Land Reclamation and Development Company Limited - 2022

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Land Reclamation and Development Company Limited ("Company") for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standard for Small and Medium sized Entities.

1.2 Basis for Qualified Opinion

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

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

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

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

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

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Audit Scope

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company.

- Whether the Company has performed according to its powers, functions and duties; and

- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Internal Control over the preparation of financial statements.

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

1.5.2 Non-Compliance with Sri Lanka Accounting Standard for Small and Medium sized Entities

	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a)	**Section 04 of the Standard – Statement of Financial Position**		
	Although, as per the paragraph no. 4.5 (c) of the standard, a current asset is an asset that will be realise within 12 months after the reporting date, The Economic service charges amount of Rs. 3.03 million which were cancelled from 31 December 2019 and should have been offset in two more assessment years from the relevant assessment year and exceeded those 2 assessment years, were included in current assets.	These payments are to be submitted for tax settlement, in future income tax payments.	According to the standard, current assets should be correctly identified and accounted.
(b)	**Section 10 of the Standard - Accounting Policies, Estimates and Errors**		
	Contrary to paragraph no. 10.21 of the standard, the company recognized the medical allowances of Rs. 2.39 million which was related to the previous year, as expenditure for the year under review. Therefore the profit of the year under review had been understated by that amount.	After obtaining the approval of the Board of Directors in the year 2022 for the medical leave saved for the previous year, Rs. 2.39 million has been recognized as an expense during the year under review.	According to the standard, prior year expense should be recognized as prior year adjustments.

(c)	**Section 17 of the Standard - Property, Plant And Equipment**		
	According to paragraph no. 17.19 of the standard, an entity shall review the residual value and useful life of its assets at the end of each financial year and if the expected values differ from the previous estimates, the estimated error shall be corrected in accordance with paragraphs no. 10.15 and 10.18. However, the company had not been reviewed the residual value and useful life of the building, Plant and equipment which had a written down value of Rs.40.18 million at the end of the year under review. 584 no.of fixed assets with the cost of Rs.62.95 million had been fully depreciated but still in use at the end of the year under review and appropriate steps had not been taken to correct the estimated error in those assets as well.	Agree with the observations. Property, plant and equipment will be revalued and accounted in the future.	The depreciable assets should be reviewed annually over their future useful lives and depreciation adjustments should be made.
(d)	**Section 23 of the Standard - Revenue**		
	According to paragraph no. 23.17 of the standard, the contract Revenue and cost should be recognized on the basis of the percentage of completion method of a construction contract. But company had been recognized the contract revenue on the basis of certified bill value.	The contract income for the relevant year is calculated after certifying the bills by the engineers of both parties.	According to the standard, contract revenue and expenses should be recognized based on the stage of completion method.
(e)	**Section 27 of the Standard - Impairment of Assets**		
	According to paragraphs no. 27.1 and 27.9 (f) of the standard, if the asset is idle, an impairment test should be carried out on the asset and provisions for impairment should be made. However, Rs. 30.06 million worth of water treatment plant, sea sand packeting machine and other assets which were purchased for use in the sea sand packeting project in the year 2019 and they were idle from the year 2019. But no provisions were made for impairment.	These items will be disposed through accepted procurement procedures after receipt of valuation reports. Accordingly, no impairment loss was recognized by the company during the year under review.	According to the standard, Impairment losses should be recognized and accounted.

(f) Section 28 of the Standard - Employee Benefits		
As per paragraphs no. 28 of the standard, without carrying out the functions of setting up defined contribution plans, measuring defined benefit liability, including assigned and non-assigned liabilities, discounting, actuarial gain or lossses, Rs. 1.5 million employee gratuity expenses was recognized during the year under review.	In the year 2023, actuarial gain or losses will be identified and adjustments will be made accordingly.	The income and expenditure related to the year should be indicated under comprehensive income.

1.5.3 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	The building constructed for the sea sand packeting belonging to the company was taken over by the parent company in the year 2021 for a valuation amount of Rs. 326.30 million. Accordingly, even though only Rs.301.28 million which was the cost of the taken over building in the work in progress account of the company, should be recognized against the acquired value, it was observed during the audit, that out of Rs. 29.47 million which was the cost of water retention pond, Rs.25.02 million had been removed as building cost. Accordingly, it was observed that Rs.25.02 million, which was the cost of the water retention pond, had been deducted from the asset value and it was recognized against the profit on disposal of the asset, but no action was taken to correct this even during the year under review. However, it was observed that provisions should be made for its impairment, since this water retention pond were idle.	The value related to the valuation report of the building which was in the work in progress account was removed, and the remaining values will be removed including the water retention ponds, after the complete transaction.	Only the cost relating to the acquired asset should be removed from the work in progress account.
(b)	Due to the fact that Rs.0.4 million from the sale of sea sand packeting bags in the year under review was shown in the advance account instead of recognizing as other income, the profit of the year under review was understated by that value and the current assets were overestated.	Agree with the observation and this will be corrected in 2023.	The income should be identified and accounted for correctly.

(c)	According to paragraph no. 2 (4) of Sub Schedule 4 of Inland Revenue Act No. 24 of 2017, capital allowances are not available for dual purpose vehicles. But the company had arranged to get capital allowances for the year under review and the previous years for 2 double cabs purchased on 30 August 2018. Accordingly, the taxable profit of the year under review was understated by Rs. 3.47 million. Also, the company had accounted the depreciation of Rs. 9.93 million for 2 double cabs, but when adjusting the taxable profit, the value was Rs. 3.06 million, the taxable profit was understated by Rs. 6.87 million.	As these two double cabs belong to the category of dual purpose vehicles, capital allowances have been obtained for them. Accordingly, the taxable profit in the current year is not understated by Rs. 3.47 million. The error that has occurred in the accounting of the depreciation in the consideration of the taxable profit will be corrected and submitted in the submission of the tax reports for the year 2022.	The taxable profit should be calculated as per the provisions of the Inland Revenue Act.

1.6 Accounts Receivable and Payable

	Audit Issue	Management Comment	Recommendation
(a)	Receivable and payable balance of mobilization advance at the end of the year under review were Rs.20.85 million and Rs.49.44 million respectively. Out of that Rs. 4.49 million and Rs. 9.71 million were recievables and payables from 2 to 5 years respectively. Outstanding advance balance over 5 years was Rs. 13.94 million and the payable balance was Rs. 22.27 million. Any actions were not taken to settle the payable mobilization advance amount of Rs. 12.63 million during the year under review, in relation to 11 projects included above balance, that were stopped by the company at the end of the last year.	These mobilization advances will be recovered after submission of final bills. Rs. 24.21 million amount Advances are related to stopped construction projects. These amounts will be settled, after coming to an agreement with the relevant institutions. Remaining Mobilization Advances will be settled after the settlement of bills by client organizations.	The reasons for the non settlement of these advances should be found and settled promptly.
(b)	Retention payable balance at the end of the year under review was Rs. 48.44 million and out of that Rs. 8.71 million were payable from 2 to 5 years and Rs. 37.70 million due from more than 5 years. Further, the creditor balance at the end of the year under review was Rs. 109.47 million. Out of that Rs. 56.34 million was payable from between 2 and 5 years and Rs. 16.40 million due from more than 5 years.	This Rs. 48.43 million amount will be paid to the relevant contractors after releasing the money to the company by the clients of the company.	After completion of the contract and the warranty period is over, arrangements should be made to settle the related retention money.

<table>
<tr><td>(c)</td><td>Although the agreements entered into with 04 institutions during 2012-2017 for obtaining fuel to the Company had been terminated, action had not been taken even by the end of the year under review to recover the deposit mony amounting to Rs. 0.28 Million given in that connection.</td><td>Although letters have been sent by requesting to recover the relevant money from these institutions on several occasions, any good response has not been given regarding the money. Therefore, these values will be written off with proper method in the future.</td><td>The efficient and effective measures should be taken for recovery of deposit money.</td></tr>
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1.7 Related Parties and Related Party Transactions not disclosed

<table>
<tr><th></th><th>Audit Issue</th><th>Management Comment</th><th>Recommendation</th></tr>
<tr><td>(a)</td><td>The sum of Rs. 0.65 million payable to the Sri Lanka Land Development Corporation by an officer of the Company in respect of his proceeding abroad in the year 2018, had not been settled even by the end of the year under review.</td><td>Agree with the observation. As soon as the financial condition of the company improves, this Rs. 0.65 million will be settled.</td><td>Actions should be taken to settle the outstanding balance.</td></tr>
<tr><td>(b)</td><td>As per the financial statements of the company, the receivable amount and payable amount from the Sri Lanka Land Development Corporation who is the mother company of the company, amounted to Rs. 106.25 million and Rs. 229.74 million respectively. However as per the financial statements of the corporation stating that value as Rs.96.95 million and Rs.238.87 million respectively, differences of Rs.9.30 million and Rs.9.13 million were observed between the balances. The reasons for the changes were not disclosed.</td><td>The reasons for the change are as follows.
<table>
<tr><th></th><th>Balance as per REDECO books Rs Million</th><th>Balance as per books of SLLDC Rs Million</th><th>Difference Rs Million</th><th>Reasons for the change Rs Million</th></tr>
<tr><td>Recievable balance</td><td>106.25</td><td>96.95</td><td>9.30</td><td rowspan="2">These Rs. 0.17 million amount of cash is in transit.</td></tr>
<tr><td>payable balance</td><td>229.74</td><td>238.87</td><td>(9.13)</td></tr>
</table></td><td>The reasons for the changes should be found and corrected promptly.</td></tr>
</table>

(c)	According to the financial statements at the end of the year under review, out of trade debtor balances of Rs.28.84 million and contract debtor balances of Rs.65.40 million, Rs.20.38 million and Rs.44.78 million were recievable from the Sri Lanka Land Development Corporation who is the parent company of the company. Further, Rs. 2.45 million amount recievable from 2 and 5 years and Rs. 6.67 million amount recievable from more than 5 years from trade debtor were to be recovered from the parent corporation and any actions had not been taken to recover these balances during the year.	Agree with the observation. There was a long discussion to collect this amount, and accordingly, Rs. 7.18 million from trade debtor and Rs. 41.27 million from debtor have been recovered in the year 2023. Actions will be taken to recover the remaining balances.	The debtor balances should be recovered promptly.

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Company Act No.07 of 2007			
(i)	Paragraph No.133	The Board of Directors of a company shall call an annual general meeting of a shareholders to be held in each calendar year, at a date not later than six months after the balance sheet date of the company and not later than fifteen months after the previous annual general meeting, but the company had not been held any annual general meeting from the year 2018.	The relevant officers have been instructed to convene an annual meeting as scheduled in the future.	The Annual General Meetings should be held in accordance with the provisions of the Company Act.
(ii)	Paragraph No.166	The board of directors of every company should prepare an annual annual report on the affairs of the company during the accounting period ending on that date within 06 months after the balance sheet date, but the company had not been acted accordingly.	Agree with the observation. The relevant officers have been instructed to convene an annual meeting as scheduled and prepare and submit annual reports.	The annual reports should be prepared on time.

(b)	Public Enterprises Circular No. 01/2021 dated 16 November 2021 Paragraph no. 7.7	Although the board of directors of the parent company should establish a structure that facilitates oversight of the performance of the subsidiaries. Companies but the company has not established such a structure to supervise the activities of the subsidiary companies. Also, a discussion on the performance of the subsidiary companies should be done at least once a quarter and should ensure that an adequate return on equity could be obtained on sufficient investments, but those requirements were not fulfilled.	The relevant officers are instructed to discuss with the board of directors of the company in order to monitor the performance of the subsidiary company.	A structure should be established to supervise the performance of the subsidiaries as soon as possible.
(c)	The Value Added Tax Act No. 14 of 2002 Chapter No. 83	Goods and services manufactured or deemed to be manufactured in Sri Lanka other than duty free supplies shall be treated as taxable supplies under this Act but the company did not consider sundry income of Rs. 8.74 million, which is not tax exempt income, as an Input VAT.	The company had not collected VAT for this. A decision will be taken in this regard in the future.	The provisions of the Value Added Tax Act should be followed.

2. Financial Review

2.1 Financial Result

The net profit before tax of the year under review amounted to Rs. 11.46 million and the corresponding profit in the preceding year amounted to Rs 0.33 million. Therefore an improvement amounting to Rs. 11.13 million of the financial result was observed. The reasons for the improvement are the increase of contract income by Rs. 62.15 million and increase of finance income by Rs.4.76 million.

2.2 Trend Analysis of major Income and Expenditure items

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

Description	**2022**	**2021**
	Rs. Million	Rs. Million
Revenue	246.36	184.50
Other Income	8.74	10.24
Administrative Expenses	78.56	66.23
Finance expenses	4.7	3.89

The following observations were made.

(a) Compared to the previous year, the income of the company had increased by 33.53 per cent, which was mainly due to the increase in contract income by 71.51 per cent in the year under review.

(b) Administrative expenses had increased by 18.6 per cent and this was mainly due to a loss of Rs. 8.14 million from the sale of the sea sand packeting bags of the company.

(C) Compared to the previous year, the financial cost had increased by 20.8 per cent and this was mainly due to the increase in bank overdraft interest by Rs. 0.62 Million or 159.16 per cent.

2.3 Ratio Analysis

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

	2022	2021
Debt Equity Ratio	(25.46)	(15.77)
Long Term Loan Capital Ratio	1.10	1.12
Gross Profit Margin (Percentage)	31.47	30.83
Net Profit Margin (Percentage)	2.97	0.08
Current Ratio	1:1.48	1:1.35
Quick Ratio	1:1.17	1:1
Debtors Turnover Ratio	2.39	2
Loan Recovery Period (No of Days)	153	183

The following observations were made.

(a) The debt ratio of the company was minus 25.46 and 15.77 in the year under review and previous year respectively and it had increased by 9.69 in the year under review. This negative debt ratio indicates that the liabilities of the company exceed its assets and this provides evidence of a high risk situation and also shows the possibility of the company reaching insolvency in the future.

(b) further more, the long term debt capital ratio of the company remained at 1.1 compared to the previous year during the year under review. This provides further proof of this situation.

3. Operational Review

3.1 Uneconomic Transactions

	Audit Issue	Management Comment	Recommendation
(a)	500,000 number of polysack bags were imported from China at a cost of Rs.13.79 million for sand packeting and the same type of bags could be purchased from a local supplier for Rs.12.13 million, but the bids were rejected stating that the	Reasons were inquired from the relevant parties regarding the manner in which this procurement was carried out. As these bags are manufactured in an environment friendly	Procurement should be done and purchases should be made after identifying the market requirement and the attention should be paid to carry out business operations

name of the company was not printed on the samples submitted. However, it was observed that the name of the company was not printed on the imported bags as well. Due to this, the company had to bear a loss of Rs. 1.67 million, but no action was taken to identify the persons responsible for it. Out of the purchased polysack bags, only 5,355 bags were used for packeting sand and another 54,000 bags were given to the parent corporation without getting any cash. 1645 bags were used as waste and 2595 bags were used for other purposes and the remaining 436,405 bags were sold for Rs. 5.88 million in the year under review without following procurement procedure and getting the approval of the General Manager instead of getting approval of the board of directors of the company. Thus, it was observed that the company had incurred a loss of more than Rs. 8.14 million from the transaction of buying sand packeting bags.	manner, their usful life is very short. Therefore, when the annual depreciation base is taken into account as 25 percent while calculating their value, the value of the bags will be very low at the time of sale. Therefore, it is impractical to calculate the loss on sale on cost basis. Also, since the stock of these bags is perishable, the relevant parties have stated that the prices were obtained from three suppliers with the participation of the relevant department and subject to the approval of the General Manager, considering the need to sell them quickly.	in a manner that minimizes costs. Disciplinary action should be taken against the parties who made uneconomical decisions.

3.2 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	The manufacturing activities of the Hingurakgoda cement related manufacturing factory had been stopped by the end of the year 2019 and any actions had not been taken to use the factory for another business purpose till the end of the year under review.	It has been decided to close the Hingurakgoda factory as there is a huge loss (operational loss) in the production activities.	The operations of the company should be maintained efficiently.
(b)	The company or the parent organization of Sri Lanka Land Development had failed to acquire the leasehold rights or ownership of the lands belonging to the government and other government agencies totaling about 2.1979 hectares of cement related production centers that have been established in the areas of Hingurakgoda, Trincomalee and Ampara for a period of 30 years, even at the end of the year under review.	The company has held the possession of the land of Hingurakgoda and Ampara for more than 30 years and has planned to use it for other purposes besides cement production. Also, the company has held the possession of the Trincomalee land for more than 30 years and has planned to leave the cement production and carry out as tourist bunglow.	The land acquisition process should be completed promptly and should be focus on conducting operations to generate income.

(c)	The sea sand packeting project implemented without a project feasibility study by the company in 2018 at a cost of Rs. 382.5 million was stopped in 2020 based on the decision of the parent company. The land owned by Corporation, which runs the relevant project and the building, which was built by the company for packeting sand at a cost of Rs. 301.28 million, had been given by the parent corporation to a private company on a 50 year long term lease basis in 2021. Also, above building with a prefabricated steel structure imported from China, outside of the procurement procedure was taken over by the parent corporation at Rs.326.30 million in the year 2021. From that valuation amount, Rs. 178.07 million amount which was given to the company by the parent corporation to spend on this project, Rs. 40 million of working capital amount given by the corporation and after deducting Rs.49.46 million which was the interest of the Rs.200 million loan given by the corporation at 12 per cent annual interest for the implementation of the project and the remaining Rs.58.77 million had been offset for the above loan amount. Accordingly, even though the project was not implemented, the company had to pay the loan amount of Rs. 141.23 million and the relevant interest after 5 years to the parent corporation. The total amount spent by the company for the construction of the building was Rs. 211.93 million and the company has complained to the National Procurement Commission and the Bribery or Corruption Investigation Commission to investigate the irregularities in the purchase of this steel building template and those complaints were still pending at the end of the year under review.	It has been decided to stop this project as the company will incur huge losses in running this project. Due to this, all the expenses incurred by the company so far for this project were taken over to the parent company to prevent them from becoming idle expenses. This matter was discussed for a long period and at the request of the General Manager, this matter was presented to the board of directors of the parent corporation. The board of directors of the parent company informed that the corporation will not charge interest for 5 years from 01 January 2021. In addition to this, it was informed that the unclaimed property should be taken over and if the corporation made a profit in this transaction, it would also be offset against this debt. Accordingly, these loans will be settled in the future. Investigations into the irregularities reported in this procurement are currently being investigated by the National Procurement Commission and the Bribery or Corruption Investigation Commission.	A feasibility study should be done before starting a project. Initiated projects should be implemented as planned with proper management and disciplinary action should be taken against the responsible parties after the completion of legal proceedings.
(d)	The second bidder, who submitted Rs.2.77 million (US$15,372) more than the minimum bid submitted in 2018 for importing a water treatment plant from China for Rs.7.55 million, was selected to start the sea sand washing and processing project. However, any action was not taken against the officers responsible for not following the proper procurement process for this	The company has found a foreign supplier according to the procurement guidelines and accordingly, a technical evaluation committee was appointed to determine the prices. According to the recommendations of the	After making a proper feasibility study and following proper procurement methods, attention should be given to carry out business operations in a manner that

	transaction. At present, this machine does not use for purify water and Rs. 2.08 million was spent to buy purified water from outside in the year under review. As the land where the sand washing and processing project was located was leased by the parent corporation to a private company in the year 2021, there was a risk of removing the sea sand washing and processing machine and the structure where the machine was installed, which was installed on the land at a cost of Rs.33.84 million.	technical committee, this RO machine was purchased and officers of the technical inspection committee were sent on a visit to China subject to the approval of the board of directors (B/No. 2018/131/722) for physical inspection of this machine. This purchase has been made according to the recommendation. This land is owned by the Corporation, the parent company, and machinery will be installed at another location according to the discision of the corporation.	minimizes the cost and Disciplinary action should be taken against the parties who made uneconomical decisions.
(e)	In the year under review, 34,100 no. of sand cubes were planned to be washed and supplied to the Corporation, but only 15,675 no. of sand cubes were actually supplied. Also, an income of Rs. 44.33 million was expected from those operations, but the total income earned was Rs. 32.42 million and production cost was Rs. 33.97 million in the year under review. Therefore the gross loss was Rs. 1.53 million. The production loss was Rs. 8.93 million after taking administrative and other expenses into consideration. The cumulative loss of the project from the year 2019 to the year 2022 was Rs. 58.32 million. However, the management had not been done an analysis regarding the loss of the operational process of buying sand from the corporation, washing it and supplying it to the corporation and identifying the causes and taking the necessary corrective measures.	The company had informed the parent company about this and it was informed to the company that the parent company will analyze the prices in the current market and take a decision to increase the amount given for a sand cube.	The operations should be carried out as planned and the desired targets should be achieved by minimizing production costs.
(f)	Rs. 24 Million amount was obtained from the parent corporation in the year 2017 to pay the salaries and wages to the staff of the company and Rs. 10.34 million Interest amount related to that loan amount had not been paid from the year 2017 to the end of the year under review.	When the financial condition of the company improves, this outstanding value will be paid in the future.	The existing transactions with the parent corporation should be settled.

	Audit Issue	Management Comment	Recommendation
(g)	Rs. 17,499 and Rs. 202,926 amount of two bank (current) accounts were maintained without any transaction from the years 2014 and 2019 respectively till the end of the year under review. Also, it was given as an answer to the audit last year that these accounts will be closed after obtaining the approval of the Board of Directors, but any action was not taken in this regard.	Arrangements were made to close these accounts after obtaining the approval of the Board of Directors. But as the Inland Revenue Department had issued a letter regarding the income tax to the bank and the bank had informed that it was not possible to close this accounts.	The necessary approvals should be obtained and arrangements should be made to close inactive current accounts.
(h)	A dividend of Rs. 4.56 million had been declared as per paper No. 2014/89/554 of the Board of Directors dated 10 October 2014, but the Company had failed to pay those dividends although a period of 08 years had been passed by the end of the year under review.	At that time, the company had declared this dividend on the basis of making profit, but it was not possible to pay this dividend as there was not enough cash flow to pay the money.	The Insolvency test should be done before declaring dividends and the company should take appropriate steps regarding the relevant liabilities.
(i)	According to the Inland Revenue Commissioner's letter No. : CGIR /2019/3 (Ins. & Cir) dated 09 July 2019, without verifying whether supplier is an active taxpayer on value added tax or not, Rs. 1.66 million had been paid by the company from the year 2020 to the year 2022.	While paying value added tax to the suppliers, the respective suppliers were not mentioned as inactive tax payers and before paying the value added tax, confirm whether you are an active taxpayer, get a VAT invoice and pay the relevant VAT.	The payment should be made after ascertaining whether he is an active Tax payer on the basis of value added.

3.3 Defects in Contract Administration

	Audit Issue	Management Comment	Recommendation
(a)	Only a sum of Rs. 2.65 million had been recovered by September 2015 out of the mobilization advance of Rs. 4.65 million given to the sub-contractor by the Company in the year 2014 for construction of the weekly fair in Horana and the balance of Rs. 2 million had not been recovered even by the end of the year under review. As advances had been paid to the sub-contractor without obtaining a security contrary to Section 5.4.4 of the Government Procurement Guidelines, the advance could not be recovered by the Company.	The sub contractor of this project have been informed of this through continuous letters and their payments have been withheld and the necessary activities are being done for the company to recover the money.	The advance money should be collected from the sub contractor as soon as possible.

(b)	The contract value of Rs. 9.72 million given to the company by the Urban Development Authority for the development of a land belonging to the Ceylon Electricity Board was agreed to be completed on 15 May 2018 but the work was not completed as scheduled. From the year 2019, the work of the contract had been stopped and in a letter of the Urban Development Authority dated 21 August 2018, No. 14/01/134/73. It had been informed that the initial level of work done on that date was substandard and not done properly. Due to this, the first progress bill amount of Rs. 5.75 million, which was forwarded by the company to the client on 10 December 2018, was not certified and paid by the client even by the end of the year under review.	Although many letters were sent to the Ceylon Electricity Board to get the necessary information about the project which was agreed on 15 May 2018 and the project activities of the Urban Development Authority, any response was not received. The Urban Development Authority was informed about the suspension of the project, and the first bill will be collected by referring to the Urban Development Authority.	The reasons for the substandard and not properly done work parts should be found and the related expenses should be recovered.
(c)	As of 31 December 2022, the physical progress of the company was 100 per cent and the contract value of 11 contracts were Rs. 287.41 million and although the invoiced work value were Rs.546.41 million but the certified value were Rs.114.64 million. Among them, the contract value of the contract for the proposed walkway and landscaping around the Beliatta Ampitiya Lake and the contract for the construction of the walkway for the Gampaha Wickramarachchi Indigenous Medical College, were Rs. 69.41 million and Rs. 61.27 million respectively and the invoice value had been increased by Rs.82.40 million and Rs.72.94 million respectively to Rs.151.81 million and Rs.134.21 million respectively. The relevant files were not submitted to the audit for further examination of the details and it was observed that there is uncertainty in the recovery of Rs. 258.99 million which had been overspent.	In the preparation of the relevant estimates by the engineers, the prices were presented according to the bill of quantity sheets of our client and according to the ICTAD terms, the measurements were carried out at the time of construction and the bills were sent. Accordingly, after certifying the bills by the engineers of both parties, the contract income for that year is calculated. The above contract has been calculated as a percentage of the contract amount, and the clients who have not completed the relevant construction will not make payments to the company .	The works shall not be performed in excess of the agreed contract value without formal approval.
(d)	The company had not taken action to obtain a mobilization advance from the parent corporation for the development project of Udukiri Ella Lake, received from the parent corporation as a sub contract work with a value of Rs.20.29 million and Although the company had spent Rs.6.90 million to complete the contract work, any amount had not been collected by the end of the year under review.	Since the project started in 2016, we have studied and discussed with the parent company and are taking the necessary actions to get the relevant amount as soon as possible.	The recievable money should be recovered promptly.

3.4 Human Resources Management

Audit Issue	Management Comment	Recommendation
As on December 31, 2022, the approved cardre of the company was 128 but the actual cardre was 82. On that date, the number of vacancies in the company was 46 and the number of surplus was 01. Out of the 46 vacancies, the 07 posts in the middle level management remained vacant over 08 years. 17 posts of Management Assistant and 17 posts of Labor also remained vacant by the end of the year under review. Therefore the company had failed to review and amend the number of approved posts or to recruit for the required number of posts.	The company currently maintains around 50 per cent of its approved cardre as a real cardre, and the top management of the company has decided to maintain this number further due to the fact that the impact of the country's economy in the last few years has also affected the organization in some way. But currently, the company is working to recruit for the vacancies on the basis of priority.	The arrangements should be made to fill vacancies on the approved cardre or review and amend the number of approved posts.

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Issue	Management Comment	Recommendation
In order to fulfill the objectives of the company, the board of directors should ensure that the strategic plan has been prepared for the company. The company should submit to its parent company the strategic corporate plan for a period of 5 years, the financial forecast and the gap analysis and the action plan including the strategies to achieve them and the annual budget document for the relevant years. Also, although this plan should be updated every year in accordance with the changes in the business environment, the company had not acted accordingly.	A corporate plan has been prepared for three years i.e. from 2021 to 2023. Accordingly, a budget statement for the year 2022 was prepared and implemented subject to the approval of the Board of Directors. The relevant officers have been instructed to prepare a corporate plan as shown in your observation.	The corporate plan should be prepared and the activities of the institution should be conducted in accordance with it.