

Head 122- Ministry of Lands

1. Financial Statemets

1.1 Qualified Opinion

The audit of the financial statements of the Ministry of Lands for the year ended 31 December 2019 comprising the statement of financial position at 31 December 2019 and the statement of financial performance and cash flow statement for the year then ended, 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. The summary report containing my comments and observations on the financial statements of the Ministry of Lands was issued to the Chief Accounting Officers on 06 July 2020 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report relevant to the Ministry was issued to the Chief Accounting Officer on 19 November 2020 in terms of Section 11 (2) of the National Audit Act No. 19 of 2018. This report is presented to Parliament in pursuance of provisions in Article 154 (6) of the Constitution to be read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements prepared in accordance with the provisions in the State Accounts Circular No.271/2019 dated 03 December 2019 give a true and fair view of the financial position of the Ministry of Lands as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

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 opinion.

1.3 Responsibility of the Chief Accounting Officer on the Financial Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 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.

As per section 16(1) of the National Audit Act No. 19 of 2018, the Ministry 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.

In terms of Sub-section 38 (1) (c) of the National Audit Act, the Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Ministry and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibilities for the 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 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 Ministry's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- 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.

I communicate with the Chief Accounting Officer regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5 Report on Other Legal and Regulatory Requirements

I express the following matters in accordance with Section 6 (1) (d) and Section 38 of National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year.

(b) The recommendations by me in the financial statements pertaining to the preceding year with regard to the observations included in Paragraph 1.6.2 of this report had not been implemented.

1.6 Comments on the Financial Statements

1.6.1 Statement of Financial Performance

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
Although a sum of Rs. 44,880,064 had been shown as the acquisition of capital assets in the Financial Performance Report, the purchases during the year were Rs. 285,340 according to the Treasury printouts, thus observing a difference of Rs. 44,594,724.	It should be reconciled with the Treasury printouts as per the circular.	Agree. It will be corrected and submitted.

1.6.2 Statement of Financial Position

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
Although the opening balance of the Statement of Non-Financial Assets (ACA-6) submitted together with the Financial Statements was Rs.551,851,474, the opening balance as per the Treasury printouts was Rs. 544,387,120. Accordingly, a difference of Rs. 7,464,354 was observed.	The numerical figures to be included in the preparation of financial statements should be reconciled with the values in the Treasury Final Accounts.	Agree. It will be corrected and submitted.

1.6.3 Non-maintenance of Registers and Books

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
<p>(a) Register of Counterfoil Books</p> <p>A Register of Counterfoil Books had not been maintained in accordance with Financial Regulations 341.</p>	<p>Action should be taken to maintain a register in accordance with the Regulations.</p>	<p>Action will be taken to instruct the relevant officials to streamline activities in accordance with the Financial Regulations.</p>
<p>(b) Record of Losses and Damages</p> <p>The Record of Losses and Damages had not been updated as per Financial Regulations 110.</p>	<p>The Record should be maintained in an updated manner in accordance with Financial Regulations.</p>	<p>It was recorded to note maintained the Record of Losses and Damages in an updated manner.</p>

1.6.4 Non-compliance with laws, rules and regulations

Instances of Non-compliance with laws, rules and regulations are analysed below.

Reference to laws, rules, and regulations	Non-compliance	Recommendation	Comments of the Chief Accounting Officer
<p>(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka</p> <p>Financial Regulation 371 (5)</p>	<p>Although ad-hoc sub-impressts issued in terms of the Regulation should be settled within 10 days from the completion of the relevant work, it was observed that a period from 24 days to 238 days had been taken to settle ad- hoc sub-impressts.</p>	<p>Impressts should be settled within the due period as per Financial Regulations.</p>	<p>Action will be taken to instruct the relevant officials to avoid delays and to work properly in the future.</p>

- (ii) Financial Regulation 104 (3) and (4)
- In terms of Regulation, if a delay of more than seven days is envisaged for making a full report in case of damage / accident, a preliminary report should be sent forthwith and after inquiry, the full report should be submitted within three months from the date of investigation. However, the Financial Regulations had not been followed in connection with 04 vehicle accidents caused during the year under review and the delay period ranged from 09 months to 14 months.
- Investigations should be conducted and reports should be submitted within the relevant period. Arrangements have been made to submit reports in the future.
- (b) Section 2.3 of the Ministry of Public Administration and Management Circular No. 05/2008 dated 06 February 2008
- In terms of circular provisions, the Ministry should have formulated a system for monitoring and evaluating the compilation and implementation of Citizens/ Client Charter, whereas action had not been taken accordingly.
- Action should be taken to formulate a methodology. It is informed that necessary steps are being taken to compile a new Citizen/ Client Charter.

2. Financial Review

2.1 Expenditure Management

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) Out of the net provision of 8 Capital Objects and 6 Recurrent Objects amounting to Rs.398,998,800 a sum of Rs. 115,453,445 had been saved. The percentage of the savings had ranged from 35 to 92 per cent.	In terms of Financial Regulation 50, estimates should be adequately prepared after conducting a formal study.	Not arising needs to incur expenditure as expected.

- | | | | |
|-----|---|------|---|
| (b) | Even though Rs. 108,904,000 had been approved by the Supplementary Estimates for 03 Capital Objects and 03 Recurrent Objects, it had been totally saved without being utilized for any purpose. | -Do- | Not rising expected expenses and not incurring expenditure in a large scale due to economical use of funds. |
|-----|---|------|---|

2.2 Incurring Liabilities and Commitments

 The following observations are made.

Audit Observation -----	Recommendation -----	Comments of the Chief Accounting Officer -----
(a) Although expenditure or commitment shall not be incurred in excess of the provision made as per the F.R.94(1), the Ministry had incurred commitments totaling Rs.7,730,048 for 06 Objects in excess of the provision.	No commitment whatsoever shall be incurred in excess of the provision made.	As the bills for the electricity, water and other payments are submitted in the following month and the due payments have increased since repairs activities are carried out through the agencies by the Parliamentarians and payments for the staff of the MPs have to be mad after their resignation, it has been included in the liability record.
(b) In terms of Section 3.4 of the State Accounts Circular No.271/2019 dated 03 December 2019, the commitments or liabilities not reported to the Treasury shall not be settled in the year 2020 as expenditure for the preceding year. Nevertheless, liabilities of Rs.2,515,122 not stated in the financial statements had been settled in the year 2020.	Commitments or liabilities not reported to the Treasury shall not be settled as expenditure for the preceding year.	At the time of preparing financial statements, vouchers pertaining to the month of December had not been presented and despite the receipts of vouchers for the month of November, those had not been included in the list due to a mistake. Officers were instructed to include all the unpaid vouchers in the liability record in the future.

2.3 Reconciliation Statement on the Advances to Public Officers Account

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) Although the individual loan balance in the Advance B Account as at 31 December 2018 should be stated as opening balance of the members' loan register as at 01 January 2019, a difference of Rs. 200,140 was observed between loan balances of 05 officers.	The closing balance of the last year should be carried forward as the opening balance the year under review.	Delays have been occurred in entering installment receipts and after the matter was revealed, action has been taken to correct the balance.
(b) Distress loan balances of Rs.129,045 due from two Development Officers attached to two Divisional Secretariats remained outstanding since a period of 06 months.	The loan balances due from the transferred officers should be settled.	Arrangements have been made to recover those loan balances in combining with the relevant offices.

3. Operating Review

3.1 Planning

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) Provision of Rs. 420,000,000 had been made for the Bimsaviya Programme of which a sum of Rs. 307,795,285 had been spent. However, the following observations are made on the proposed activities under the Bimsaviya Programme incorporated in the Action Plan prepared for the year under review.		
(i) Conduct of 10 awareness programmes of the Bimsaviya Programme for 600 officers including Title Investigation Officers, Legal and Bank Officers, District Secretaries and Divisional Secretaries, 100 Heads of Local Government Authorities and 500 field officers including Grama Niladharees.	The activities scheduled as per the Action Plan should be implemented.	Due to lack of adequate provisions under the recurrent Object and non-receipt of proper response from the relevant regional institutions for the requests to make necessary arrangements for the coordination of relevant

officials, those programmes could not be carried out.

(ii) Maintenance of networked information system
The activities scheduled as per the Action Plan should be implemented.
As it was revealed that the procurement of necessary infrastructure facilities (goods and equipment) could not be carried out from the Expenditure Head 122-2-3-4-2105, above expenditure could not be incurred.

(iii) Obtaining legal drafts and observations on the amendment of 03 Acts by the Land Policy Division coordinating relevant institutions.
The activities scheduled as per the Action Plan should be implemented.
The Land Development Ordinance is to be forwarded to the Cabinet for approval. Further steps on the Land Bank Act have not been taken. Cabinet approval for amending the National Land Policy Act has been received and amendments are being made at present.

(b) The following observations are made relating to the progress of the acquisition of required lands from the private sector for the Government Development Programme from the year 2015 to 2019.

(i) Although the number of active files was 8409, the number of files completed by settling compensation was 315 by the end of the year 2019.
An efficient acquisition process should be introduced and compensations should be settled without delay.
As the acquisition process is a complicated process involving a large number of entities, it takes a considerable time to complete works of all the plots of land relating to a file. Accordingly, the number of files completed during the year 2019 is 21.

(ii) The number of files relating to which the issue of Interim Order as per Section 38 (a) of the Land Acquisition Act No.09 of 1950 was completed was 1257 from
Action should be taken to introduce an efficient acquisition process and to pay
Action has been taken to send reminders to the Divisional Secretaries enquiring the current

the year 2015 to 2019. It was observed that as a result of not taking action to pay compensation expeditiously for those acquisitions, a large amount of money would have to be paid as interests.

position of the acquisitions referred to in the files identified as non-performance files. In order to prevent the unnecessary expenses on the interests, methodology will be implemented from this year to pay compensation according to a priority list prepared based on the date of issuance of the Inerim Order as per Section 38 (a).

- | | | |
|--|--|--|
| (iii) Delays had been continuously occurred in the payment of compensation for the land acquisition and compensation of Rs. 2,410,374,671 and interest of Rs.920,543,193 had to be paid in the year 2019. Accordingly, 84 per cent of the interests paid in the year 2019 was for the acquisitions that had continued to exist for more than 22 years. | Action should be taken to introduce an efficient acquisition process and to pay compensation without delay | Necessary initial arrangements are being made to develop an information system under the guidance of the ICTA institute in order to conduct follow up regarding the acquisition process. |
| (iv) Even though plans had been drawn to acquire 290 lands during the year under review, only 112 lands had been acquired. Accordingly, the physical progress had been as low as 38.6 per cent. | An efficient acquisition process should be introduced. | Not commented. |

3.2 Management Weaknesses

----- Audit Observation -----	Recommendation -----	Comments of the Chief Accounting Officer -----
As per Interim Order 38 (a) of the Land Act No. 09 of 1950, the process of land acquisition from the private sector for the Government Development Process is carried out jointly by the Ministry of Lands, the Development Implementing Agency, the Valuation Department, the Divisional Secretariat and the Survey	As the Ministry is the body that regulates and implements the acquisition process, it should carry out the acquisition process and pay compensation without delay by formulating a proper system with due timeframe.	Since the acquisition process is a complex process involving a large number of agencies, it takes a considerable period of time to complete all the land related to a file.

Department. Out of the 1311 files comprising 54 files with acquisition order issued under Order 38 (a) and 1257 files with acquisition order issued under Interim Order 38 (a), the number of files that could have been completed during the period from 2015 to 2019 was as low as only 315 files.

3.3 Delays in the execution of projects

 The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
-----	-----	-----
<p>(a) Acquisition of land for construction of a playground for Walatara Junior School, Kalutara.</p> <p>-----</p> <p>Notices had been published in July 2005 to the effect that a land containing 01 Acre 03 Rude and 34.5 Perches owned by Dora Jayasooriya would be taken over for a public purpose. Although a period of 14 years had elapsed from the year 2005 to 2019, no further action had been taken regarding the acquisition of said land. The Zonal Director of Education, Kalutara had informed that the proposed land was already being used for school activities and therefore, it was further necessary for the school.</p>	<p>Compensation should be paid without delay by completing the acquisition process.</p>	<p>Even though the notice had been published in Section 2 on 20 July 2005, according to the report obtained from the computerized system, it had been considered as an inactive file. Although it had been informed by the letter No. ED/05/69/02/08/423 of the Ministry of Education to submit the application to take action under a new acquisition for the acquisition of the aforesaid land as it is still being used by the school, that acquisition proposal has not been sent. The acquisition process cannot be continued until that proposal is submit again.</p>

(b) Acquisition of Lands for Vocational Training Center on Information Technology, Baddegama, Galle

Having published notices under Section 2 of the Land Acquisition Act in the year 2000, to declare that this land of 05 acre belonging to the Land Reforms Commission would be taken over for public purpose and the possession had been transferred forthwith after issuing Order under the Interim Order 38 (a) in the year 2001. However, no action had been taken to pay compensation of Rs. 8,000,000 until January 2020, the date of audit and it was observed that an interest at 7 per cent amounting to Rs.10,080,000 would have to be paid for 18 years from 2001.

Compensation should be paid without delay by completing the acquisition process.

Even though the approval of the Director General of Budget was received in 2010 under F.R 53, the Divisional Secretary had submitted the application for payment of compensation on 01 June 2019. Accordingly, despite the grant of approval for the payment of compensation for the year 2020, no compensation has been paid due to lack of provisions. Action will be taken to pay compensation this year after the provision is made.

(c) Acquisition of Lands for the Ananda College, Matugama.

Although Order under Section 38 (a) had been issued in September 2004 to acquire the land containing 32.91 perches belonging to the Urban Development Authority, no further action had been taken until elapse of 15 years.

Compensation should be paid without delay by completing the acquisition process.

Provision related to the compensation on acquisition has been released to the Divisional Secretary on 29.04.2019. Arrangements will be made to release the provisions in the future after the submission of the application by the officers for provision for payment of interest on completion of the payment of compensation.