Sri Lanka Land Development Corporation - 2021

----

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Sri Lanka Land Development Corporation for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

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

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

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

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

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

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

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

1.4 Audit Scope

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

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

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

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

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

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

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

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

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 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 Standards

	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a)	Sri Lanka Accounting Standard No. 01 Although the items pertaining to the equity of an entity should only be shown under equity and reserves in the statement of financial position as required by Paragraph 54 of the Standard, the Corporation had identified the balance of Rs.95.14 million of the Employees Welfare Fund, which constituted the membership fees of the officers of the staff, under the equity and reserves and non-current liabilities. As a result, equity and reserves had been overstated, and the non-current liabilities had been understated by that amount.	Actions will be taken to show these funds under non-current liabilities from the year 2022.	According to the provisions of the standard only equity and reserves should be shown under the equity in the financial statement.
(b)	Sri Lanka Accounting Standard No. 07 Even though the current assets and current liabilities should be used to adjust the working capital changes in the preparation of cash flow statement under the indirect	Related to "a" above. This would be corrected in classifying the employee welfare funds under non-	Accounting treatment should be done correctly according to the

	method, the Corporation had also adjusted the difference of Employees Welfare Fund existing under the equity and reserves in the above adjustment. As a result, the working capital change had been overstated by Rs. 13.63 million and the financial activities had been understated by the same amount.	current liabilities	nature and scope of the Employee Welfare Fund.
(c)	Sri Lanka Accounting Standard 16		
(i)	In terms of Section 34 of the Standard, the property, plant and equipment that experience significant changes in fair value should be revalued annually, while the items of property, plant and equipment with insignificant changes in fair value should be revalued once every 03 or 05 years. Nevertheless, the Corporation had stated the value of lands and buildings, amounting to Rs.971.26 million included in the property, plant and equipment with a total value Rs. 1,935.79 million in the financial statements at their initial cost, and in no case had a revaluation been carried out.	Action will be taken to assess the fair values of the lands owned by corporation through the valuation department in the year 2023 and taken it into the financial statements.	According to the standards, the fair value of the assets owned by the corporation should be shown in the financial statements.
(ii)	In terms of Section 36 of the Standard, if an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued. Nevertheless, only the vehicles worth Rs.301.39 million had been revalued in January 2020, but 160 motor cycles and a jeep, costing Rs.24.74 million and 26.47 million, respectively, with zero carrying amount as at 31 December 2021 had not been revalued even in the year under review.	Agree with the observation. It is Planned to show as a separate asset class in financial statements from 2023 onwards.	According to the standard, if an asset is revalued, the entire class of asset should be revalued.

(iii)	In terms of Section 37 of the Standard, a class of property, plant and equipment is a grouping of a similar nature which is used in an entity's operations. However, the Corporation had stated a stock of fixed assets costing Rs.10.53 million, including furniture valued at Rs.2.95 million, office equipment worth Rs.2.39 million, and welfare equipment worth Rs.0.64 million in the books without classifying them as Fixed Assets as at 31 December 2021.	Assets that cannot be clearly included in an asset class and relatively immaterial to present as separate asset classes are presented as other assets.	Assets should be correctly identified and classified as per the standard.
(iv)	As the useful life of non-current assets had not been reviewed in terms of Section 51 of the Standard, assets worth Rs.301.39 million were still in use despite being fully depreciated. The estimated error in the assets had not been restated in accordance with Sri Lanka Accounting Standard No.08 even in the year under review.	The depreciable value of assets has been depreciated subject to the 5 per cent of Residential Value from the year 2021.	The useful life of the asset should be reviewed annually as per the statndard.
(d)	Sri Lanka Accounting Standard 21		
	In terms of Section 23 (a) of the Standard, the foreign currency monitory items shall be translated using the Closing Exchange rate at the end of the accounting period and foreign exchange profit or loss should be calculated accordingly. However, in the translation of the balance of USD 2.18 million as at 31 December 2021 in the USD account maintained by the Corporation in the Bank of Ceylon for making payments of the sea sand dredging project into Rupees, relevant translation had not been carried out on the Spot Exchange rate of Rs.200.4338 as at that date issued by the Central Bank of Sri Lanka. As a result, the foreign exchange translation profit had been overstated by Rs.4.72 million and accordingly, the comprehensive income of the year under review as well had been overstated by that amount.	The impact on the income statement due to the use of incorrect exchange rates for calculation of exchange gain or loss is only Rs 2.15 million.	The spot exchange rate should be used to convert foreign currency balances as per the standard.

(e)	Sri Lanka Accounting Standard 38		
(i)	In terms of Section 18 of the Standard, the policy on the depreciation of intangible assets should be disclosed in the financial statements. However, despite the depreciation of intangible assets identified as Rs.5.82 million in the financial statements of the year under review, the depreciation rate had not been disclosed by the Corporation.	Agree with the observation. This error will be corrected in 2022.	Amortization rate of the intangible asset should be disclosed as per the standard.
(ii)	Although the renewal of licences and maintenance expenditure cannot be capitalized according to Section 29 of the standard, expenditure on the renewal of 55 licences of the SAP software purchased by the Corporation amounting to Rs.1.09 million had been included under the capital work-in progress account. As a result, the capital work-in progress account and the retained earnings account of the year had been overstated by that amount.	Annual Maintenance Cost is not required to be paid for the year of purchase when obtaining SAP licenses (User License). Therefore, such expenditure cannot be separately accounted for the first year.	Expenditure should be correctly classified as per the standard.
(f)	Sri Lanka Accounting Standard no.40 Fair value of two investment properties costing Rs.160.30 million included in the financial statements had not been computed and disclosed in the financial statements. Similarly, 03 buildings costing Rs.9.41 million that had been given on long-term lease basis to external parties by the Corporation had been stated under property, plant and equipment without being identified as investment properties.	Investment property is accounted under the cost method. There fair value is disclosed as additional information.	Investment properties should be identified and accounted as per the standard.
(g)	Sri Lanka Financial Reporting Standard No. 08 An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates and according to the Paragraph 11 of the Standard, the entity shall report separately information about each operating segment. However, despite the maintenance of operations of the	From Page no. 06 to no. 79 of the Annual Report has explained the functioning of each division at length. In addition, revenue and direct costs of major operating segments are disclosed separately under notes 1 and 2 in the	The sectoral accounts should be prepared to disclose operating information separately as per the standard.

	Corporations through a number of divisions, including several expenditure centers, the operations of those divisions had not been reported separately in accordance with the standard.	financial statements.	
(h)	Sri Lanka Financial Reporting Standard No. 15 In the recognition of contract income earned by the Corporation during the year under review through the execution of client project for external parties in the financial statements, only Rs. 1,686.64 million equivalent to 90 per cent of the value of bills presented by the Corporation had been included therein. Due to the delay in receiving the approval of the Standard Technical Committee of the Ministry (STC) for the rates included in those bills, 10 per cent of the certified value for the bills had not been recognized as revenue for the period. Nevertheless, this certified 10 per cent revenue, but not recognized in revenue had not been disclosed in the financial statements.	90 per cent of the payment recommended by the client is recognized as contract revenue for the client projects which are not approved by the Standard Technical Committee. The 10 per cent amount certified but not recognized as revenue is adjusted in the financial statements after receiving approval of the rates by the relevant Standard Technical Committee.	The Standard Technical appraisal committee reports should be obtained promptly and the revenue should be accounted correctly.

1.5.3 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	Despite the expiration of lease agreement of the Sasakawa Japan Memorial Hall in Sri Lanka, located on 22 lane in Kollupitiya, on 31 December 2017, which had been given on lease rent basis from the year 1987 to 2017, the building had not been handed over, and no action had been taken to reassess the building and enter into an agreement between the two parties even by 31 March 2023. Further, action had not been taken to recover the lease rent on the existing terms after 2017. A sum of Rs.0.27million only had been recognized as the lease rent income of the year under review and according to the letter sent by the Corporation to	The Sri Lanka Japanese Memorial Hall had not entered into a lease agreement at the new assessed value at the end of the year under review and the relevant arrears were settled in the year 2023 and based on that, the necessary adjustments were made in 2022.	The rent income should be accurately assessed and presented in the financial statements on an accrual basis.

	the lease holder, the lease rent income receivable by the end of the year under review had been understated by Rs.5.93 million.		
(b)	The land with 02 acres located in Muthurajawela, which had been given by the Government to the Corporation on freehold basis, was sold in 2019 according to the Cabinet decision No. අමප/19/2832/16/11 dated 29 October 2019. The aforesaid Cabinet decision informed the Corporation that the expenditure incurred on the development of the land should be deducted from the sales value, and the remaining balance should be credited to the Consolidated Fund. Accordingly, despite the sale of the land for Rs.272.62 million on 17 December 2019, a sum of Rs.251.60 million to be credited to the Consolidated Fund after deducting Rs.21.02 million incurred for the development expenditure had not been so credited to the Fund. That liability had not been identified in the financial statements and it had also not been disclosed in the financial statements.	The corporation had incurred huge cost in pumping sea sand for the development of this land. According to that the undeveloped value to be paid in relation to this piece of land which has the extent of 2 acres, 3 Roods and 34.51 perches is included in the undevelopment value register which is prepared in 31 december 2019 and it has been asked how to settle the said amount.	The balance should be paid to the Government Consolidated Fund or to the Land Commissioner general as per the cabinet Decision.
(c)	According to the sample audit test in accounting for rental income on accrual basis, a sum of Rs.1.31 million had been understated on 07 occasions and Rs.4.74 million had been overstated on 10 occasions in the accounts relating to the year under review. As a result, the rental income of the year under review had been overstated by Rs. 3.43 million.	These excesses and deficiencies will be corrected in the year under review.	The revenue should be recognized in the financial statements in accordance with the accrual basis.
(d)	The monthly rent value for the building owned by the Corporation at Kirimandala Mawatha, which had been given to LRDC Services Private Limited on lease basis, was	Agree with audit observation. It was unable to make relevant adjustment to the financial statements in 2021 since the accounting	The income and expenses related to the accounting year should be determined accurately.

	determined as Rs. 0.25 million based on the report of the Chief Government Valuer dated 25 February 2022 and accordingly, it was decided to collect the rent with effect from 01 January 2019. Although the annual lease rent income was Rs.3 million, only Rs.0.24 million had been identified as the lease rent income for the year under review. As a result, the lease rent income for the year had been understated by Rs.2.76 million, while accumulated profit had been understated by Rs.5.52 million as at 31 December 2020 due to non-recognition of the lease rent income for the years 2019 and 2020.	department has received the relevant documents regarding the new prices after the completion of the income accounting for the year 2021. However, the arrears will be accounted for in the year 2022.	
(e)	Since the advertisement board income of Rs.2.24 million, which is not applicable to the year under review, was recognized in the revenue, the profit for the year had been overstated by that amount.	Agree with audit observation.	The income related to the year should be properly accounted.
(f)	The value of the three machines worth Rs.398.25 million, which were purchased by the Corporation in the year 2019 for desilting in the Beira Lake, was not included in the financial statements even by the end of the year under review.	Action had been taken to show the values of the machines in the financial statements in the year 2022.	All assets should be correctly identified and disclosed in the financial statements.
(g)	Without obtaining the approval of the Public Enterprises Department, the Corporation had written off sums totaling Rs.81.50 million as the bad debt against the profit during the year under review solely upon the decisions of the Board of Directors. This bad debt consisting with a sum of Rs.34.13 million, which was spent on the Salamulla housing project of the Urban Development Authority and a sum of Rs.47.37 million receivable for the construction of D.A.Rajapaksha Memorial Centre and	Amount of Rs.34.13 million from the amount that was accounted as receivable from the Urban Development Authority related to the construction of the Salamulla housing project was also written off as bad debt after obtaining the approval of the Board of Directors. In court decision regarding the construction of the DA Rajapaksa Memorial Center, it was decided that the	According to the F.R no. 104, the inquiries should be conducted regarding the losses incurred to the corporation and recovered from the responsible parties.

	the approval had been given to write off as per the Board decision No. MRW 5461 dated 18 March 2022 and the Board decision No. MRW 5404 dated 15 October 2021 accordingly. It was not revealed either by the Board of Directors' decision or the Board Paper whether formal investigations were conducted to determine the reasons for this debt and the officers responsible or about the future investigation before this bad debt was identified. Hence it was observed that the corporation was not conducted the investigations properly on these losses.	corporation did not have any receivable amount. Therefore, the remaining amount of Rs. 47.37 million in the presented bill was written off from the books after getting approval of the board of directors.	
(h)	Even though the Corporation had started using SAP software since the year 2019, the purchasing cost of the software amounting to Rs. 12.4 million had been stated under the work-in-progress up to 31 December 2021, and no action had been taken to capitalize it as an intangible asset and write off the related amount. Furthermore, despite the lapse of nearly 5 ½ years since the issue of contract awarding letter, an agreement with formal conditions had not been reached. According to the contract awarding letter, the initial contract value was Rs.4.6 million, and it was observed the actual expenditure had increased up to Rs.12.4 million.	Actions had been taken to capitalized it as an intangible assets in the year 2022.	The existing problems in accounting software of the corporation should be resolved promptly.

1.5.4 Unauthorized Transactions

	Description of unauthorized transaction	Management Comment	Recommendation
(a)	The project to construct a linear park and improve drainage in association with the Athurigiriya Kothalawala expressway interchange, which had not been included in the annual action plan, was implemented under the Vision of Prosperity Programme and order on the	The works related to the 1.5 km long section of this proposed project have been totally completed.A Program is preparing to handover this project to the	The projects should not be started without allocations made in the annual budget estimate and without proper prior approval.

	verbal instructions of the former President and provisions had not been secured from the Line Ministry to commence the project. Similarly, a comprehensive feasibility study on the project proposal had not been carried out in pursuance of the recommendations of the National Planning Department as specified in the Cabinet decision for the Cabinet Memorandum presented by the Corporation to approve Treasury provisions for this purpose. However, the project had been commenced on 15 December 2020 and a sum of Rs.213.95 million from the Corporation's funds had been spent by September 2022 for this purpose. The Corporation had failed to get this money reimbursed from the General Treasury, and the value of the works completed as at the end of the year under review amounting to Rs.129.33 million had been stated as work-in-progress. Furthermore, as a result of the Corporation's failure to entrust the maintenance of the constructed park to the Kaduwela Municipal Council, it had to incur monthly expenses of approximately one million rupees for maintenance activities. Additionally, the walking track and the surrounding areas had experienced flooding in some instances and due to the lack of proper water supply for the toilet system constructed in the vicinity, it had been closed.	Kaduwela Municipal Council with the agreement of the Road Development Authority since it was unable to afford the cost of future maintenance activities related to the project by corporation.	
(b)	Even though project of desilting and cleaning of Beira Lake started in the year 2019 on the Treasury provisions of Rs.800 million should have been completed within the same year in 2019, the progress achieved by the end of the year under review was as low as 21 per cent. The Cabinet approval had been granted to provide Treasury provisions of Rs.283.50 million to procure required	Amount of Rs. 282 million (VAT free) was approved by cabinet for purchase of 03 machines but sum of Rs. 403.9 million machines had been purchased. Investigations are Conducted in Criminal Investigation Department	The projects which are initiated on the basis of treasury allocations should be implemented with proper management as planned and disciplinary action should be taken against the responsible parties.

machinery for this project. However, exceeding that limit, 3 machines worth Rs.403.99 million had been purchased in August 2019 without obtaining the approval of the Cabinet of Ministers. Out of the above three machines, the two machines purchased at a cost of Rs.244.7 million and Rs.75.99 million remained idle even by 31 March 2023. The Corporation had paid Rs.169.61 million for those machines in installments as at the end of the year 2021. An investigation was in progress in the Criminal Investigation Department regarding the purchase made in excess of the limit approved by the Cabinet. Furthermore, a sum of Rs.82.46 million out of the Corporation funds and Rs.11.73 million as the interest for late payments had to be paid for the amphibious machine, which was one of the aforementioned two machines, according to the arbitration conditions reached with the supplier.	regarding the purchase of these machines, and court procedures are ongoing. A Cabinet memorandum which was prepared for getting approval for purchasing of relevant machine by using the Sri Lanka Land Development Corporation Fund had been forwarded to the Line Ministry.	

1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit Issue	Management Comment	Recommendation
(a)	Out of the trade debtors balance of Rs.1,559.82 million included in the debtors and other receivable balance pertaining to the year under review, the balance remained receivable since a period between 2 and 5 years was Rs.695.63 million and the balance exceeding five years was Rs.128.87 million. Further, the value of the debtor balance confirmations called for by the Corporation for audit amounted to Rs.1,134.86 million and any of the said debtor balance confirmation was not submitted to the Audit.	All debtors whom were sent letters for balance confirmations are government institutions and none of the balance confirmations were received this year as well as in the previous years.	The corporation should be discussed with the relevant institutions regarding the receivable balance and steps should be taken to recover it promptly and confirm the debtor balances.
(b)	Out of the Client Project receivable of Rs.956.46 million included in the debtors and other receivable balance pertaining	There was a significant delay in the receipt of receivables amount to the corporation	The receivable amount to the corporation should

to the year under review, the balance remained receivable since a period between 4 and 5 years was Rs.40.92 million and the balance exceeding five years was Rs.128.09 million as well. Although the corporation had commented that the said debts would be settled promptly in the last year's Auditor General's report, those values had not been settled by the end of the year under review.	from the government institutions since releasing of funds was restricted by the general treasury to the government institutions.	be recovered promptly.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
Out of the value of Rs.826.68 million in the contract creditors balance included in the trade and other payables in the financial statements, a creditors balance of Rs.201.10 million remained unsettled since a period between 2 and 5 years and the balance that remained unsettled for more than a period of 05 years was Rs.24.76 million	Out of the outstanding creditor balances, Rs.120 million is related to the amount of Euro 575,000 which was payable to Rhode Neilson A/S. This amount was not settled as per the order received from Inland Revenue Department and other long-time payable balances consisting with Retention amount which were retained from contract creditors. This amount will be settled after the request made by the contract creditors or the work done is certified as defectless by the relevant engineer.	The unsettled balances should be settled promptly.

1.7 Related Parties and Related Party Transactions not disclosed

	Audit Issue	Management Comment	Recommendation
(a)	According to the financial statements of the Corporation, receivable balance from a subsidiary Company, Land Reclamation and Development Company, amounted to Rs. 268.89 million. However, as per financial statements of the Company the corresponding balance amounted to Rs. 328.89 million. Thus, a difference of Rs. 60 million was observed. As well, even though the payable amount	In preparing the accounts of the corporation and the Redeco Company, the difference in the curent accounts between two organizations is only Rs. 303,885.	The reasons for the differences of current account balances between the two entities should be reconciled before finalizing the financial statements.

	to the company as per the financial statements of the Corporation amounted to Rs. 83.56 million, according to the financial statements of the company the corresponding balance amounted to Rs. 93.40 million. Thus, a difference of Rs. 9.84 million was also observed. However, the reasons for these changes had not been identified by the corporation.		
(b)	The Board of Directors of the Sri Lanka Land Development Corporation had decided on 4 October 2018 that the Land Reclamation and Development Company should start a project of packing and selling sea sand as a commercial business and Rs. 200 million loan was given to the company on 07 May 2019 to construct the building.A land owned by the corporation was given to the company without signing a lease agreement between the two parties to carry out the related construction. However, the corporation had decided to cease the project without making a formal cost benefit analysis by the end of the year under review. The building which had been built by the Land Reclamation and Development Company at a cost of Rs.331.02 million was acquired to the Corporation for Rs.326.30 million on the basis of government's valuation and given to the Litro Gas Terminal Lanka (Pvt) Company which is a state-owned company. The corporation had entered into an agreement with the company on the basis of repaying the loan in 10 years at the installement of Rs.1.67 million per month at an annual interest rate of 12 per cent and the company was unable to pay the loan and interest due to the suspension of the business. The further outstanding loan amount	Since this project was failed, the building which was built for the project by the REDECO Company was hand overed to the corporation by REDECO in the year 2021 as per the agreement between board of directors of corporation and REDECO company. The government valuer's value of Rs. 326 million which was the transferred value and it was offset against for the part of the loan amount of Rs. 58.8 million and the accrued interest payable by the company to the corporation amounting to Rs. 49.46 million in acquision. Accordingly, Rs. 141.2 million will be receivable from the loan amount, and this amount will be recovered as per the financial viability of the company.	A proper feasibility study should be done before commenced the projects.

of the company was Rs. 141.2 million and the interest payable is Rs. 49.46 million hence the total amount due to the corporation is Rs. 190.70 million at the end of the year under review. Furthermore, according to the accounts of the subsidiary company, the sum of Rs. 382.50 million was spent by the company for the project. It was observed that there was a negative impact on the operations of the company and a financial disadvantage because of the informal decisions taken by the corporation from time to time.

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R. 757 (2)	If any differences, shortages and misplacement is observed after the receipt of annual board of survey reports, the Accounting Officer is required to take appropriate actions in that respect. However, no action whatsoever had been taken, even by January 2023, in respect of shortages worth Rs.4.32 million and excesses of Rs.1.26 million, which were observed in the stock verification.	The reasons are asked from the relevant parties regarding the excess and shortages revealed by the annual board of survey, and reasons have been suggested and those reasons will be analyzed and further actions will be taken.	Should be act in accordance with the Financial Regulations.
(b)	Public Finance Department Circular No. 08/2019 dated 17 December 2019	Although all public entities who were planning to procure goods, works, consultancy services or non-consultancy services from 2020 should register with the national e-GP system as a Procuring	The corporation has been registered as a procurement entity (PE) in the National e- GP system and the Deputy General Manager (Supply and Stores) has been	e- GP system should be implemented as per the circular instructions.

		Entity (PE) before 31 January 2020, the Corporation had not taken steps to carry out the registration of Liaison Officers – LOS, registration of Venders, publication of annual procurement plan, publication of procurement notices and utilization of the electronic procurement system for the Shopping Method even by 07 february 2023.	registerd as the corporation liaison officer from 15 July 2020. The corporate procurement activities will be carried out through the e-GP system, from adequate training programmes and discussions in the future.	
(c)	Section 02 of the Circular No. PE 1/ 54/1 dated 14 June 1994 of the Public Enterprises Department	According to the instructions stipulated in the circular, the benefits which were approved by the Treasury can be provided to the employees with the approval of the Board of Directors. Nevertheless, out of the interest on the bank loans obtained by 12 officers of the Corporation to purchase motor vehicles, 2/3 or Rs.608,929 of the interest related to the year under review had been paid with the approval of the Board of Directors without obtaining the approval of the General Treasury.	2/3 of the interest of the loan amount, which was obtained from the Bank of Ceylon to import motor vehicles under duty free licenses by the officers in corporation, will be reimbursed by the corporation with the approval of the Board of Directors.	Should be act in accordance with the circular instructions.
(d)	Circular No. PED/ 12 dated 02 June 2003 of the Public Enterprises Department Section 4.2.6	Although the quarterly progress reports of the Corporation should be submitted to the Public Enterprises Department and the Line Ministry within 30 days from the end of the relevant quarter, action had not been taken accordingly.	Agree with your observations.	Should be act in accordance with the circular instructions.

2. Financial Review

2.1 Financial Result

Profit before tax of the corporation for the year under review is amounted to Rs.1263 million and the corresponding profit for the preceding year amounted to Rs. 2500.79 million.Therefore,deterioration of Rs.1237.79 million of the profit before tax was observed.Eventhough the income from client projects and sale of sand increased by Rs.2332.16 million and Rs.2506.4 million earned from the sale of lands in the previous year and non availability of that income in the year under review and decrease in income from 6 other projects by Rs.345.49 million and ,an increase in cost of sales by Rs.990.19 million over the previous year were mainly attributed for this deterioration.

2.2 Trend Analysis of major Income and Expenditure items

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

Year	**2021**	**2020**
	Rs.million	**Rs.million**
Turnover	4,441	4,926
Government Contribution and other	2,352	2,379
	6,793	7,305
Direct Expenses	4,131	3,141
Gross profit	2,662	4,164
Profit before tax/(loss)	1,263	2,501

(a) In the year under review,the profit before tax had decreased mainly due to the increase in administrative expenses by 13.58 per cent.

(b) In the year under review,35 per cent of the total revenue of the corporation was derived from treasury grants,35 per cent from the sale of sea sand and 25 per cent from the external client projects.

(c) In comparison with the previous year,the direct expenses had increased by 31.5 per cent from Rs.3,141 million to Rs.4,131 million in the year under review.This was mainly due to the increase of the cost incurred for the client projects and the cost incurred for the sale of sea sand project.

2.3 Ratio Analysis

Compared with the preceeding year ,the net profit ratio had decreased from 34 per cent to 15 per cent and this situation was mainly due to the lack of income from the sale of land and the increase in the cost of sales in the year under review.

The current ratio which was 2.24:1 in the previous year had been increased to 2.28:1 in the year under review. The quick ratio of 1.82:1 in the previous year had been increased to 1.85:1 as well .

3. **Operational Review**

3.1 **Identified Losses**

	Audit Issue	Management Comment	Recommendation
(a)	In order to establish a new subsidiary named Waste 2 Wealth (Pvt) Ltd, the Corporation had invested Rs.5 million on 04 November 2019. However, the operations of the Company had been suspended on 01 June of the year under review, whereas action had not been taken to recover the sum of Rs.2.46 million that was receivable to the Corporation.	The amount held by Waste 2 wealth (Private) Limited Company was recovered from the corporation, as there was no need to continue this company at that time,on change of policy decisions.The remaining amount was spent by the company and cannot be recovered.Therefore,an amount of Rs.2.46million will be removed from the books of account as an expense after obtaining the necessary approvals.	A feasibility study should be done on the need of new businesses before starting them.
(b)	A sum of Rs.5.53 million that remained receivable to the Corporation as at 17 February 2015 relating to the second phase of the Horana bus stand construction project could not be recovered from the Urban Development Authority, it was observed according to the cost summary report prepared by the Corporation in relation to the suspension of the project that, the Corporation had incurred a loss of Rs.12.35 million due to the aforesaid suspension of the project.	Rs.12.35million bills which were submitted to the Urban Development Authority for recovering lossed incurred by corporation due to the temporary suspension of the project had not been certified by that entity. Therefore, this amount could not be recovered. .	The reasons for the unsettled bills should be investigated and steps should be taken to recover the money immediately.
(c)	According to the financial statements of the Corporation, the loss incurred by the Corporation from the Kirimandala Mawatha Agricultural Development Project which was executed from the year 2020, amounted to Rs.7.16 million and Rs.6.81 million in the years 2020 and 2021, respectively, and the total cost spent by the Corporation annualy for the project amounted to Rs.7.73	At the beginning, a significant number of workers had to be employed to prepare the land suitable for cultivation, so significant cost had to be incurred in the years of 2020 and 2021.At present, efforts are being made to maintain the activities of this project by minimizing the employee cost.	The projects implemented by the corporation should be managed in such a way that no losses are incurred and the new project should be initiated without contradict with the statutory objectives.

million and Rs.10.75 million, respectively. Out of the above cost, Rs.3.87 million or 50.1 per cent was the labour cost in the year 2020 and the labour cost for the year under review was Rs.10.71 million or 99.63 per cent. The Corporation had not taken action to carry out review on the cost management and thereby maintain the project in a profitable manner.

3.2 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	Due to the delay in the payment of compensations related to the lands acquired by the Corporation during the period from 1981 to 2005, the compensations and the related interest payable for those lands stood at Rs.47.11 million and Rs.112.63 million, respectively, by the end of the year under review and the interest for the year under review amounted to Rs.3.34million. It was revealed that the process of acquiring these lands had been in progress over a period ranging from 14 to 39 years, and this delay had resulted in an increase in unauthorized occupations on the relevant lands. However, it was further revealed that the Corporation had not conducted any land coordination committee meeting during the year under review with the involvement of the individuals and institutions such as relevant Divisional Secretaries, Valuation Department and the Survey Department.	In the years 2020- 2021 due to the spread of the covid 19 pandemic situation in the country,the calling of personnel for meetings was temporarily suspended ,but from 30 march 2023,the relevant meeting has been called wih the participation of all parties and arrangements have been made to call this meeting once in three months.	The compensation related to land should be settled on time and compensation intrest should be reduced.
(b)	In order to lease a land belonging to the Corporation, an extent of 22 acres 02 roods and 37.14 perches, along with a building with 55900	After signing the memorandum of understanding dated 2 July 2021, the relevant building has	Should be entered into a formal lease agreement and lease value should recoverd promply as

	square feet situated in Muthurajawela, to a private company for Rs.2,195.79 million on a 50-year long-term lease basis, a memorandum of understanding had been entered into on 02 June 2021. Although an advance of Rs. 500 million had been obtained for this purpose, no steps had been taken to secure the remaining amount of Rs. 1,695.79 million and to execute a formal lease agreement even by 31 March 2023.	been temporarily handed over to Litro Company.And our letter dated 9 march 2023, it has been informed to pay the remaining full amount and sign the lease agreement as per the approval of relevant cabinet decision.	decided by the cabinet decision.
(c)	For the construction of the third building of the proposed compost production factory under the project for the construction of a compost production center in the Kerawalapitiya Waste Management Park, which was started on 05 January 2018 by the Wetland Management Division of the Corporation, only piling work had been carried out at a cost of Rs.75.80 million according to the estimate prepared. Remaining constructions had not been completed even by December 2022 as planned.	This contract was terminated upon the the agreement of the both parties in accordance with the circular number 2022/03, named controlling public expenditures dated 26 April 2022 issued by the Ministry of Finance.	The national importance of the project and its purpose and through a cost benefit analysis of the project should be done and decisions should be taken to stop the project.
(d)	According to the Section 2 (b) 1 of the Sri Lanka Land Development Corporation Act No. 15 of 1968, Although the Corporation should identify the low-lying, marshy, waste or swampy lands situated at provincial level throughout the island and publish them by Gazette notifications to control unauthorized reclamation of such lands and carry out their supervision, the Corporation had identified such lands and published in the Gazette only in 06 provinces by the end of the	After receiving the recommendation related to the declaration of swampy, barren and marshy lands located in seven provinces,it can be forwarded to the Ministry of Lands.The maps and schedules related to the Northern Province have been received and have been directed for the translation of schedules and through the Governor of the Eastern Province has informed the District Secretary/Divisional	Targeted lands should be identified and published through the gazette and the development of the lands to be developed should be expedited.

	year under review. Further, it was observed that the Corporation had failed to prevent unauthorized reclamations and occupations on the lands of which the boundaries had been published in the gazette. Also, according to the section 8 (a) of the above act, the lands acquired for reclamation and development by the Corporation should be improved for construction buildings, and for industrial, commercial and agricultural purposes. However, out of the 800 acres of lands so acquired by the Corporation in Muthurajawela and Mudun Ela areas for development activities in 1995, only 400 acres or 50 per cent of the lands had been developed by the end of the year under review, despite approximately 25 years having elapsed by then.	Secretaries. It has been recognized that if the relevant land is developed without the construction of the proposed Oliyamulla Pumping Station,the surrounding areas may be subject to flooding and it has been informed that after the construction of the said pumping station,the rest of the land located on the Mudunela can be developed.A portion of the land proposed to be developed in Muthurajawela is used to store sea sand and a portion has been used for waste management projects.The remaining 51 acres of land has been filled and developed by pumping sea sand.	
(e)	According to the issued Gazette notification No. 1662/17 dated 14 July 2010, although the Corporation should take measures to protect all the canal reservations in the Western Province, no effective measures had been taken to identify those reservation lands or evict the unauthorized occupants from the reservation lands, despite the lapse of 10 years from the issue of the aforementioned Gazette by the end of the year under review.	All Local Authorities, including the Urban Development Authority,which is the planning approval authority,have been informed about this regulation.	Actions should be taken to prevent illegal reclamation according to the powers and objectives of the corporation.

3.3 Operational Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	Due to the shortage of sea sand stocks, resulting from the Corporation's failure to maintain a stocks of sea sand in timely manner by calculating their re-order level, sea sand worth Rs.351.13 million was mined and removed from a land in Muthurajawela area, which had been reclaimed with sand and sold to the Ceylon Electricity Board by the Corporation, in order to meet the sea sand requirement of the Corporation in the year 2011. The Corporation had not taken steps to replenish this land for more than a period of 06 years. Despite the above backdrop, stocks of sand worth Rs. 183.68 million and Rs. 23.19 million had been mined and removed in the year 2018 and 2019, respectively, from the lands owned by the Corporation, which had been reclaimed with sand. Accordingly, despite allocating Rs.557.99 million in the financial statements by the end of the year under review for the sand required to reclaim those land, the Corporation had not taken steps to restore at least one of these lands.	To remedy the sand shortage during the first quarter 0f 2019, sand was excavated from the third land mentioned in the observation and backfilled using the soil removed during the highway project. Accordingly, this land is being restored.	The sand excavated lands should be filled promply without cause environmental damage.
(b)	According to the audit test check on lease agreements, despite the expiry of the lease agreements of 08 clients within a period ranging from 01 to 12 years, they were further using such leased properties. However, the Corporation had not made effort to enter into new agreements even by the end of the year under review.	Arrangements will be made to settle the lease arrears and other fees related to LRDC Service (Private) Company in the future. Other lease holders have been referred to the relevant divisions for legal action regarding non-payment of lease arrears.	Should be entered into the lease agreements and arrears of lease value should be collected promptly.

(c)	With a view to minimizing the security, environmental and social damage caused to the approximately 155,000 people residing in the Kelaniya, Biyagama, Wattala and Peliyagoda Divisional Secretariat divisions and the factories located therein from the floods occurring in those divisions, the Mudun Ela development project at an estimated cost of Rs.3,000 million had been started under the Treasury provisions in the year 2016. Although the project was scheduled to be completed by the end of the year 2021, the financial progress and the physical progress of the project as at that date were only 61 per cent and 62 per cent, respectively. Despite incurring Rs.600 million by 31 December 2017 for purchasing 164 houses constructed by the Urban Development Authority, intended for the persons who lost their houses due to the land acquisitions for the construction activities of this project, houses for 19 families had not been provided even by the end of the year under review. Furthermore, it had been proposed to construct 02 pump houses as phase I and phase II under this project in Oliyamulla area, with the expectation of completion by the end of 2020 and the constructions of the pump house under the phase II had been started on 26 March 2018. However, the construction thereof had not been completed by the end of the year under review, resulting in the two $5M^3/S$ water pumps purchased at a cost of Rs.83.40 million in August 2018 remaining idle.	Two pumps were purchased by the corporation in the year 2018.As the civil construction work of the pumping station should be completed according to the design proposed by the pump supplier,the pump purchase contract should have been awarded to the relevant supplier before starting the construction work of the water pumping station.Although the works were carried out in the initial stage according to the initial action plan,later the project was carried out according to the allocation given since the annual allocation was not provided as requested for the project.Therefore, until now,the construction work of the water pumping station could not be completed as planned.Currently, the civil works are in the final stage and then the pumps are installed and put into the operation.	Arrangements should be made to provide houses to the homeless and the construction of the two pumping stations should be completed promptly to achieve the desired results.

(d)	The Corporation had identified 1,104 unauthorized constructions and reclamations on 400 hectares in 09 watershed areas related to 05 Divisional Secretariat divisions from the year 1996 to 2019. However, the Corporation had not taken steps to remove those identified unauthorized constructions even up to 31 December of the year under review.	Controlling these unauthorized activities has become very difficult due to issue assessment numbers by Municipal Councils and approve plans for unauthorized constructions and the Electricity Board and Water Supply Board have provided electricity and water supply to the said unauthorized constructions.	That the corporation should act according to its power to remove unauthorized constructions with environmental impacts, in coordination with other relevant government and local government agencies
(e)	Although arrangements had been made to construct a sub-access road at a cost of Rs.112 million for the land proposed to acquire for the Madinnagoda housing project by the year 2018, no action had been taken to acquire the land till 28 February 2023.	This corporation identified the proposed works, prepared its plans and carried out the work of constructing the road. Simultaneously, it was proposed to remove the unauthorized constructions adjacent to it in order to connect its last end to the adjacent road. Accordingly, the removal of unauthorized construction could not be done unexpectedly in the prevailing environmental conditions.	The land acquisition process should be completed expeditiously and the project should be completed.

3.4 Transactions of Contentious Nature

	Audit Issue	Management Comment	Recommendation
(a)	According to the corporation's lease land mortgage policy, it should be considered for mortgage after 05 years of signing the lease agreement and the written consent of the chairman of the corporation should be obtained before the land is mortgaged. However, despite the failure to fulfill those conditions, the Board of Directors had given approval to the lessees to mortgage 02 lands with 09 acres and 36.57 perches	If the lessee has paid the full amount of the lease and the lease agreement signed without changing the purpose of the orginal lease, has given approval for a sublease or a mortgage of the lease. Accordingly, in both cases, the lessee has paid the full amount of lease value at once and the Board of Directors has approved the mortgaging	It should be ensured that the existing rules and regulations of the corporations are adhered and the land is used for the purpose for which it was leased.

	Audit Issue	Management Comment	Recommendation
	and another land with 04 acres 02 roods and 11 perches in Muthurajawela, which had been given by the Corporation on lease basis, to a private bank for Rs.4.5 billion and Rs.600 million, respectively, during the year under review. This was observed to be a violation of existing policy of the Corporation.	of the leasehold right.	
(b)	The Ministry of Urban Development, Water Supply and Housing Facilities had given a mobilization advance of Rs.24.45 million to the Corporation to plan and initiate the construction of Gampaha Wetland Park and after completing only a part of the project, the remaining works had been abandoned in November 2019. It was problematic to deduct Rs.5.05 million from the Mobilization Advance Account despite no constructions being carried out during the year under review.	Identified as an accounting deficiency. This will be corrected in the year 2022.	The construction accounting should be done according to the provisions of the Procurement code and according to the accounting policies and standard.

3.5 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
Six trade stalls of the Corporation situated near the Bellanvila temple were closed without being taken action to lease out from the year 2016 up to 28 February 2023. As a result, the Corporation had lost the income of Rs. 115.65 million, including Rs.7.2 million that could have been earned for the year under review and Rs.108.45 million from the year 2016 up to 31 December 2020.	Although bids and request for proposals (RFP) were called on several occasions for the 6 Trade stalls that were stopped, no positive and financially viable responses were received.	Formal steps should be taken to generate revenue by providing the stalls to the buyers in a transparent manner.

3.6 Delays in Projects or Capital Work

	Audit Issue	Management Comment	Recommendation
(a)	For the execution of drainage systems improvement project in the Kerawalapitiya area with an estimated value of Rs.41.44 million, a	Comments had not been given.	The construction works undertaken by the corporation should be done in such a way that

	mobilization advance amount of Rs.18.02 million had been obtained from the Road Development Authority on 05 February 2018. Bills valued at Rs.15.60 million had been submitted after deducting Rs.6.22 million as mobilization advance to the Road Development Authority for making payments by 28 May 2018. Since the Road Development Authority, the contract awarder, did not remove the houses as expected to proceed with the remaining work of the project, the Corporation had been compelled to abandon the project. Accordingly, it was observed that the flood is likely to occur in the area due to the blockage in the drainage systems.		the impact on the general public is minimized and the minimum waste of resources.
(b)	The Kolonnawa Storm Water Drainage and Environment Improvement Project with an estimated cost of Rs.8,700 million, which was initially planned to implement under the World Bank aids, was subsequently planned to be implemented under the Treasury provisions according to the Cabinet decision. The project, which was initiated in the year 2018, should have been completed in 05 years. However, only the improvement of a 450-meter sub-canal, which connects to the Passenna Canal over a distance of 4.1kilometers had been completed at a cost of Rs.482.57 million by the end of the year 2021. Treasury Provisions had not been received as planned and the physical progress of this project was as low as 6 per cent by 31 December 2022.	As the allocation from the treasury was minimal as compared to the estimated allocation for the project, the corresponding physical progress was also become lower level as the project was carried out accordingly	The related benefits can be provided to the general public by commencing and completing the construction work of foreign projects promptly.

3.7 Defects in Contract Administration

Audit Issue	Management Comment	Recommendation
No recovery whatsoever had been made for the billed value of Rs.17.97 million submitted relating to 05 consultancy services contracts initiated by the	The project to construct the Athurugiriya walking Path could not be completed due to non-availability of funds. The	It is necessary and normal practice to enter into agreements prior to entering into contracts

Corporation in the years 2019,2020 and 2021, of which physical progress ranged from 67 per cent to 97 per cent by the end of the year under review. This was mainly due to the failure to enter into agreements with the client companies. Although the client did not make payments for the bills, the Corporation had taken steps to continuously carry out consultancy services. Furthermore, the bills of 02 contracts, implemented by the Corporation at a cost of Rs.6.03 million in the years 2017 and 2021 without entering into agreements with the client companies, had been submitted to the related institution by January 2023, whereas those bills had not been certified.	project of preparing the relevant drainage plans for the bus station to be built in Mullaitivu area was started at the request of the Urban Development Authority and due to the need to expedite the project, the necessary consulting service (Drainage Plan) was provided. As Makewita Nelumwila Exercise Track Phase II, was not approved by the cabinet, no contract was signed for its construction. The necessary arrangements have been made and handed over to the Line Ministry to enter into contracts related to the consulting services of Dalada Maligawa Infrastructure Development Project. The repair of a side wall of the parliament premises is a request of the parliament and as this is an essential service, it was carried out promptly and a notification has been sent through letters to provide consultancy service fees for it.	for consultancy services.

3.8 Human Resources Management

Audit Issue	Management Comment	Recommendation
The approved cadre of the Corporation as at 31 December 2021 was 1,800 and the actual cadre as at that date was 1,331. Similarly, the number of vacancies and excess cadre as at that date stood at 497 and 28 respectively. Further, the vacancies in terms of primary, secondary and staff grade level were 304, 161 and 32, respectively and the excess cadre of the said positions was 22, 05 and 01, respectively.	The reason for representation of employing additional number of employees is due to the appointment of those who have completed 180 days of service as per the Public Administration Circular No 25/2014 dated 12 November 2014, to the positions, among those who were undergoing training attached to the corporation's services.	The vacancies should be filled up on the approved cadre and the officers who were employed outside the approved staff should be disclosed.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue	Management Comment	Recommendation
According to the paragraph 6.6 of the Public Enterprises Circular No. PED/ 12 dated 02 June 2003; The Corporation was required to submit the financial statements for the year 2021 before 28 February 2022. However, financial statements had been submitted to the Auditor General on 20 December 2022, after a delay of more than 10 months.	Agree with your observation.	The financial statements should be submitted as per the circular instructions.

4.2 Annual Report

Audit Issue	Management Comment	Recommendation
According to the paragraph 6.5.3 of the Public Enterprises Circular No. PED/ 12 dated 02 June 2003, the annual report should be tabled in Parliament within 150 days from the expiry of the year of accounts. However, the Corporation had not tabled the annual report for the year 2020 in Parliament even by 28 February 2023.	Agree with your observation.	The Annual Reports should be tabled as per the circular instructions.