

Sri Lanka Land Reclamation & Development Corporation - 2011

1. Financial statements

1:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1:2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Land Reclamation & Development Corporation as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Sri Lanka Accounting Standards

The following non-compliances were observed

(a) Sri Lanka Accounting Standards No. 10

The following values aggregating to Rs. 9,846,599 which could not be considered as fundamental accounting deficiencies had been adjusted to the profit of the year as previous year adjustments. Accordingly, it was further observed that, making these prior year adjustments relating to the preceding year is carried out every year by the Corporation.

	Rs.
The value of fuel received free of charge	4,828,164
Writing off the expenditure of the Ederamulla Urban Development Project	(15,653,406)
Writing off the work in progress of the Thalawathugoda Project	(320,930)
Rectifying a computation error relating to the provision of Deferred Tax	20,992,771

Net value	9,846,599
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(b) Sri Lanka Accounting Standards No. 18

Even though the amount of depreciation of an asset should be distributed in a systematic basis, through the effective lifetime of such assets, the Corporation had categorized the computers and accessories under the office equipments and further when deciding the depreciation ratio of the said equipment, the effective lifetime had not been considered. Instead it had been depreciated as similar to other office equipment at a ratio of 12.5%.

(c) Sri Lanka Accounting Standards No. 36

The provisions had not been made in the financial statements for the investment amounting to Rs. 2,000,000 invested in Real Estate (Pvt) Ltd which was decided to be liquidated by the Cabinet of Ministers.

1.2.2 Accounting Deficiencies

The following observations are made.

- (a) Since the interest relating to a fixed deposit of Bank of Ceylon have been over calculated by Rs. 131,506 the annual interest income and the interest due had been over stated in an equal amount.
- (b) In the cash flow statement Rs. 151,999,000 had been mentioned as interest received, while the interest received in the year under review was only Rs.138,050,101.
- (c) At the end of the year under review, it had been identified that Rs. 14,087,220 was over allocated as bad and doubtful debts and that amount had been deducted from sales cost and it had not been categorized under other income.

1.2.3 Unexplained differences

Although the total assets aggregating to Rs 7, 457,254,000 had been mentioned in the information column of the Consolidated Balance Sheet submitted for the year 2011, the total assets aggregating to Rs7,538,200,000 had been mentioned in the balance sheet included only the information of the Corporation,

1.2.4 Accounts Receivable and Payable

The following observations are made.

- (a) The total debtors' balance of the Corporation was Rs. 175,442,000 while the total of the lapsed outstanding balances out of the said balance for 2 to 5 years and more than 5 years were Rs. 23,121,525 and Rs. 47,642,636 respectively.
- (b) Steps had not been taken to settle the mobilization advance amounting to Rs. 3,277,941 obtained five years ago relevant to two projects.
- (c) The advance amounting to Rs.535, 204,868 obtained for sale of lands as at 31 December 2011 by the Corporation, while the unsettled balances out of the said amount from 04 to 05 years and for a period of over five years were Rs. 489,125,647 and 1,038,104 respectively.
- (d) The Goods and Services Tax balance of Rs. 4, 611,864 mentioned under other debtors has been occurring from the year 2004 and actions had not been taken to settle the said balances.
- (e) The creditor's value of Rs. 565,200 of one company mentioned under sundry creditors and the value of another creditor amounting to Rs. 2,183,783 have been existing for a period of over five years and steps had not been taken to settle those balances.
- (f) Steps had not been taken to settle the advance named European Economic Summit amounting to Rs.2, 299,731 for over 5 years mentioned under other advances receivable.
- (g) It was observed that a sum of Rs. 56,913,550 payable to the Government, as tax in balances of 07 unsettled Sundry creditors and accrued expenses have been remaining for over 5 years.

1.2.5 Non-compliance with Laws, Rules and Regulations

The following non-compliances were observed.

Reference to Laws,Rules and Regulations

Non-compliance

- | Reference to Laws,Rules and Regulations | Non-compliance |
|---|---|
| ----- | ----- |
| (a) Paragraph 03 of the Public Administration Circular No. 2010/26 dated 31st December 2010 | Prior approval of the Department of Management Services of the General Treasury had not been taken when recruiting cadre on contract basis. |

(b) Public Enterprise Circular No. PED/12
dated 02 June 2003

(i) Section 9.7

Although the salaries or allowances for the officers who will be recruited on contract basis should be decided according to the approved recruitment procedure, allowances ranging from Rs. 40,000 up to Rs. 140,000 had been paid for 06 officers without obtaining necessary approval in terms of the Circular. However, the Chairman had informed that, these recruitments with regard to the foreign funded projects were made according to the requirement to fill the urgent vacancies that existed in the higher level of the Corporation.

(ii) Section 9.3.1 (1)

Having prepared the recruitment and promotional procedure of the Institute, with the concurrence of the Department of Public Enterprises of the General Treasury, even though the Board of Directors and the relevant Ministry should approve it, only the approval of the Board of Directors relevant to the Corporation had been taken.

(c) Paragraph 1 of the Management Services Circular No. 39, dated 26 May 2009

Allowances amounting to Rs.35,270,383 had been paid in the year under review without the recommendation of the Salaries and Cadre Commission and without obtaining the approval of the Department of Management Services.

(d) Section 3.4 of the Procurement Guidelines

A tender amounting to Rs. 14,235,965 had been granted on quotations obtained by a fax without adhering to the proper procurement procedure.

1.2.6 Transactions of Contentious Nature

The following observations are made.

Even though an agreement had been entered into on 27 June 2007, with both parties after obtaining an advance payment of Rs. 489,000,000 from an Investor in order to construct a housing project on a land owned by the Corporation, no development had been made despite a lapse of nearly five years. It is observed that, the attention of the Corporation had not been given towards obtaining benefits to the Corporation as well as to the society by updating the agreement or by granting this land which is of a large commercial value to another investor, and as per the agreement, the above advance should be paid within 14 days, if the investor returns the land, however both the investor and the Corporation had not acted in terms of the agreement. The Chairman had informed that, action will proceed according to the recommendations of the Board of Investment.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the operational result of the Corporation for the year under review was a net profit amounting to Rs. 398,656,336 prior to recovery of tax, and in relation to this the net profit of the preceding year was Rs.135, 580,563 thus, an increase of Rs.263, 075,773 is shown in the financial results.

When comparing with the income from the sale of sea sand amounting to Rs. 683,437,366 in the preceding year, the income of Rs. 1,793,419,487 in the current year has been increased by 162.41% and thus it had influenced the growth of the total financial result.

3. Operating Review

3.1 Performance

The following observations are made.

(a) Projects carried out on Treasury Provisions

- i. Although it had been planned to complete the project of the excavation of the canal by 31 December 2011, according to the progress reports of this project, the progress was at a minimum level of 12% as at the day. However, when compared with the estimated cost of the project which is Rs. 206.3 million, only Rs. 24.56 million had been incurred as at the date of balance sheet..
- ii. The project of excavation of the canal Epitamulla had been suspended, and according to the progress reports, the progress was at a minimum level of 3%, as at 31 December 2011 and when compared with the estimated cost for the project which is Rs. 7.77 million, only Rs. 0.21 million had been incurred.
- iii. The progress of the project for constructing two sluices in Rampalawatta for flow of water was 6%, and when comparing with the estimated cost of Rs. 13.70 million, only Rs. 0.82 million had been incurred for the project as at the day.

- (b)** Although the total estimated cost for 2011 was Rs. 33 million, in order to grant approval for the land settlement process which is a key function of the Corporation, according to the progress reports prepared as at 31 December 2011, the value incurred as at 31 December 2011 was only Rs. 8.94 million. Accordingly, the financial progress remained at a minimum level of 8% and the physical progress was at 27%. However, the Chairman had informed that, this situation occurred due to the limitations regarding the reclamation of low lands.

3.2 Management Inefficiencies

The following observations are made.

- (a)** It is observed that, due to the considerable time delays that had occurred when acquiring vested land, approximately an amount of Rs.232, 279,614 as interest to be paid to the outside parties can be regarded as an existing risk. Further it was observed that, this situation had occurred due to insufficient coordination with the Divisional Secretariats in a way to minimize the interest payment and expediting the payment of compensation. The Chairman had informed that this situation had arisen due to failure in prompt response from the Divisional Secretaries.

- (b) The Corporation had acquired approximately 151 acres of land around the Mudun Canal and for acquiring this land, compensation and interest amounting to Rs.45,462,719 had been already paid in this connection. Further, an amount of Rs. 113,223,362 as compensation and Rs. 134,525,935 as interest have to be paid. The following observations are made in this regard.
- i. Although this land had been acquired with the intention of rapid and regular development of the canals and marshy lands in the above mentioned area, it was observed that, only 19 acres, 01 rood and 35 perches had been developed up to now. However, the Chairman had stated that, the relevant development work had been delayed because they had to follow a new plan to adjust to the situations that will arise due to the Colombo – Katunayake expressway.
 - ii. It was revealed that, a Hindu Kovil had been constructed in an approximately 3.5 acre area so developed, without proper approval. The Corporation had spent at least approximately a sum of Rs.30.2 million to develop the land and the corporation had not taken action to recover the said amount from the parties concerned or to re- acquire the land.
 - iii. Although before the acquisition of this land a development plan should be prepared and approved, such approval had not been obtained. Accordingly it was observed that, the expected rapid development had not been achieved under the Interim Order 38 (A) of the Act deviating from the general procedure.
- (c) An agreement had been entered into in the year 2005 with a foreign company for the manufacturing of Sea sand and the Sri Lanka Customs had given permission to the foreign contractor to import the relevant machinery duty free under security of a bank guarantee. Re exporting or selling the said machinery within Sri Lanka after the payment of tax, should have been done at the end of the project. An opportunity was granted to the contractor to release his bank guarantee on the basis of a corporate guarantee given by the Corporation at the end of the project. However, as the Corporation failed to ensure that the relevant stock of machinery had been re exported, it was observed that, the responsibility of paying custom duty amounting to Rs. 4,096,000 which had been defaulted, had been assigned to the Corporation by the contractor. The Chairman had informed that, until the instructions of the Attorney General is given, the Corporation was unable to reach a final decision regarding this matter.

3.3 Uneconomic Transactions

The following observations are made.

- (a) Since the following projects that the Corporation had implemented incurring a cost of Rs. 39,408,404 had been abandoned halfway, no party had achieved any proper outcome from the expenses incurred from the project.

<u>Project</u>	<u>Expenses (Rs.)</u>
The project of the Beira Lake Excavation	11,317,985
Bandarawela Town Centre Project plot No.2	3,455,809
Bandarawela Town Centre Project plot No. 4	3,229,457
The Project of building a Sports Complex in Nuwaraeliya in a high temperature area	21,405,153

	39,408,404
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- (b) The costs of the Ederamulla and Thalawathugoda projects that were amounting to Rs.15,653,406 and Rs. 320,930 respectively, had been written off in the year under review.
- (c) An amount of Rs. 1,000,000 had been invested in a private company from 1996 and provisions in the accounts were provided for the depreciation of the full amount that had been invested. Further, from the date of investment until up to now, any investment benefit had not been received by the Corporation.
- (d) An amount of Rs. 2 million had been invested in the Real Estate Private Ltd Company in 1998 and dividends had not been received at all by the Corporation. Although the company had been decided to be liquidated at this instance, it had not been revealed in the financial statements on this matter.

3.4 Administration of Cadre

Hence the approved cadre was 1339 and the actual cadre was 1177 as at 31 December 2011, there were 162 vacancies and effective steps had not been taken to fill these vacancies. Out of these vacancies there were 20 vacancies in the top management positions in the institute and it had affected the efficiency of the institute. However, the Chairman had informed that, necessary steps have been taken to fill most of these vacancies.

4. Accountability and Good Governance

4.1 Action Plan

The Action Plan had not been prepared properly in order to identify the activities that should be done to achieve the targets and the objectives of the institute in a systematic way. The action plan also had not been reviewed periodically and it had not been updated properly. The action plan was not in line with the corporate plan and the annual budget, while the action plan of the institute was difficult to be properly compared with the progress reports of the institute. Some significant variances were also observed in it.

4.2 Procurement Plan

The Corporation had not prepared a Procurement Plan for the year 2011.

5 Systems and Controls

The Chairman of the Corporation had been notified time to time regarding the lapses in the systems and controls that were observed in the audit. Special attention is needed in respect of the following areas of control.

- (a) Recovery of money from debtors
- (b) Obtain advances from the clients
- (c) Coordination of information in each section
- (d) Computation of the stock of sand
- (e) Accounting