

1. Financial Statements

1:1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Sri Lanka Land Reclamation and Development Corporation had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards and give a true and fair view of the state of affairs of the Sri Lanka Land Reclamation and Development Corporation as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

1:2 Comments on Financial Statements

1:2:1 Sri Lanka Accounting Standards

The following observations are made.

(a) Sri Lanka Accounting Standard No. 26

Even though the Corporation owned 80 per cent of the issued shares of the Sri Lanka Land Reclamation and Development Company, consolidated financial statements had not been prepared for the year under reviewed.

(b) Sri Lanka Accounting Standard No. 09

- I. A Bank overdraft of Rs.83,111 had not been shown under the cash and cash equivalents in the Cash Flow Statement.

- II. Even though a sum of Rs.21,220,000 had been shown as purchase of property plant and equipment according to the Cash Flow Statement, according to the Schedules of Fixed Assets Movements furnished with the financial statement a sum of Rs.21,750,432 had been shown under the acquisition.

- III. The profit realized on the disposal of goods amounting to Rs.833,218 and the proceeds of the sale had not been included in the Cash Flow Statement.

(c) Sri Lanka Accounting Standard No. 18

The motor vehicle No. WP-HB 5048 which had been brought to account at Rs.2,500,000 without carrying out a revaluation and on which an insurance cover of Rs.5,776,000 obtained, had been fully impaired. As the motor vehicle had been brought to account at a lesser value than the market value, an unusual profit of Rs.4,245,891 had been realized after the receipt of the insurance indemnity.

(d) Sri Lanka Accounting Standard No. 10

Action had been taken in the year under review, for the write off of a sum of Rs.20,775,764 from the profit as prior year adjustments without disclosing the effect on the financial results of the prior years.

1:2:2 Accounting Deficiencies

The following observations are made.

- (a) The sum of Rs.597,145,882 payable as compensation on the lands acquired invested in Bank Repurchases had been shown in the financial statements as the non-short term investments instead of being shown as short term investments.
- (b) The stock of sea sand valued at Rs.1,753,479 issued free to various institutions had not been correctly brought to account and as such the value of the stock of sand had been overstated.

1:2:3 Unreconciled Control Accounts

The following observations are made.

- (a) The following differences in the balances according to the accounts and schedules were observed. The differences had not been identified and adjusted.

Item	Balance according to Accounts	Balance according to the Schedules	Difference
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	Rs.	Rs.	Rs.
Fixed Deposits	53,731,408	56,515,699	2,784,291
Investments made for Gratuity Payments	253,386,151	251,867,332	1,518,819

- (b) According to the financial statements of the Corporation, the debtors balance receivable from the Urban Development Authority amounted to Rs.135,443,965 whereas according to the information made available by the Urban Development Authority, the debtors balance awaiting settlement to the Sri Lanka Land Reclamation and Development Corporation amounted to Rs.136,289,125. Thus a difference of Rs.845,160 was observed.

1:2:4 Accounts Receivable and Payable

The following observations are made.

- (a) Out of the prepayments made up to the end of the year, a sum of Rs.946,887 exist over a period exceeding 05 years. Action had not been taken to settle that account.
- (b) Even though the Beddagana Project had been completed even at present action had not been taken to settle the mobilization advance of Rs.3,128,000 obtained over 05 years ago.
- (c) The Corporation had failed to recover the debtors balance of Rs.81,395,560 older than 05 years included in the trade debtors balance.
- (d) The total trade debtors balance of the Corporation amounted to Rs.291,539,800 and out of that a sum of Rs.148,101,606 or 50 per cent of the total debtors was recoverable from the Urban Development Authority. It was observed that a sum of Rs.56,634,611 out of that had been outstanding for more than 05 years.
- (e) A sum of Rs.9,964,782 was receivable as at 31 December 2010 from the Sri Lanka Land Reclamation and Development Company. Despite the existence of that amount, the Corporation had granted an advance of Rs.2,054,249 to that Company.
- (f) A sum of Rs.155,200,000 receivable for services performed for Government institutions had not been recovered. Certain completed projects had been implemented even without obtaining advances.

- (g) A sum of Rs.68,208,560 remaining unsettled over a long period had been shown as accrued expenses under the current liabilities. Out of this expenditure, a sum of Rs.65, 984,338 was observed as tax payable to the Government . Details appear below.

	Rs.
National Defence Levy	15,178,378
Dividends Payable	2,224,222
Goods and Services Tax	269,412
Business Turnover Tax	17,972,468
Reclamation Tax for Local Authorities	32,000,000
Tax Payable to the Government	564,080

Total	68,208,560
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1:2:5 Non-compliance with Laws, Rules, Regulations, etc.

Even though all the maintenance expenditure of a motor vehicle of Sri Lanka Land Reclamation and Development Corporation had been incurred by the Corporation, it had been used on activities extraneous to the activities of the Corporation contrary to the section 8.3.9 of Public Enterprises Circular No. PED/12 of 02 June 2003.

2. Financial and Operating Review

2:1 Financial Review

2.1.1. Financial Results

According to the financial statements presented, the operations of the Corporation for the year under review amounted to a pre-tax net profit of Rs.135,580,563 as compared with the corresponding net profit of Rs.295,932,406 for the preceding year, thus indicating a decrease of Rs.160,351,843 in the financial results. The reason for this decrease were decreasing of operating and non-operating revenue and increasing of administrative, general and other operating expenses.

2.1.2 Transactions of Contentious Nature

The total stock (exclusive of the stock of sand) as at 31 December 2010 amounted to Rs.85,156,998 and out of that, the slow moving stocks amounted to Rs.44,379,439. That represented 52 per cent of the total stock. The slow moving stock included stocks valued at Rs.37,739,607 which had remained in the stores for more than 05 years and that amount represented 85 per cent of the slow moving stock. Out of the total value of stocks a sum of Rs.42,770,981 had been deducted as the provision for slow moving stock.

2:2 Operating Review

2:2:1 Physical Performances

The following observations are made.

- (a) The Action Plan for the year 2010 prepared by the Corporation had not specifically identified the activities that should be carried out during the year. As such, it was a difficult task to reconcile the Progress Reports for the year 2010 with the Annual Action Plan. Nevertheless, significant variances were observed.
- (b) The Corporation had incurred losses amounting to Rs.44,826,964 in the year under review from 02 Excavation Projects, 05 Construction Projects, 03 Drainage Projects and other projects. It was observed in audit that such situations had arisen due to the commencement of such projects without carrying out proper feasibility studies. The computations of losses had been made without adjusting the overhead costs relating to each project and computation with the overhead costs would further increase the losses.

- (c) Even though machinery and equipment valued at Rs.216,630,221 had been supplied to the Sri Lanka Land Reclamation and Development Board for the operation and maintenance of the canals constructed under the Lunawa Environment Promotion and Community Development Project, the respective maintenance works had not been done properly and as such drainage of water had ceased due to clogged canals. Instances of the use of those machinery for activities extraneous to the Project were observed.

2:2:2 Management Inefficiencies

A potential risk for the payment of interest amounting to Rs.243,620,863 approximately to external parties was observed due to the considerable delays in the acquisition of the lands vested.

2.2.3 Uneconomic Transactions

The following observations are made.

- (a) Fuel for motor vehicles of the Corporation had been obtained from a filling station at Nawala instead of obtaining fuel from a filling station close to the Head Office. As such the additional transport cost incurred in the year 2010 in obtaining fuel calculated at the average running cost per kilometer amounted to Rs.623,160.
- (b) A sum of Rs.1,100,000 had been invested in the year 1996 in the Lanka Machine Leasers Company and the provision for diminution in the value for the full amount of investment had been made in the accounts. In addition, the Corporation had not received any return on the investment since the date of investment.
- (c) A sum of Rs. 2 million had been invested in the year 1998 in the Real Estate Company and the Corporation had never received dividends on the investment. Even though it has been decided at present, to liquidate the Company, that had not been disclosed in the financial statements.

- (d) The followed projects implemented by the Corporation at an expenditure of Rs.30.11 million had been abandoned halfway. It was observed that the Corporation had failed to recover that money up to the end of the year.

Project -----	Expenditure ----- (Rs.Millions)
Enderamulla Town Development	21.14
Dredging of Beira Canal	8.97

Total	30.11 =====

The funds for the Beira Canal Dredging Project had been provided by the Sri Lanka Ports Authority and as the Corporation did not have any arrangements for the removal of earth from dredging operations, the dredging work had stalled from the year 2009.

- (e) The costs of the Minuwangoda and Kiribathgoda Projects amounting to Rs.8,814,388 and Rs.12,506,116 respectively had been written off during the year.

3. Systems and Controls -----

Deficiencies observed during the course of audit were brought to the notice of the Chairman of the Corporation from time to time. Special attention is needed in respect of the following areas of control.

- (a) Utilization of Motor Vehicles
- (b) Accounting for Income
- (c) Recoveries from Debtors
- (d) Obtaining Advances from Customers