Land Reclamation and Development Company Limited - 2018

1.1 Qualified Opinion

The audit of the financial statements of the Land Reclamation and Development Company Limited for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of profit and loss statement**,** statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. 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 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium size Enterprises.

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 (SLAUS). 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 for Small and Medium size Enterprises, 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 Authority 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 (Auditors Responsibility with regard to audit of the financial statements)

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

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

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

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

1.5.1 Internal control over Preparation of the 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. Issue with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers. Payment vouchers etc. are shown below.

	Audit observation	Management Comment	Recommendation
(a)	The audit trail should be enhance through the accounting procedure. All Journal vouchers with the supporting documents should be furnished to the Audit. However, even during the year under review had not been done so.	The tally accounting software has been used by us, and the supporting documents have been reconciled through it. Action will be taken to prepare separate Journal vouchers, sign them and filed.	An efficient accounting system should be introduced enhancing audit trail. As well, the vouchers should be kept according to Financial Regulations or the internal control procedure of the Company.
(b)	Even though the accounting manual had been prepared by the Company, it had not been prepared covering entire accounting functions.	That manual had been prepared covering entire financial functions.	An accounting manual should be prepared including all guidelines related to the accounting

functions.

1.5.2 Sri Lanka Accounting Standards (LKAS)

	Non – Compliance reference to the relevant standard	Management Comments	Recommendation
(a)	The income and expenditure of the construction contracts should be identified based on the completion stages of the construction contracts. However, the revenue recognition policy of the Company was not complied to Section 23.17 of the Sri Lanka Financial Reporting Standard for Small and Medium Size Enterprises. As a result, the contract income of the Company for the year under review amounting to Rs.221.95 million had not been identified according to the standard.	The project information furnished to audit had been accounted according to section 23.17 of the standard and the Engineers' certificates had been attached.	The revenue from the construction contracts of the Company should be identified based on the completion stages of the contract as per the standard.
(b)	Even though according to the Sri Lanka Accounting Standards, the following disclosure should be made in the financial statements, it had not been done.		
	(i) Despite the considerations, the exchanges between the reporting entity and related parties, resources services or obligations that connected with related party transactions.	The transactions between the related parties, Sri Lanka Land Reclamation and Development Corporation, and the LRDC (Services) company had been disclosed under the Note No.30 of the financial statements.	The disclosures in the financial statements should be done according to the Accounting Standards.

	(ii) Under the following items i.e. (a) short term employee benefits. (b) Post services benefits (c) Other long term benefits (d) benefit for termination of employment and (e) the payments make based on the ownership, overall planning of Company's functions directly or indirectly, payment of compensations to the authorized and accountable persons those who represent the key management posts.	An allowance of Rs.37,500 had been paid to the Ex-Chairman and a sum of Rs.180,000 had been paid to the present Chairman (shown under the Directors' fees). A sum of Rs.2,480,000 had been paid to the General Manager of the REDECO Company as salaries.	The disclosures in the financial statements should be done according to the Accounting Standards.
(c)	According to Section 13.4 of Financial Reporting Standard for the Small and Medium size enterprises, the stocks should be accounted at lower of the cost or net realizable value. However, the stock of the Company as at end of the year under review amounting to Rs.13.13 million had been valued at cost without being computing the net realizable value.	All stock had been issued under FIFO system. Hence, current cost of the stock had been ascertained. Thus, the stock had been valued at lower of cost or net realizable value. Hence, he cost of the stock was lower than the net realizable value.	According to the Accounting standards, the stock should be shown in the financial statements.
(d)	According to Section 25.2 of the Sri Lanka Financial Reporting Standard for Small and Medium Size Enterprises, the interest on loan can not be capitalized. However, the interest on loan amounting to Rs.3.22 million, the loan obtained from the Sri Lanka Land	The loan obtained from the Land Reclamation and Development Corporation amounting to Rs.118.75 million had been obtained for sand mining project of the REDECO company. Hence, the interest on the loan had been	According to the Accounting standards the interest should be accounted.

	Reclamation and Development Corporation during the year under review amounting to Rs.118.75 million, had been capitalized.	debited to the project, and after being completed the project activities the relevant costs will be adjusted. After being completed the project the interest will be charged to the generated income.	
(e)	According to section 2.26 (b) of the Sri Lanka Financial Reporting Standard for Small and Medium Size Enterprises, the identified losses should be immediately charged to the financial performance statements. However, the cost incurred for unsuccessful contracts which related to the period of 2012 – 2016 amounting to Rs.20.83 million had not been identified as a loss and instead of that it had been accounted as work – in – progress. Hence the profit for the year under review had been overstated by that amount.	Since there are errors in the estimates of those projects, it had been informed the relevant institute.	According to the Accounting Standards, the identified losses should be shown in the financial statements.
(f)	According to section 28.24 of the Sri Lanka Financial Reporting Standard for Small and Medium Size Enterprises, the gain and losses relating to the actual values of the employee benefits should be identified. However, the Company had not done so.	Action had been taken to compute the actuarial value in the year 2019 by obtaining the service from a consultancy firm.	According to the Accounting Standards, the actuarial gain/ losses should be identified and adjusted in the accounts.

1.5.3 Accounting Deficiencies

	Audit Observation	Management Comments	Recommendation
(a)	Even though the interest expenditure of the Company as at end of the year under review amounted to 6.26 million, the interest expenditure had been shown as Rs.3.04 million in the statement of financial performance. Hence, the profit for the year had been overstated by Rs.3.22 million.	The loan obtained from the Land Reclamation and Development Corporation amounting to Rs.118.75 million had been obtained for sand mining project of the REDECO company. Hence, the interest on the loan had been credited to the project and after being completed the project the relevant costs will be adjusted. After being completed the project the interest will be charged to the generated income.	The correct loan interest expenditure should be shown in the financial statements.
(b)	Even though the motor vehicle repairing activities of the Company had been conducted at the Nawala Factory, the income thereon had not been recognized and related costs had been absorbed to the factory cost.	The cost incurred for spare parts that used for repairing of motor vehicles had been debited to the vehicle expenditure accounts. The labour cost of the vehicle repairing could not be separately computed and therefore, the labour cost had not been identified. The invoice system will be introduced in forth coming year. Then it will be identified the entire cost.	The revenue related to each of the activity should be identified and adjusted in the accounts.

1.5.4 Unexplained Difference

Audit Observation	Management Comments	Recommendation
A difference of Rs.134,868 was observed between the balances shown in the financial statements and related schedules thereto.	The lease rental amounting to Rs.134.277 had been adjusted to the profit and loss account as lease rental. Hence, it should be excluded from the schedules. A difference of	The balances in the financial statements should be reconciled with the schedules and shown in the financial statements.

Rs.591 was observed between the bank statement and cash book.

1.5.5 Lack of Evidence for Audit

	Item	Amount (Rs.)	Evidence not made available	Management Comments	Recommendation
(a)	Work – in progress	49,750,716	Engineer's certificate	Engineer's certificate had been attached	After obtaining the Engineer's certificates, it should be furnished to audit in order to confirm the work - in – progress balance of the Company as at end of the year.
(b)	Requesting of liquidate damages	5,646,254	Confirmation letters	The letter had been attached	After obtaining the confirmation letters from the debtors/ creditors those letters balances confirmation should be furnished to audit.

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivable

	Audit Observation	Management Comments	Recommendation
(a)	The receivable mobilization advance balances as at end of the year under review amounted to Rs.16,272,418. Out of that balance, an advance amounting to Rs.6,690,617 was existed as receivable for a period from 2 years to 5 years and the advance amounting to Rs.8,764,572 was remained as receivable for over 5 years. Further, the issued date of the advance amounting to	That mobilization advance amounting to Rs.16,272,417.82 had been issued according to the ICTAD requirement, to commence the project activities. After obtaining the bills, action will be taken to surrender the advances.	Prompt and adequate actions should be taken to surrender the advance receivable.

	Rs.8,764,572, for over 5 years, had not been furnished to audit. Hence, it was unable to identify the unsettled period of the advances.		
(b)	The receivable retention money balance as at end of the year under review amounted to Rs.68,361,135. Out of that, the receivable balance for a period from 2 to 5 years amounted to Rs.33,308,354 and an advance balance amounting to Rs.10,247,930 was remained as receivable for over 5 years.	Out of those receivable retention money amounting to Rs.68,361,135, a sum of Rs.10.8 million related to the current performing contracts. To recover the balance amount, the letters had been furnished and those money will be paid by the respective institutions.	Prompt actions should be taken to recover the receivable retention money.
(c)	The receivables from the Trade Debtors as at end of the year under review amounted to Rs.79,785,982. Out of that, a sum of Rs.67,527,659 was outstanding less than one year and the outstanding balance for a period from 1 to 5 years amounted to Rs.6,492,772. Further, a sum of Rs.5,913,021 was existed as receivable for over 5 years.	The bill had been furnished to the respective institutions and those outstanding money will be received in next year.	Prompt and adequate actions should be taken to recover the outstanding debtor balances.

1.6.2 Accounts Payable

	Audit Observation	Management Comments	Recommendation
(a)	Out of the payable mobilization advances as at end of the year under review amounting to Rs.48,068,529, the payable advance balance for a period of 2 to 5 years amounted to Rs.23,610,064. Further, the payable advance balance for over 5 years amounted to Rs.8,616,126.	The amount of Rs.48,068,529 was received according to the ICTAD requirements, to the commence the Projects. The continuing contracts the mobilization advances amounting to Rs.28,049,834.49 are related with the contracts related to the balance amount of Rs.20,018,694.87 had been suspended and the bills will be settled by the respective	Prompt action should be taken to settle the advance payables. After being identified the non – liable advances to settle, action should be taken to add back to the income.

		institutions.	
(b)	The retention money payable as at end of the year under review amounted to Rs.51,699,469. Out of that balance a sum of Rs.29,901,472 was remained as un settled for a period from 2 years to 5 years and the unsettled retention money balance for over 5 years amounted to Rs.9,694,904.	Out of this retention money payable balance amounting to Rs.51,699,469, the contract works relating to Rs11.9 million had not been completed up to date. Those money will be paid after being completed of the works. The remaining balance of Rs.39,775,775 had been claimed from the contract firms and after receiving of that money the settlements will be made.	Prompt action should be taken to settle the payable retention money and after being identified the non – liable advances, action should be taken to added back to the income.
(c)	The trade creditors' balance as at end of the year under review amounted to Rs.30,497,048 and out of that, the unsettle balance for a period of 2 to 5 years amounted to Rs.2,469,480. The creditor balance over 5 years amounted to Rs.9,908,397.	Out of this payable balance of Rs.30,497,046, a balance amounting to Rs.12 million to be payable to the Sri Lanka Land Reclamation and Development Corporation. That balance had not been settled. A sum of Rs.16.8 million had been paid to the creditors up to now.	Adequate actions should be taken to settle the payable balances and after being identified the non – liable balances, those balances should be add back to the income.
(d)	The contract creditors' balance as at end of the year under review amounted to Rs.4,455,907 and out of that balance, unsettled balance for a period of 2 to 5 years amounted to Rs.2,464,118. The balance for over 5 years amounted to Rs.1,817,870.	In order to make the payment to those creditors, the contract awarded firms should make the payments to the company. After that the payments will be made. Those money should be receivable from the Ministry of sports.	Adequate actions should be taken to settle the contract credit balances in timely manner.

1.7 Non – disclosure of Related Parties and Related Party Transactions

	Audit Observation	Management Comment	Recommendation
(a)	Accounting to the financial statements of the Company, the receivable balance from the Parent Company, the Land Reclamation and Development Corporation, amounted to Rs.8.61	Even though the receivable amount form the Corporation to the Company had been stated as Rs.8.61 million, as per the financial statements of	The values of related party transactions should be reconciled and shown in the financial statements.

	million. However, as per the books of the Parent Company the corresponding amount stated as Rs.32.56 million. Thus, a difference of Rs.23.95 million was observed between those balances and the reconciled statements for the difference had not been furnished to audit.	the Company actual balance amounted to Rs.35.73 million. The salaries and wages and other receivable balances also should be included to that balance.	
(b)	According to the financial statements of the Sri Lanka Land Reclamation and Development Corporation, the Parent Company, as Rs.72.32 million the receivable balance from the Company amounted to Rs.72.32 million. However, as per books of the Company corresponding payable amount to the Corporation amounted to Rs.14.87 million. Thus, a difference of Rs.57.45 million was observed between those balances.	Even though the receivable amount to the Corporation from the Company had been shown as Rs.72.32 million in financial statement, the payable amount of the Company amounted to Rs.14.8 million according to the current account balance.	The related party transactions should be reconciled and shown in the financial statements.
(c)	According to the financial statements of the Company, the payable balance to the LRDC Services (Private) Ltd amounted to Rs.1.06 million. However, according to the financial statements of the LRDC Services (Private) Ltd that corresponding balance had been shown as Rs.1.51 million.	This balance comprises with the security services provided to the Henamulla and Mabima sites. Due to misplacing of several bills, this difference was occurred. After obtaining copies of the bills, accounting adjustments will be done in the year 2019.	The related party transactions should be reconciled and shown in the financial statements.

1.8 Non – Compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules and Regulation	Non – Compliance	Management Comment	Recommendation
(a) Reference to the Laws, Rules, Regulations etc.			
(i) Section 3.2.1(c) 4	Even though the issued advances should be settled within 20 days, the unsettled balance over 30 days as at end of the year under review amounted to Rs.118,206.	Action will be taken to recover those advances from the respective officers. The reasons for those delays were to delays in receiving of bills from the contract sites.	Action should be taken to surrender the advances in timely manner according to the Financial Procedure manual of the Company.
(ii) Section 3.1.1.1	Even though the payable maximum cash imprest amounted to Rs.50,000, an advance amounting to Rs.135,000 had been paid to asset verifications in Ampara and Higurakgoda sites.	This paid amount not paid as petty cash imprest. It had been paid as the travelling expenses for the examination of sites.	According to the financial procedure manual of the Company, the advances should be paid within the limit of advance payment.
(b) Section 5.4.4 of the Government Procurement Guideline	Eighteen mobilization advances totalling Rs.6,773,808 had been paid as at end of the year under review Out of those advances, 11 advance payment bounds had not been obtained by the Company.	Even though the advance payment bounds had been obtained for the payment of advances amounting to Rs.6,773,808, due to not payment of bills furnished to the clients, after obtaining the bills to the Company, this situation was created.	According to the Government Procurement Guidelines, action should be taken to obtain advance payment bounds, before make the payments.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the profit before tax of the company for 31 December of the year under review amounted to Rs.5.040 million. As compared with the corresponding profit before tax of Rs.18.294 million for the preceding year, thus indicating deterioration in the financial results of the Company by Rs.13 million for the year under review. Increase of administration expenses by Rs.6 million for the year under review and decrease of other operational income by Rs.7.75 million had been mainly attributed to the to that deterioration.

2.1.2 Analytical Financial Review

Compared to the preceding year, the net profit of the year 2018 had been deteriorated by Rs.13.25 million, due to decrease of contract income by Rs.7.89 million, other operational income by Rs.3.15 million and the income of Higuraggoda Factory by Rs.1.70 million. As a result, net profit margin had been decreased by 5.36 per cent.

3. Operational Review

3.1 Management Activities

	Audit Observation	Management Comment	Recommendation
(a)	A sum of Rs.3.83 million had been paid to acquire the Huguraggoa Factory located land to the Company, extent of 1 acre and 31 purchases, in the year 2002 for on estimated value of Rs.10 million. However, that land had not been acquired to the Company up to end of the year under review.	This land subsequently estimated to Rs.3.83 million and the full amount had been paid accordingly. The deed of the land will be handed over by the Land Reform Commission to the Company in future.	The lands which have been utilized by the Company should be acquired immediately.
(b)	Without having any written document, a stock of 150 hume pipes valued at Rs.4,200,000 had been stored at the premises of the Nawala Factory since the year 2014. However, the purpose of the so stored and the details relating to their possess had not been explained to audit.	Those hume pipes are belonged to the Ministry of Economic Development and the handing over copies of them are attached herewith. Although it had been requested to taken out the goods in several times, no response for the request. Action going to be taken to sale those goods under the supervision of the auditors.	The stocks of the Company should be correctly identified and the stock handing over activities and the stock records should be correctly kept.
(c)	Without being obtained the approval of the Board of Directors for conducting of a labour supply activities, 111 employees had been recruited during the year under	The approval of the Board of Directors had been obtained thereon and an service agreement also had been singed.	The new business opportunities should be included to the Article of Association and the approval thereto should be obtained.

	review on behalf of the Parent Company and based on 5 per cent service income, the employees had been placed in the Parent Company. As well, action had not been taken to amend the Article of Association of the Company incorporating man power supply activities.		
(d)	The Board of Directors had decided to obtain a loan amounting to Rs.200 million at 12 per cent interest rate from the Parent Company during the year under review and using that loan, washed sea sand packeting project had been started at Kerawalapitiya. The expenditure incurred thereon as at end of the year under review amounted to Rs.136.47 million. However, a feasibility study had not been carried out for the project and an environment evaluation report had not been obtained thereon. Further, the approval for the construction plans had not been obtained and the approval of the Secretary to the Line Ministry had also not been obtained.	The sand packeting project had been commenced based on the discussion had with the Sri Lanka Land Reclamation and Development Corporation on 05 April 2018 and according to the instructions given by the Corporation. In order to implement the project, the Corporation had provided the loan by itself and washed sea sand had also been supplied under 3 months credit facilities, as per the decision made at the above discussion. Accordingly this proposal had been submitted to the Board of Directors and the Board had approved the proposal, and had also been decided to furnish all proposals to the Urban Development Authority for the approval in future.	A feasibility study should be carried out relating to the new business proposals and based on that study decisions should be made. Further, a proper approval should be taken relating to that activities.
(e)	Further, the company had used a land belonging to the Land Reclamation and Development Corporation situated at Kerawalapitiya, extent of about 2 acres, for this washed stand packing project. However, two parties had not entered into formal agreement in that regard.	An agreement will be signed in future. To rent out the land, the approval of the Board of Directors of the Corporation had been obtained.	The agreements should be signed with the related parties relating for the use of external properties for the project activities.

(f)	The dividends amounting to Rs.4,555,193 had been declared by Board of Directors of the Company from Board paper No.2014/89/554 dated 10 October 2014. However, action had not been taken to pay the dividends by the Company though the Parent Company had requested the Dividends from the letter dated 04 March 2019.	Due to the current financial shortage of the Company, it is unable to pay the dividends. After increasing the financial position into good level the payments will be made.	The Company should taken action to pay the declared dividends.
(g)	The financial and physical progress of the construction project at prison valued at Rs.26.93 million were 43 per cent and 95 per cent respectively as at end of the year under review. However, the Company had not entered into an agreement thereon and the receivable amount from the client as at that date amounted to Rs.15.14 million.	The letter had been sent by requesting the money. The letters are attached herewith. The contract agreement had been prepared and sent.	The agreements should be signed relating to the construction contracts conducted with the external parties.
(h)	The physical progress of the contract for laying of tiles at the Nursing Branch valued at Rs.6.63 million was 50 per cent, any financial progress had not been achieved. It had not been entered into an agreement with the Ministry of Health for that contract.	Laying of tiles had been completed and the contract value had been recovered.	According to the project agreement, the contract activities should be completed within the expected time period.
(i)	Two contracts valued at Rs.11.14 million had been awarded to 02 sub - contractors. However, the performance bounds had not been obtained from the sub – contractors.	The performance bound charges had been recovered from the interim bills provided by them.	The instructions of the Government Procurement Guideline should be followed.
(j)	A temporary loan amounting to Rs.25 million had been obtained by the Company from the Land Reclamation and Development Corporation in the preceding year, on the basis of pay the loan by	That loan amounting to Rs.25 million had been obtained for incurring of the day today activities of the Company. Failure to pay the loan instalments is accepted.	An analysis relating to the loan payment feasibility should be carried out when obtaining the loans and action should be taken to follow the self financing system to the

Rs.500,000 monthly instalments. However, only 2 loan instalments amounting to Rs.1 million had only been paid up to end of the year under review and the outstanding 17 loan instalments amounted to Rs.8.5 million. Under the such situation, obtaining of another loan facility amounting to Rs.200 million from the Land Reclamation and Development Corporation during the year under review was a questionable issue in audit.	After increase the financial position up to healthy level, the loan instalments will be paid.	company.

3.2 Operational Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	The following observations are made relating to the contributions from 7 factories and the site.		
(i)	The overall contribution from 07 factories and the site for the year under review minus value of Rs.1.58 million. Lack of proper management system relating to the production activities of those factories was directly affected to that situation. Even though there is a capacity to produced 1,200 cement blocks in the Nawala factory	The manufacturing cost of the cement blocks of the Company is at higher level. Use of permanent Labour for the manufacturing of cement blocks at the Nawala Factory is the main reason for higher cost. The salaries of the permanent Labours are in higher level due to the long service period of the Labours in the Company. Hence, the Labour cost for cement block manufacturing had to	The activities of the Factories should be properly managed and their contribution should be enhanced.

	per day, the Company had entered into an agreement with the Trade Unions to produce only 800 cement blocks per day. Due to that reason the manufacturing cost had been increased and inturn it had directly affected to the loss making situation of the factory. Further, a sum of Rs.6 million had been incurred for the direct labour for manufacturing of cement blocks and it was represented 52 per cent of the annual cement block sale income. Further, no production had been carried out at the Hambantota Factory.	be incurred at higher level. Further, the permanent employees are struggle to protect their employment rights. Therefore, the working hours of the Labours are limited and this situation is common to the other branches.	
(ii)	Even though there were high capacity, in the machines to produce cement blocks at the Kotagala and Hugurakgoda factories, due to the lower demand for the cent blocks the over head cost had been increased. Further	The orders for cement blocks had been received from the Forest Conservation Department and Sri Lanka Railway Departments in the year 2017. But no orders received for the year 2018. As well, supervision over the activities of the site is in weak level and it is accepted. Due to the	The activities of the Factories should be properly managed and their contribution should be enhanced.

due to the increase of over head costs and decrease of sales at the Hugurakgoda factory, the contribution had been deteriorated by 75 per cent compered to the preceding year.	political environment that existed in the country in October 2018, none of the work could be implemented.

3.3 Transactions in Contentions Nature

Audit Observation	Management Comment	Recommendation
Without having the proper approval, an allowances amounting to Rs.192,000 had been paid to 07 employees of the Sri Lanka Land Reclamation and Development Corporation.	Even though those employees work in the Sri Lanka Land Reclamation and Development Corporation, they have been provided their service to the Company too. Hence, the payment had been made for those officers. The approval of the Board of Directors had been obtained for the payment.	The approval of the Chief Accounting Officer should be obtained for the payments made to the officers in the external institutions.

3.4 Staff Administration

	Audit Observation	Management Comment	Recommendation
(a)	The approved cadre of the Company as at 31 December 2018 was 107 while the and actual cadre of the Company as at that date was 77. Hence, 30 vacancies were existed as at that date. Out of those 30 vacancies, 04 middle level management posts were vacant for a period from 4 to 5 years and 11 Management Assistant posts and 15 Labours were vacant.	As the salaries of the Labours are at a higher level, it had been decided to recruit the Labours on contract basis. Based on the diversification programme of the Company, the vacancies could be filled. Currently, only the essential cadre had been employed. Until the financial position come into healthy level, this situation would be existed.	Prompt action should be taken to fill the vacancies based on the approved cadre.

(b)	Out of 77 employees, 23 employees had been recruited on contract basis and one Engineer had been recruited on secondmen basis from the Land Reclamation and Development Corporation.	Action had been taken to absorb those officers to the permanent cadre in the year 2019 after conducting the interviews. It was difficult to recruit an Engineer based on our salary scale. Hence, after increasing the performance those vacancies will be filled.	Prompt action should be taken to fill the vacancies based on the approved cadre.
(c)	Even though the Company had prepared a recruitment procedure, the details relating to recruitment for the post of General Manager had not been included to the Procedure.	The General Manager is selected by the Board of Directors.	The recruitment procedure should be amended by amalgamating entire posts of the Company.
(d)	The posts of Supply Manager, Engineer, Accountant, Marketing Manager etc. were vacant since the year 2014 and this situation had affected to smooth operations of the Company.	Due to the financial position of the Company, those posts had not been filled. Those posts would be filled in future.	Prompt action should be taken to fill the vacancies based on the approved cadre.

3.5 Procurement Management

	Audit Observation	Management Comment	Recommendation
(a)	The required items for washed stand packing project had been purchased during the year under review, from 4 Chinese companies for US$ 665,827 (Rs.109.95 million). A procurement plan had not been prepared relating to the above procurement and that procurement had not been included to the budget prepared for the year under review. Further, the technical specifications had not been prepared relating to the procured items by the Company.	Since that procurement had not been pre planned, that had not been included to the budget. The technical specifications had been prepared for calling for tenders. The bid documents had been prepared for the building constructed of steel, to call local tenders.	All the procurements should be included to the annual budget and the instructions in the Government Procurement Guideline should be followed.

	Furthermore, the bid documents and the cost estimates had also not been prepared.		
(b)	Without being called open completive quotations from the local suppliers in the process of procurement, quotations had been called only form the foreign suppliers via the internet. The details relating to the supporting documents relating to those called quotations, bid evaluation criteria, the pre and post qualifications of the bidders, had not been furnished to audit. Further, no evidence had been furnished to audit relating to the appointment of the specialist, who had knowledge about the purchased machineries, to the technical evaluation committee.	The open competitive bids had been called only for the building of which the sand packeting machine had been located and higher quotations had been furnished for that building. The local suppliers not available for the suppling of other machineries i.e. sand washing machine, sand packeting machine and water purification machine – Ro system. Hence, the quotations had been called via the internet from the Foreign Suppliers. When opening of the quotations called via the internet from foreign suppliers, the respective suppliers had not participated. The copies of the bids that taken to the evaluation are attached herewith. In the evaluation committee, two Engineers of the Land Development Corporation, more than 30 years of experience, were existed. The evaluation made by them could be certified as correct evaluation because those machines are in good condition.	Action should be taken to call the quotations in transparent manner and the bid evaluation criteria used for the evaluation should be disclosed.
(c)	In the procurement process, it should be entered into agreements with the suppliers. However, the agreements had not been signed with the suppliers for the above procurement.	When make the procurement via the internet, there is no Local Agent. Hence, the agreements had not been singed.	When awarding the procurement contracts to the suppliers, the formal agreements should be signed with the suppliers.

3.6 Deficiencies in Contract Administration

	Audit Observation	Management Comment	Recommendation
(a)	Without being directly conducted the contract awarded to the Company, had been given to the sub-contractors as a practise. As a result, only 3 to 5 per cent profit margin had been earned by the Company.	The Company had not awarded the contracts to the sub – contractors in the preceding year compared to past years. The contracts given in the years 2016, 2017 and had been continued up to the year 2018. Due to the shortage of employees and officers to carry out the contract on direct basis, the contract had been conducted by selecting sub – contractors following the tender procedure.	By directly conducting the contracts received to the Company, the profit margin of the Company should be improved.
(b)	Payment of an additional mobilization advance amounting to Rs.2,000,000 in addition to the previously paid mobilization advance of Rs.1,159,471 to the sub – contractor selected for the Dosan Tower Project was a questionable issue in audit.	A pre – payment of Rs.2,000,000 had been made to the sub – contractor of Kadugannawa Dosan Tower Project, after receiving of money from the Urban Development Authority.	According to the Government Procurement Guideline, the mobilization advances should be paid to the contractors.
(c)	The financial progress of the construction of a hall at the university of Peradeniya at a cost of Rs.22.87 million and commenced on 26 June of the year under review was 20 per cent. However, any physical progress had not been achieved. Further, an agreement had not been signed between two parties.	The agreement of construction of a hall at the university of Peradeniya had been singed on 30 October 2018 and by furnishing a bound the advance relating to the contract had been obtained. To remove the threes on the construction site, a long period of time had been taken by the university. Hence, a programme to commence the construction works had not been implemented.	Proper Management Procedures should be applied to carried out the client's contracts and contract works should be completed within the scheduled time period. This situation had badly affected to the goodwill of the company.
(d)	The invoiced value for the performed contracts as at end of the year under review amounted to Rs.117.59 million. However, the received	Prompt action had been taken to recover the dues by submitting the final bills.	Proper Management Procedures should be applied to carried out the client's contracts and contract works should be

	Audit Observation	Management Comment	Recommendation
	amount from the respective institutions amounting to Rs.43.59 million and the recoverable value so far amounted to Rs.77.74 million. Not getting the approval for additional works performed, not entered into contract agreements, not approving of extended time period of contracts were affected to that situation.		completed within the scheduled time period. This situation had badly affected to the goodwill of the Company.
(e)	Even though contracts for the construction of Gabion Walls in the Beira Lake valued at Rs.67.40 million had been given to 2 sub contractors, nighter financial nor physical progress had been achieved up to end of the year under review from the construction works. The activities of the contracts scheduled to be completed in January 2019.	Due to the prevailed unstable political background of the country, the contract works had not been started. The construction works of the project had been started in January 2019.	Proper Management Procedures should be applied to carried out the client's contracts and contract works should be completed within the scheduled time period. This situation had badly affected to the goodwill of the Company.
(f)	The Company had taken over construct for contracting of 2 stories building at the Mundigala Monastery at a cost of Rs.13.90 million on 20 July 2016 and it scheduled to be completed within 120 days. However, the construction works had not been competed even after lapsed of 891 days as at end of the year under review. The physical progress of the contract as at end of the year under review was as low as 25 per cent and no any financial progress was achieved.	The construction works are now carrying out providing direct labour. The difficulties that had been faced in transporting of materials and carrying out construction activities had been informed to the Physical Planning Department.	Proper Management Procedures should be applied to carried out the client's contracts and contract works should be completed within the scheduled time period. This situation had badly affected to the goodwill of the Company.

3.7 Resources of the Company Released to other Public Institutions

Audit Observation	Management Comment	Recommendation
Three employees had been assigned to perform the activities of the Sri Lanka Land Reclamation and Development Corporation during the year under review.	The salaries of those employees are reimbursed from the Corporation.	The Circular instruction should be followed.

3.8 Underutilized Assets

	Audit Observation	Management Comment	Recommendation
(a)	It was observed that the buildings constructed for the use of Labours of the Higurakgoda Factory and for stores the cement blocks were decayed without being used. Further, The full capacity of the machine use for the manufacturing of cement blocks in the Factory had not been used.	The special orders had not been received to the Hugurakgoda Factory. Hence, the labours had not been resided in the Factory. Accordingly, action would be taken to obtained the orders and after that, those assets would be utilized.	The assets belonging to the Company should be properly managed and expected benefits from the assets should be achieved.
(b)	The cement block manufacturing machine purchased under the financial lease for Rs.41,508,000 on 15 July 2015 and Cement block manufacturing trays purchased for Rs.2,695,000 had not been used up to end of the year under review since the date of purchased. The impairment loss of the machine had not been identified.	The current book value is lower than the market value. Hence, the impairment loss had not been computed. To proceed the legal action relating to the machine, it has been referred to the Attorney General's Department.	As this machine is not being utilized, the impairment loss of the machine should be shown in the financial statements.

4. Accountability and Good Governance

4.1 submission of Financial Statements

Audit Observation	Management Comment	Recommendation
In terms of the Public Enterprises Circular No.PED/ 12 dated 02 June 2003, the financial statements of the Company for the year 2018 should be furnished for audit before 28 February 2019. However, the financial statements of the Company had been furnished for the Auditor General on 11 June 2019, after delaying more than 3 months.	Since the Board of Directors of the Company had not been appointed up to 28 February 2019, the financial statements had been furnished only with the signature of the Chairman on 28 February 2018. After being appointed the Board of Directors, the financial statements had been furnished again on 11 June 2019 with the Board approval.	The financial statements should be furnished according to the circular instructions.

4.2 Corporate Plan

Audit Observation	Management Comment	Recommendation
According to the Public Enterprises Circular No.PED/ 12 dated 02 June 2003, a Corporate Plan had not been prepared by the Company. Due to that reason, the performance of the Company could not be evaluated in audit.	The Company had failed to perform its activities as per expected manner. Hence, a Corporate Plan had not been prepared. The activities of the Company had been diversified and a Corporate Plan would be prepared in future.	According to the Circular instructions, a Corporate Plan should be prepared.

4.3 Internal Audit

Audit Observation	Management Comment	Recommendation
An officer had not been appointed as the Internal Auditor in the year under review. Therefore, as a port of the internal control system, the internal audit functions had not been carried out.	The audit functions have been carried out by two officers of the Corporation. Further, the acting Deputy General Manager (Internal Audit) also help to those functions.	The internal audit should be operated as an effective internal control system.

4.4 Budgetary Control

Audit Observation	Management Comment	Recommendation
Compared to the estimated income and expenditure of the year under review with the actual income and expenditure, significant variances of 47 per cent and 45 per cent were observed. Thus it was indicated that the budget had not been made use as an effective management control instrument.	The monthly account statements are prepared with the budget and those account reports are submitted to the Ministry too.	The budget should be use as an effective instrument of Management Control.