stated that the cost amounted to Rs. 33.84 million.</li> <li>• According to the Southern Province's Government Valuation Office, the construction value amounted to Rs. 33.76</li> </ul>	<p>Before start the project etc., correct estimates should be prepared by conducting sound feasibility study. The disciplinary actions should be taken against the officers those who prepared the erroneous documents. After submitting the Court order to the General Treasury, approval should be obtained to write of the losses.</p>
	<p>A sum of Rs. 33.94 million had been reimbursed by the D.A. Rajapaksa Memorial Foundation up to 13.07.2017. The expenditure notice subsequently furnished by the Corporation amounting to Rs. 81.31</p>	

million, had been rejected by the Examination Board owing to errors and mistakes. These recommendations and opinions had been furnished to the Permanent High Court of the Western Province by the Attorney General. It is informed that after considering all evidence, the court had released all accuses on 02.07.2022. Out of the amount stated in the audit quarry amounting to Rs. 56.31 million, a sum of Rs. 8.9 million had been paid by the D.A. Rajapaksa Memorial Foundation on 13 July 2017 and net balance of 47.37 million had been shown in the financial statements related to the subsequent years.

Based on the Court Order, action had been taken to write-off that balances from the books having the approval of the Board of Directors.

### 3.2 Identified Losses

Audit observation	Management Comments	Recommendation
(a) The Boat service implemented by the Corporation in the year 2017 at the Diyatha Uyana premises had been run at loss due to insufficiency of the income even to recover the cost and the loss incurred in the year under review amounted Rs. 0.50 million. The accumulated loss of the project amounted to Rs. 3.82 million. The total cost expended for the Project up to end of the year under review amounted to Rs. 6.59 million. However, the Project had been suspended due to the continuous losses incurred as at 31 December 2020.	Before start the Boat service by the Corporation, it had been proposed to commence a pilot project base on the Diyatha Uyana premises using the Navy Boats and officers. As it not suitable to conducting even as a pilot project incurring losses, the project had been suspended since 31.12.2020	A feasibility study should be conducted before implementing the projects.
(b) A loss of Rs. 7.16 million was incurred from the agricultural development project conducted by the Corporation at the Kirimandala Mawatha during the year	The Kirimandala Mawatha Project has been implemented since 15 May 2020 and it is informed that this project is implemented as an affiliated project to the	Proper financial management practices should be followed.

under review. As well, out of the total cost expended for the project amounted to Rs. 7.73 million, the labour cost amounted to Rs. 3.87 million or 50.1 per cent.

Kerawalapitiya Garbage Management Project and the Project had been conducted as non-profit making project. Though it had been incurred significant cost in the year 2021, action had been taken to minimize the costs. Due to heavy rainy condition in the year 2020, expected results could not be achieved. As well, the COVID Pandemic situation also affected to activities of the project. It had been planned to conduct cultivation activities minimizing the labour capacity at present and in future too.

(c)The Project for the Construction of Compost production center at the Muthurajawella garbage management Park had been started in the year 2018 by the Wetland Management Division of the Corporation with a view to complete within 100 days. The construction works of the building No. 3 of the Compost factory, only piling activities had been completed up to end of the year under review incurring Rs.75.80 million. Although it has been lapsed of 3 years for the Construction works, the construction works had not been continued and per the plans even up to December 2021.

The letter of awarding of the contract of construction of No. 3 building had been issued after being followed relevant procurement procedure and selecting a contractor. Thus the cost incurred for the construction amounting to Rs. 75.80 million cannot be considered as idle expenditure.

Action should be taken to complete the construction works according to the plans.

(d)The construction works of the new 07 storied office building of the corporation was estimated to construct investing Rs.400 million and scheduled to be 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 to be suspended 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 2021. Further, action had not been taken against the officers those who

The contractor for this construction had been selected by following the relevant procurement procedure and the Technical Evaluating Committee had recommended the contractor by evaluating the qualifications. When awarding the contract, it had not been identified the financial inability of the contractor. As there is a urgent requirement to construct the office premises, it has been given the instructions to the relevant officers to prepare a plan for the construction of building on the already completed piles. Accordingly, by taking into account current the financial strength of the Corporation, the constructions works have been

Suitable contractors should be selected for the construction works and action should be taken to complete the works according to the plans.

selected the Contractor without being conducted.  
conducted proper evaluation.

- (e) The Construction works of the Kirimandala Mawatha sport Complex had been planned to commence at a cost of Rs. 72.66 million on 04 June 2018 and scheduled to be completed the works on 04 December 2018. Although a sum of Rs. 25.84 million had been incurred for the Construction works up to end of the year under review, the Corporation had failed to Complete the works even up to end of the year 2021.
- The works has been started in June 2018 and activities of development of site and laying of concrete on foundation completing structure levels had been completed up to October 2019. Due to the COVID 19 pandemic situation in the country construction activities were delayed. However, due to the prevailed situation in the country it has to be called the tenders in several times owing to increase the prices of iron items and sheets and steel. Nevertheless, it has been given the instructions to relevant officers to start the civil constructions after being completed the roof works.
- Action should be taken to complete the construction work as early as possible and action should be taken to achieve the expected benefits from the project.
- (f) Even though it had been incurred a sum of Rs. 2.59 million up to end of 2019 to contract a water tower in the Premises of the head office with a view to provide space to construction of new 7 storied office building by removing the old water tank, it was observed in audit that due to abandonment of construction works in the year 2021, the cost incurred to the tower had been become idle expenditure. The related file for the construction had also not been furnished to audit.
- The construction of this water tank tower was not a project. Since it was proposed to remove the water tower from the proposed Head office building construction site in order to prepare the site, a temporary water tank tower had been constructed to install the water tanks. It had been instructed to build structure using the excess steels provide for construction works, to the Mechanical Division of the Corporation. The construction of the foundation will be done by the maintenance Division. As it has been proposed to construct the office building on piles that already competed, the construction works of the water tank also conducted accordingly. Hence, incurred cost for that work may not be a ideal cost.
- The construction works should be done so as to achieve the expected objectives.
- (g) The construction of a building to the Project of Muthurajawela had been started in 2017 and scheduled to be completed in 2018. However, without being completed the building up to end of the year 2020, the construction works had been abandoned in September 2020. The Corporation had incurred amounting to
- In order to relocate the Mechanical Division of the Corporation, situated in Kirimandala Mawatha, to Muthurajawella location, this project was started in 2017. During the year 2020, the construction works had been completed and only lighting function are to be completed. Further the Granty building structure of the
- Action should be taken to complete the construction works according to the plans.

Rs.161.53 million to the project as at that date. Mechanical Division had also been completed.

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| <p>(h) The Corporation had failed to recover the receivable from the Urban Development Authority amounting to Rs.5.53 million for the Horana bus-stand construction project-stage II since 17 February 2015. The project had been abandoned and as a result, a sum of Rs.12.35 million had to be sustained by the Corporation.</p> | <p>Due to not paying of money by the client for the works, the project had been suspended and receivables from the client had been referred to payment, Discussion are conducted on that regard. The agreements resigned again as a new project and related works, stage iii in 2017, stage iv in 2018 and stage v in December 2018 had been completed and handedover to the client.</p> | <p>Prompt action should be taken to recover the receivables to the Corporation.</p> |
| <p>(i) The Corporation had failed to recover receivables from the Department of Public of Trustee for over 20 years, amounting to Rs. 25.64 million including the land development cost incurred for a land which was proposed to construct a cultural center amounting to Rs. 2.44 million in the year 2001.</p>                  | <p>Comments had not been given.</p>  | <p>Prompt action should be taken to recover the receivables to the Corporation.</p> |

### 3.3 Management Activities

<b>Audit observation</b>	<b>Management Comments</b>	<b>Recommendation</b>
<p>(a) (i) In order to excavate 1,500,000 cubic meters of sea sand the Corporation had entered to an agreement in the year 2018 with a foreign company. However, while conducting the excavation works, the machine used for the excavation had been released to a costal conservation project on 20 February 2020 without obtaining the approval. Only 465,154 cubic meters of sand had been excreted up to that date and the Corporation had cancelled the</p>	<p>After being obtained the opinion of the Attorney General, the contract agreement had been cancelled.</p>	<p>Disciplinary actions should be taken against the responsible officers those who terminate the contract before the contract period.</p>

agreement on 10 April 2020 before complete the contract period. As a result, the respective Company had claimed compensation amounting to Rs. 2.96 billion from the Corporation.

- (ii) In order to control the sea sand stock levels, the re-order quantities had not been determined by Corporation. As a result, a total sum of Rs. 557.99 had to be allocated for refill the sea sand excavated lands. Out of that allocation, sums of Rs. 351.13 millions, 183.68 million and 23.19 million had to be allocated for the sea sand excavated lands in the Muthurajawela, including a land sold to the Ceylon Electricity Board by the Corporation, in the years 2011, 2018 and up to end of the year under review respectively. However, action had not been taken to remove that allocation for lands refilling from the financial statements up to end of the year under review.
- Even though Sea sand had been sold to the Colombo - Katunayaka express way Project in the year 2011 by excavating stand from the land sold to the Ceylon Electricity Board as urgent requirement, refilling of sand had been done during the period of 2012 - 2014. Sand filling had been completed up to now. As a solution to sand shortage occurred in the year 2019, sand excavations had been done from the second land that mentioned in the audit para. However, that land also had been refilled within the year of 2019. As well, sand excavations had been done from the third land too. But that land also refilled by using the soil removed from the expressway construction project.
- If the land were refilled, the credit balances in the accounts should be settled.
- (b) A land given by the Government on free hold basis to the Corporation, extent of about 2 acres and situated at Muthurejawela, had been sold to a public company in the preceding year based on the approval given by the Cabinet of Ministers, No. අම/19/2832/16/11 and dated 29 October 2019, to sale the land for Rs.272.62 million and to credit the sales consideration to the Consolidated Fund after deducting development cost. Though the land had been sold for Rs. 272.62 million on 17 December 2017, the net sales consideration amounting to Rs. 251.60 million after deducting development cost of Rs.21.02 million from sales value had not been credited to the Consolidated Fund up to March 2022.
- Transfer of part of a land, situated in Muthrajawella extent of 2 acres, - 3 roods, 34.51parches, to the Petroleum Terminal Company had been recommended by the Committee of the secretaries and also the Cabinet of Ministers has approved to transfer the land base on the valuation.
- Dispose of land should be carried out accordingly to the decision of Cabinet of Ministers.



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| <p>(c) The salaries paid to the employees assigned to Metro Colombo Urban Development Project in the year 2019 and in the year under had not been reimbursed by the project up to end of the year under review. The balance had not been reimbursed by the project amounted to Rs. 6.9 million and out of that amount, a sum of Rs. 4.08 million was remained as unreimbursed for over one year.</p>  | <p>Comment has not been given</p>  | <p>Prompt action should be taken to get the reimbursements as early and possible.</p>  |
| <p>(d) Payment of rent had been defaulted by the occupants Rs. 2.89 million since the year 2017 for 5 land plots in Orugodawaththa that had been rented out without being signed agreements in the year 2012. However, legal actions had not been taken against the occupants</p>   | <p>Five land plots situated in Orugodawaththa had been rented out. The agreements thereon cannot be updated due to not payment of rents. Rent arrears for one plot of land had been completely settled up to now and an agreement signed thereon. Action has been taken to take legal actions for other lands.</p>   | <p>Legal actions should be taken against the rent defaults.</p>  |
| <p>(e) Out of the competitive contracts in the market the Corporation had submitted the bids only for 2 contracts amounting to Rs.77.29 million and only one contract valued at Rs. 22.73 million was received by the Corporation without being obtained the Contract on competitive manner, the Corporation had obtained only the contract conducted under the Treasury Provisions. As a result, the market share that could have been acquired was lost by the Corporation.</p> | <p>Comment had not been given.</p>   | <p>Actions should be taken by the Corporation to increase the market share.</p>  |
| <p>(f) Without being entered into an agreement, a cafeteria Constructed by the Corporation at a land belonging to the Urban Development Authority (UDA), had been leased out to a Private Company in the year 2017. Thus, since ownership of the land is vested with the UDA, the Corporation had failed to recover the rent amounting to Rs. 24.58</p>   | <p>Even though request had been made in several times to recover the incurred cost from the Rakna Lanka Company, they requested to transfer the ownership of land before paying the incurred cost. Further, since that land area is owned by the Urban Development Authority (UDA), a request has been made to transfer the land to the Corporation. A verbal consent has been</p> | <p>Without being acquired the lands, the constructions should not be carried out. Prompt actions should be taken to acquire the said land.</p> |

million up to the year under review though the cafeteria is owned by the Corporation.

- (g) Even though the contract for Document Archival and retrieval document scanning and indexing scope to be carried out for document digitalization (EDMS) had been award on 30 November 2017 in order to complete the contract on 30 November 2018. The EDMS software that developed for the purpose of indexing the documents had not been developed up to 5 June 2022, and a sum of Rs. 6.23 million had been incurred for the contract up to end of the year under review. Although 13 users had been trained for use the electronic document management system and user ID password had been allocated for them by implementing the system, the system had not been reached to maximum efficiency level up end of the year under review.

given by the chairman of the UDA in that regard. As such, the land Division of the Corporation would take action for the requisition.

This EDMS software has been used by several Divisions of the Corporation. However, in order to increase the efficiency of the software, the documents already downloaded to the system have to be further categorized. Those activities scheduled to be completed up to 31.12 2022. After completing the said works, it is informed that the software could be utilized efficient manner. Until complete the remaining works this has been shown under the work-in-progress and after being completed the works, action will be taken to show the system under the category of intangible assets.

The introduced system should be efficiently utilized.

### 3.4 Performance

Audit observation	Management Comments	Recommendation
<p>(a) The Bairre Lake cleaning Project by removing of sediments, the allocated provision of the Treasury amounting to Rs.800 million had been scheduled to be completed in 2019. However, the progress of the Project as at end of the year under review as low as 21 per cent. Although in order to implement the project works, a sum of Rs.283.50 million had been allocated for purchase of machineries, a sum of Rs.398.25 million had been incurred exceeding the Treasury allocations to purchase of 4 machineries in August 2019. As well, a sum of Rs.169.61 million had been paid by the</p>	<p>It had been scheduled to complete the project's work during the year 2019 and commence the project's work immediately after being procured required machinery and equipment. Purchase of machineries exceeding the expenditure limit approved by the Cabinet of Ministers has been referred to the Criminal Investigation Department by the Secretary to the Ministry. Since it had been purchased the Machineries exceeding the approved expenditure limit of the Cabinet, a problem had been created due to lack of the Authority to approve the payments, to the present management. It is informed that actions have not been taken brought the</p>	<p>The public welfare functions handover to the Corporation by the Cabinet of Ministers should be efficiently conducted.</p>

Corporation as the loan installments of the machineries as at end of the year 2021. Nevertheless, the value of the machines had not been brought to the accounts after being done the test run and those machines were kept in idle at the Bairre Lake site over 2 years without being used up to end of the year 2021.

machine particulars to the registers after being taken over them. Hence, it could not be able to brought the value of machineries into accounts.

- (b) The Mudun Ella development project which had been commenced under the Treasury Provisions in the year 2016 with a view to complete the Project in 2021. Although a sum of Rs. 600 million had been incurred up to 31 December 2017 to acquire 164 houses which had been constructed by the Urban Development Authority, only 98 houses had been provided for families and action had not been taken to provide 66 houses for remaining families up to the year 2022. Further, although it had been planned construct 2 water pumping stations up to end of the year 2020, the construction works has not been completed during the scheduled period. As a result, 5M3/s two water pumps purchased for Rs. 83.40 million on 20 August 2018 were in idle up to March 2022.
- (c) Preparation of action plan for the Oliyamulla Water Pump Project had be prepared according to the provisions given by the Treasury since the year 2018. Thus, the initial plan that had been prepared to complete the works in 2020 was slow down and it was unable to control to the Corporation. According to the initial plan, 02, pumps have been purchased by the Corporation in the year 2018. Since the Civil Construction works of the pump houses was depend on the design proposed by the pump supplier, the tender for supply of pumps should have to be awarded to the relevant supplier before construct the houses. Although those activities has to be conducted at the initial stage as per the plans, the construction works of the pump houses cannot be completed as per the plans, due to not giving of allocations according to the requests. Only after completing of pump houses the pumps can be installed and performed.
- Action should be taken to provide the houses to the losers of their houses and action should be taken to achieve the expected benefits after being completed the pump houses as early as possible.
- (c) The Kolonnawa storm water drain and environment improvement project that had been planned to implement under the World Bank grants at an estimated cost of Rs.8,700 million. Subsequently, based on a decision made by the Cabinet of Ministers, the project had been implemented using the Treasury provisions and scheduled to be completed within 5 years
- The approval for the projects, estimated cost of Rs. 8,700 million, had been given by the Cabinet of Ministers No. අම/19/0367/116/20 dated 18.02.2019. However, Provisions for the project had not been allocated by the Treasury from the years of 2018 to 2020 and a sum of Rs. 135 million had been provided for the project through the budgetary provision. Due to lack of enough Provisions and COVID 19 pandemic situation, the works could not be
- After being obtained the Provisions as per the plans and implementing proper management systems, the started projects should be completed.

period from the year 2018. However, only 250 meters of the Pussanna canal had been completed out of 13.27 Km, up to end of the year 2021. Due to not receiving of the Treasury provisions, the financial and physical progress of the project were as low as 4 per cent.

able completed according to the plans. Further, improvement functions of the sub-canal length of 450 meters which is joint to the Pussella Canal, length of 4.1 km, had been completed.

(d) Even though the Corporation should take actions to protect the land reservation areas in the Western Province accordingly to the Gazette notification No. 1662/17 dated 14 July 2010, positive actions had not been taken to identify the reservation areas or remove the unauthorized sections from the reservations even after lapsed of 10 years since the date of gazette.

Comments had not been given.

According to the powers and objectives of the Corporation, actions should be taken to control the unauthorized land fillings.

### 3.5 Operational Activities

Audit observation	Management Comments	Recommendation
<p>(a) Even though the Corporation had gazette the boundaries of low, Marshy barren and Muddy lands situated in throughout the country according to Section 2 (b) 1 of the Sri Lanka Land Development Corporation Act of 15 of 1968, the gazette areas had been limited to 6 regions. The Corporation had failed to control the unauthorized land fillings and settlements, though the boundaries of the lands had been gazette. Further, according to Section 8(a) of Act, the acquired lands as per the above requirements should we developed by the Corporation for the use of construction of buildings, industrial commercial and agricultural activities. However, out of lands extent of 800 acres that had been</p>	<p>Except the Northern and Eastern Provinces, low, marshy, barren and muddy lands in other 07 Provinces had been gazette. Although the consent of the Divisional Secretaries was summoned for the gazette of Wetlands in the Eastern Province. Due to delaying the consent, gazette of marshy, barren and muddy lands had been delayed. It has been request to make a decision in that regard at the conference of the Governors and District Secretaries. According to Section 2(b)1 of the Act No. 35 of 2006, actions have been taken to gazette all wetlands in the Island. Accordingly, wetlands in Western, Southern, Uva, Central, Sabaragamuwa and North Central Provinces had been published through the gazettes. The consents of the all Divisional Secretaries</p>	<p>The identified lands should be published through the gazettes and prompt action should be taken to commence the development activities in the lands which need to be developed.</p>

acquired by the Corporation in Mutturajawella Mudun Ela area, in the year 1995 had only been developed 400 acres or 50 Per cent of the land even after being lapsed of 24 years.

of the North-Western Province have been given and the recommendation of the Land Commissioner General to be furnished to the Land Ministry. The schedules and maps relating to Northern Province have been received and the schedules had been given to translations when obtaining the recommendations, the recommendations of the Divisional secretaries given through the Land Commissioner General and referring to the Land Ministry, a considerable time period had be expended. Although it was sent reminders on that regard continuously, the delays of that Institutions are affected to the said delays.

(b) Even though the Corporation had identified 1,104 unauthorized constructions during the period of 1996 2019 in 09 water basin regions extended area of 400 hectares, in 05 Divisional Secretarial Divisions, the Corporation had failed to remove those unauthorized constructions up to 31 December of the year under review.

Comment had not been given.

Action should be taken as per the powers of the Corporation to remove unauthorized constructions.

(c) Due to delaying the payment of Compensation for the lands acquired by the Corporation during the period from 1981 to 2005, the payable compensation and interest as at 31 December of the year under review amounted to Rs.47.11 million and Rs. 109.29 million respectively. Accordingly, compared to the payable interest with the preceding year was increased by Rs.1.84 million. Further, as a result of delays in the land acquisition process, 14 to 39 years, it was observed that the unauthorized settlers were increased.

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 Board of compensation issues etc. were affected to land acquisition process. In order to minimize such delays, actions have been taken to given instructions to the Divisional Secretaries by summoning all coordination committees of the relevant institutions, chairing the District Secretary and Divisional Secretaries. In addition, the support of the Corporation officers had also been given to the Divisional

The compensations for the lands should be paid in timely manner in order to minimize the interest payables and action should be taken unauthorized occupants.

Secretariats in order to minimize the delays.

- (d) Even though the land acquisition activities of Werasgaga storm water drain and environment improvement Project were continued for over 7 years and a sum of Rs. 2, 387.6 million had been incurred thereon, the information relating to the physical progress of the activities had not been furnished to audit. Further, a sum of Rs. 1,420,000 had been paid by the Corporation for the affected families during the year under review as the housing rents.
- It has been identified the delays in the land acquisition process of the project even after laps of 6 years up to end of the year under review. Hence, in order to accelerate the land acquisition activities, the Land and Marketing Divisions of the Corporation have been carried out the activities since the year 2020. Further, in order to accelerate the examination of ownerships of the lands, several Land Officers have been assigned. Until pay the statutory compensations to the affected persons, temporally houses have been provided to them by providing housing rent every six months having the cabinet approval, by the project, complying with the Land Acquisition Act.
- After finalizing the land acquisition activities as early as possible, the activities of the project should be completed.
- (e) Due to not obtaining of prior approvals from the respective institutions for the construction and development of Diyawanna Park in the Sri Jayawardanapura Sanctuary, the Wildlife Conservation Department had informed to the Corporation to discontinue the construction works from December 2019. As a result, the construction works had to be suspended after being incurred a sum of R. 3.48 million and the Corporation had failed to recommence the work according to the specifications and conditions given by the Wildlife Department up to end of the year under
- Even though it had been planned to commence the proposed construction works of the Diyasary Park after obtaining the approval from the Department of Wildlife, due to not receiving of required funds, the activities temporally suspended.
- Without being obtained the required approvals, the projects should not be implemented and the project which had been incurred the initial costs should be completed as early as possible.
- (f) The loss of the Machinery and Equipment Division of the Corporation for the year under review amounted to Rs. 195 million, out of the annual total cost of Rs. 860
- The Mechanical Division of the Corporation has been provided the services to other Divisions by providing supply services and maintenance activities. Hence, it has been identified the
- The cost of the mechanical Division should be managed with a view to minimize the loss.

million of the Davison, the labour cost amounted to Rs. 407 million or 47 per cent of the total cost. However, action had not been taken even in the year under review to assign the employees effective manner by modernizing the Division.

difficulties in allocation of overhead costs to other Division on absorption basis. Further, total employees of the mechanical Division about 500 employees and 85 per cent of them were permanent employees. All groups of the Division comprising with skill and trained people. Hence cost of the Division is also high. The machineries of the Division were older than 15 years. Hence, the efficiency of the machines were very low and did not generate expected income. Although the salaries and other allowances to the employees were increased, the service qualities of the employees were not simultaneously increased. Thus, only the expenditure was increased. It is decided to find the solution for this situation after being discussed.

### 3.6 Transaction in contentions Nature

Audit observation	Management Comments	Recommendation
<p>(a) The Corporation had purchased 02 Long Arm Excavator machined valued at Rs.41 million in the preceding year. The supplier had fraudulently supplied the machines by fixing Long Arm excavator parts to the short Arm Excavator machines violating the technical specifications provided by the Corporation in the year 2019. Although that was informed by the machine operators in writing to the Corporation at the initial stage, the machinery Division of the Corporation had failed to identify said machine fraud. As well as, based on the inspection report submitted by the Engineers Committee of the Machinery Division to the Account Division, certifying the proper performance condition of the machines the payments had been made.</p>	<p>In order to conduct in depth investigations in this regard, this had been referred to the Criminal Investigation Department (CID) by the then Secretary to the Ministry. Accordingly, the CID had reported to the Courts and Court proceedings are still continuing. After obtaining opinion of the Attorney General and receiving the Court order future course of action will be decided.</p>	<p>Disciplinary action should be taken against the officers those who submitted bogus investigation reports.</p>

<p>(b) The Project for Construction of 400 houses in Ragama was commenced on 27 October 2018 and a sum of Rs. 51.02 million had been incurred for the project up to the year 2020. Due to not conducting of a feasibility study for the Project, it was suspended in January 2019. As a result of the suspending, the non-refundable house application fees collected from 783 applicants up to the period of 2018 amounting to Rs.683,479 had to be repaid. However, action had not been taken to make the payments.</p>	<p>Soil refilling and providing of infrastructure facilities in the selected land for the Ragama Project had been conducted by the construction Division of the Corporation by incurring a cost. As well, in order to call applications, a sum of Rs. 624,000 had been collected from external applicants.</p>	<p>The money obtained from the Applicant for of houses should be repaid due to suspending of the project. A proper feasibility study should be carried out before commencing a new project.</p>
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**3.7 Idle or under-utilized property plant and Equipment**

<b>Audit observation</b>	<b>Management Comments</b>	<b>Recommendation</b>
<p>(a) Six shops belonged to the Corporation situated at Bellanwila have been closed down from the year 2016 to 31 march 2022 without being taken actions to rent them. Thus, a sum of Rs. 108.45 million was lost by the Corporation from the period from 2016 to 31 December 2020.</p>	<p>Twelve shops at Bellanwilla Premises had been rented in the year 2014 on monthly rent basis. Out of 12 shops, business activities of 6 shops had been suspended in the year 2017. The tenders had been called for those 6 shops in the years 2017, 2018 and 2019 and no response received thereon. It has been planned to call REP for remaining shops up to May 2022.</p>	<p>Action should be taken to earn the income giving the shops to venders.</p>
<p>(b) A sum of Rs. 112 million had been expended up to end of the year 2018 for the construction of an entrance road before acquisition for the proposed land Madinnagoda Housing scheme. However, due to not acquisition of the land up to 31 March 2022, the expenditure incurred to construct the road had been become fruitless expenditure.</p>	<p>When preparing the road, unauthorized constructions had to be removed in unexpected manner according to the prevailed situation in the area. However, due to construction of the road, the reservation area could be protected from outside parties. This was a more effective benefit to the project.</p>	<p>Before start a project, the land acquisition activities should be completed.</p>



### 3.8 Staff Administration

<b>Audit observation</b>	<b>Management Comments</b>	<b>Recommendation</b>
<p>The approved cadre of the Corporation as at 31 December 2020 had been 1,875 whereas the actual carder as at that date had been 1,349. Thus, 554 vacancies and 28 excess had been existed. Further, 105 employees had been recruited by the Corporation form the Civil Security Services Department by paying Rs. 1,750 and Rs.1,600 per day, during the year under review</p>	<p>The approved cadre of the corporation up to 31.12.2020 was comprising with 1726 permanent and 149 contract basis employees totaling 1875. The actual cadre as at that date was 1,349. Thus 377 vacancies were existed in the permanent cadre. As mentioned in the audit para, action had been taken to fill the vacancies in the approved cadre considering the service requirements. As well, actions have been taken to obtain the Laboures from the LRDC Service Company and signed an agreement with them, and based on the service requirements, the services have been obtained from the Civil Security Services Department with a view complete the project carrying out by the Corporation on scheduled time periods.</p>	<p>Employees should be recruited based on the approved cadre and the recruitments made from out of the cadre should be disclosed.</p>

### 3.9 Deficiencies in Procurement and Contract Management.

<b>Audit observation</b>	<b>Management Comments</b>	<b>Recommendation</b>
<p>(a)The receivable since the year 2014 from the Atomic Energy Authority for construction of unit "A" laboratory building amounting to Rs. 61.58 million had not been recovered up to end of the year under review. The cost incurred for micro piling amounting to Rs. 46.60 million had not been reimbursed by the Atomic Energy Authority due to disagreement on planning errors of the building. Nevertheless, the Corporation had not taken any action against the responsible officers.</p>	<p>Even though as per the contract agreement entered into with the Atomic Entergy Authority the value of the contract amounted to Rs. 308.65 million, out of the final bill furnished amounting to Rs. 435.97 million, the certified value of the bills amounted to Rs. 431.87 million. In addition to that, a bill amounting to Rs. 46.4 million had been furnished for Micro Pilling works. But, that bill was not certified. Although continues actions have been taken to recover the bill amounting to Rs. 46.40 million, the Atomic Energy Authority did not agreed to pay. Since it was doubtful to recover that amount, a provision had been made in the accounts.</p>	<p>Roper plans for the contracts and the agreements should be signed accordingly. Disciplinary actions should be taken against the responsible officers for the week planning.</p>

(b) The Project for the development of the Hamilton Canal that had been implemented by the Ministry of Economic Development under the JICA financing, had been completed by the Corporation. However, receivable for the project including retention money amounting to Rs. 12.80 million had not been recovered up to end of the year under review from the Ministry.

A sum of Rs. 12.80 million to be further receivable relating to this project and out of that a sum of Rs. 3.75 million was the retention money. Although the TRIP Project mentioned that retention money should be paid by the Negambo Municipal Council, the Municipal Council reject to pay it due to not providing of funds by the TRIP Project. Due to not obtaining of prior approval from the JICA, remaining balance amounting to Rs. 9.08 million had also not being paid. With interference of the Treasury, the clarification was taken from the Negombo Municipal Council and the ministry of Tourism (on behalf of the TRIP Project) and both parties had said that inabilities to make the payments. Therefore, doubtfulness of the recoverability, Provision for doubtful debts had been made in the accounts.

The Contract activities should be managed without creating disadvantages to the Corporation and unrecoverable amounts should be written off from the books having proper approvals.

(c) According to Section 4.2 of the Government Procurement Guideline, a master procurement plan relating to next 3 years (2020-2022) had not been prepared incorporating all procurement activities. Further, the sub-procurement activities, estimated cost for such activities, requirements of procurement committees according to value of the procurement and procurement time periods had not been included to the procurement plan prepared for the year under review instead of being prepared a detailed procurement plan. Furthermore, that procurement plan had been prepared to cover only for government grants and the procurement details relating to the project of the Corporation and Client's projects had not been included to the plan.

The corporate plan has been preparing and the procurement plan also will be prepared in parallel. That procurement plan scheduled to be prepared in a manner including sub activities related to procurements, their values and including relevant procurement Committees too. The procurements relating to the projects of the Corporation and client's projects also include to the procurement plan.

The procurement plan should be prepared with a view to achieve the objectives of the Corporation and action should be taken according the plan.

- (d) Out of the estimated contract value of Rs.752.43 million, a client's project of construction of the Kirimandala Mawatha Flood Control and Water Management Centre that scheduled to be completed 31 May 2020, the cost incurred to the project amounted to Rs. 446.06 million as at end of the year under review. Although it had been granted an extension period to the contract up to 11 December 2021, the physical and financial progress of the project were 80 per cent and 43 per cent respectively up to end of the year under review. Thus, it was observed that a loss making situation was created from the contract. Further, the client had not taken action to pay for the bills furnished up to 2020 amounting to Rs. 91 million after being certified them, out of the total bills furnished amounted to Rs.343.9 million, up to 31 March 2022.
- The client of the project has granted an extension period to the contracts, up to 11.12.2021 the value of the Rs. 752.43 million project, by considering the COVID Pandemic situation of the country and shortage of raw materials. As at end of 2020, the construction works of the building had been completed and physical progress of the project was 80 per cent. However, due to not paying for the works by the client, the Ministry of Urban Development and Housing, the financial progress of the work was at low level. The contract bill furnished by the corporation for the year 2020 amounting to Rs. 343.9 million had been certified by the consultant up to 311.7 million. Further, the agreed contract had been completed to date and certified bill by the consultant amounting to Rs.550.2 million. The related cost for the project amounted to Rs.. 508.6 million.
- The contract activities should be conducted in effective manner by minimizing the losses.
- (e) According to Section 5.4.8 of the Government procurement Guideline, the performance bonds for the contracts should be obtained by covering additional 28 days from the completion date of the contract. However, without obtaining the performance bonds, contract agreements had been signed contrary to procurement guideline and after submitting the payment bills, the performance bond value had been deducted from contract bills. As such, a sum of Rs.27.4 million had been deducted by the Corporation during the year under review, contrary to above requirement.
- Agreed with the observation, Instead of being reduced the performance bond values from contract bills, action will be taken to obtain the bank guarantees from the Contractors.
- Action should be taken according to the Government Procurement Guidelines.

- (f) Under the Awakening of Polonnaruwa Programme, the Corporation had conducted 16 Projects and handed over them on December of the year under review after being completed. However, out of the construction bills amounting to Rs. 997.30 million, only Rs. 929.03 million had been reimbursed by the Client. As a result, a sum of Rs.68.27 million was lost by the Corporation and reason of over payment for sub-Contractors etc. were attributed for this situation.
- Under the awakening Polonnaruwa Programme, 16 projects had been completed by the Corporation. Accordingly, the bills totaling Rs. 997.3 million had been furnished to the client and the consultant company also had certified the payments. A sum of Rs. 895.9 million or more than 96 per cent of receivables had been received up to now and a sum of Rs. 33.13 million to be receivable. Action has been taken by the Corporation to recover that dues through continuously negotiating with the Polonnaruwa District Secretariat. Further, the payments for sub-contractors' works had been settled.
- Attention should be drawn to enhance the financial progress of the projects phrellel to the physical progress.
- (g) The physical progress of the 9 consultancy contracts valued at Rs. 10.59 million as at end of the year under review was ranging from 50 to 100 per cent. Out of the receivables amounting to Rs. 10.59 million any amount was not received by the Corporation.
- After completing the consultancy services of these 9 projects, it had been informed to the respective institutions. Parts from the receivables were received up to new.
- The remaining receivables from the consultancy contracts should be recovered as early as possible.
- (h) The financial progress of 04 completed consultancy services contracts valued at Rs. 18.8 million was ranging from as low as 30 to 59 per cent.
- After completing the consultancy services of those 04 projects it had been informed to the respective clients. A part of the receivables was received up to now.
- Management contracts should be formalized .
- (i) According to Section 2.6.1 of the procurement Guideline, approving and reviewing of specifications, and tender documents are responsibilities of the Technical Evaluation Committee (TEC). However when procuring of 40 feet air conditioned containers, the TEC had been appointed on 13 December 2019 after opening of tenders on 12 December 2019. Thus, it was observed that the functions such as preparation of specifications which should be prepared by the TEC had not been done accordingly.
- When procuring of 40 feet air conditioned containers, it was considered that those containers are standardized products. Hence, after being called the tenders, a TEC had been appointed. After being evaluated by the TEC, an order had been sent to the supplier with the approval of the Tender Board. However, the current procurement activities and documents related to the capital goods are evaluated and reviewed by the TEC. Those activities are conducted through the TEC only.
- Management of the contracts should be formalized .

(j) Based on the contract prices furnished by each client, agreements have been signed by the Corporation. However, due to the condition in the agreements, i.e. subjected to the standard Technical Committee (STC) rates, the losses were sustained by the Corporation. The contract revenue that had been accounted during the year under review relating to 2 contracts were reduced by Rs. 14.77 million, due to computing of the revenue using the STC rates. As well, a sum of Rs. 18.01 million was lost by the Corporation in the preceding year too due to application of STC rates for 5 contracts.

Even though the Corporation had recommended the STC rates for the year 2020, due to not receiving of final work done certificate before preparing the financial statements, it was unable to make the adjustments in the accounts. The required adjustments had been made in the year 2021. According to the accounting standards, contract revenue can be accounted only after the receiving of final work done certificate. Hence, the adjustments unable to made in the year 2020. Further, it has to be expended long period of time to obtain the STC rates and it directly affected to create such errors.

The financial progress of the contracts should be achieved in parallel to the physical progress.