Land Reclamation and Development Company Limited and Its Subsidiary Company -2020

1.1 Qualified Opinion

The audit of the financial statements of the Land Reclamation and Development Company Limited (Company) and its subsidiary (Group) for the year ended 31 December 2020 comprising the statement of consolidated financial position as at 31 December 2020 and the statement of comprehensive income**,** statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. 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 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

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

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

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

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

In preparing the financial statements, management is responsible for assessing the 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 Company 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 Scope of Audit (Auditor's Responsibility 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 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 Audit observations on the preparation of the Financial Statements

1.5.1 Non – Compliance with Sri Lanka Financial Reporting Standards for Small and Medium sized Entities (SLFRS for SMEs)

	Non compliance with reference to the relevant standard	Management Comment	Recommendation
(a)	Even though the income and expenditure of the construction contracts of the Company should be identified based on the completion of the contract method according to section 23.17 of the SLFRS for SMEs, the contract income for the year under review amounting to Rs.72.40 million had not been identified accordingly.	According to the project accounting standard, section 23.17, the work done had been accounted based on the works certified by the client and the works certified by the Engineer as at 31 December 2020.	According to the standard of the SLFRS for SMEs, the contract income should be identified based on the works certified by the client.
(b)	According to Section 13.4 of the SLFRS for SMEs, the stock should be valued for lower of cost or net realizable value (NRV). However, without being considered the NRV, the stock of the Company held as at end of the year under review had been valued at the cost for Rs.13.23 million.	All the stocks had been maintained based on the FIFO method, and when value of the stocks compared to the NRV, the cost always show a lower value. Hence, the stocks had been valued at their cost.	According to the SLFRS for SMEs, the stock should be valued.
(c)	According to section 2.26 (b) of the SLFRS for SMEs, the identified losses should be charged to the statement of Financial Performance. However, the losses on the unsuccessful contracts which had been conducted by the Company during the period of 2012-2017, amounting to Rs.24.39 million had been accounted for as work – in –	Those problematic contracts had been identified during the period of 2012-2018 and accounted for as work-in-progress, until solving the issues. After being solved the related issues of the contracts, necessary adjustment to be made to the Financial Performance statement of the year 2021. Further, the bills of	According to the SLFRS for SMEs, the losses on contract should be accounted.

	progress instead of being accounted for as the losses. As a result, the profit for the year under review had been overstated by that amount.	those contracts had not been certified by the clients.	
(d)	Even though the dividends of the preceding year amounting to Rs.3.64 million had been shown in the balance sheet as per section 3.14 of standard, that amount had not been shown in Note – 30 of the financial statements as payable to the related parties.	This had been shown in the balance sheet under the current liabilities. As highlighted by audit, it well be shown in Note-30 in the next year.	According to the SLFRS for SMEs, the related party transactions should be disclosed.

1.5.2 Accounting Policies

Audit Observation	Management Comment	Recommendation
According to the accounting policy No.2.2.2 of the Company, provision for doubtful debts should be provided based on the evaluation made relating to the recoverability of debtors as at end of the each accounting year. However, provision for doubtful debts had not been made for the outstanding debtors, from 2 to 5 years amounting to Rs.20,138,019, and 9 debtor balances outstanding for over 5 years amounting to Rs.374,233.	Only after being specially identifying the debtors, the provision for doubtful debts had been provided. Action has be taken to recover the debts that receivables from 2 to 5 years, and money thereon to be receivable. Further, a part of the money receivable from them had already been received in the year 2021.	After being specifically identified all the debtors, provision for doubtful debts should be made.

1.5.3 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
A sum of Rs.6,566,361 which had been incurred for 12 unsuccessful contracts had been shown under the work – in – progress since the year 2012. Due to write-off of the above cost to the contract account without being adjusted to the brought forward accumulated profit, the contract profit of the year under review had been understated by that amount.	Even though action had been taken to recover the dues from those 12 contracts, said cost could not been recovered as it was incurred to rework the defects shown in the contract works. Thus, as per the 2019 audit report, that amount had been written-off considering an expenditure of the year 2020. Further, that cost had not been certified the client and there were issues in that regard.	The prior year adjustments should be retrospectively adjusted.

1.5.4 Going concern of the Company

Audit Observation	Management Comment	Recommendation
Compared to the preceding year, the income generated by the Company from construction projects and factories was decreased by Rs.75 million in the year under review and the operational loss of the year under review amounted to Rs.91.02 million. The contribution gain from the factories of the Company during the last 5 years was continuously shown a negative value. The negative contribution in the year under review amounted to Rs.42 million. As such, due to decrease of the income, the Company had failed to repay the loans. As a result, it had been badly affected to the going concern of the Company.	Due to the prevailed Covid pandemic situation in the year 2020, the projects had not been implemented in the country and as a results, the projects were not received to the Company too. This situation was affected to the factories as similar manner. Due to reasons of manufacturing of cement base products, inability to compete with home base products, inability to sell the products adding the taxes etc, the factories were sustained the losses continuously. It had been planned to take mitigative actions in future.	By efficiently managing the business activities of the Company, the income of the Company should be enhanced.

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivable

	Audit Observation	Management Comment	Recommendation
(a)	Out of the mobilization advances as at end of the year under review amounting to Rs.20,025,161, a sum of Rs.2,626,578 was remained as unrecovered for a period of 2 – 5 years and another sum of Rs.11,314,371 was also remained as unrecovered for over 5 years.	The mobilization advances amounting to Rs.20,025,161 had been given to commence the projects, as per the ICTAD instructions and those advances to be recovered after being received the bills. Due to suspending the payment for bills, it was unable to recover the mobilization advances amounting to Rs.11,936,153.15 and the contracts valued at Rs.8,089,007.85 are yet to be completed. That will be recovered after receiving the bills.	Action should be taken to recover the receivable advances as early as possible.
(b)	Out of the retention money receivable balances as at end of the year under review amounting to Rs.74,582,406, the receivable balances amounting to	Out of the contracts related to the receivable of Rs.74,582,406, the contracts related to Rs.17.0 million yet to be completed. To obtain the remaining balance, the letters have	Prompt actions should be taken to recover the receivables.

	Rs.34,546,493 was remained unrecovered for a period of 2-5 years and another receivable balances amounting to Rs.26,344,301 were also remained as unrecovered for over 5 years. However, the Company had not taken action to recover those receivables.	been furnished. Further, actions have been taken to obtain those retentions through the Ministry.	
(c)	Out of the trade debtor balances outstanding as at end of the year under review amounting to Rs.72,565,276, sums of Rs.2,109,876, Rs.26,337,108 and Rs.8,952,943 were remained as unsettled for a period of 1-2 years, 2-5 years and for over 5 years respectively. However, actions had not been taken to recover those outstanding balances. Further, the receivables from 18 debtors amounting to Rs.11,515,198 for over one year, had not been recovered up to end of the year under review.	Out of those receivables amounting to Rs.73,656,276.13, a sum of Rs.23 million to be receivable from the Sri Lanka Land Development Corporation. Further, a sum of Rs.0.45 million to be receivable from the LRDC Services Ltd. Out of the total outstanding amount, provision for doubtful debts had been made for Rs.3.54 million. Out of the receivables, a sum of Rs.38.46 million was related to the construction contracts and the receivable amount from the Urban Development Authority amounted to Rs.7.82 million. It had been requested from the UDA to make the payment. The receivable from the Person Department amounting to Rs.13.64 million, a sum of Rs.3 million was already received. Other balances were settled up to now.	Actions should be taken to recover the receivables as early as possible.
(d)	The Company had entered into agreement with 4 fuel stations to obtained the fuel for the activities of the Company for the period from 2012 to 2017 and the Company had terminated the agreements with them. Nevertheless, the Company had not taken actions to recover the deposits amounting to Rs.282,616 that kept in the stations even up to end of the year under review and the certificates for the deposits had not been furnished to audit.	Even thoygh actions had been taken to recover those deposits of Rs.282,616 the fuel service stations had informed that they were already closed the books after being done the necessary reconciliations and actions have been taken to write-off over 10 years old balances in the year 2021.	Actions should be taken to recover the receivables as early as possible.

1.6.2 Accounts Payable

	Audit Observation	Management Comment	Recommendation
(a)	Out of the payable mobilization advance balances as at end of the year under review amounting to Rs.47,124,471, sums of Rs.15,038,730 and Rs.20,794,782 were remained as payable for a period of 2-5 years and for over 5 years respectively. Actions had not been taken to settle the mobilization advances amounting to Rs.12,630,077 related to 11 abandoned projects of the Company, though they were existed even as at end of the preceding year.	These advances of Rs.47,124,471 had been given by the respective institutions as per the ICTAD guidelines and the advances amounting to Rs.22,986,306.88 were related to the abandoned projects. Hence, those balances were remained as unsettled. After being conducted the negotiations, it was agreed settle those payables. Action will be taken to settle the remaining payables, after being settled the bills.	Prompt actions should be taken to settle the payable advances.
(b)	Out of the payable retention money balance as at end of the year under review amounting to Rs.60,265,583, the balances amounting to Rs.26,783,078 and Rs.18,197,670 were remained as unsettled for a period of 2-5 years and for over 5 years respectively. However, action had not been taken by the Company to settle those payables.	Those payable retention money balances amounting to Rs.60,265,583 will be settled, after being received the money from the clients. That money has been claimed up to now.	The payables should be settled as early as possible.
(c)	The Company had not taken actions to settle the trade and the contract creditors amounting to Rs.48,447,824 since a period of 2-5 years and amounting to Rs.15,747,375, since a period for over 5 years, out of the trade and contract creditors as at end of the year under review amounting to Rs.123,350,841.	Out of that creditor balance amounting to Rs.119,449,039, a sum of Rs.67,468,742.56 to be payable to the Sri Lanka Land Development Corporation and another sum of Rs.27,048,528.11 to be payable to the LRDC Services Ltd. Out of the remaining balance amounting to Rs.24,931,768.33, a sum of Rs.13,893,481.84 had been already settled.	The payables should be settled as early as possible.
(d)	Unsettled contract creditors balance as at end of the year under review amounted to Rs.4,081,082 and out of that balance, a sum of Rs.3,324,728 was remained as unsettled for over 5 years.	The related bills had been furnished to the respective clients, and those bills were not certified so far. After receiving the money after being certified the bills, the settlement will be made.	The payables should be settled as early as possible.

1.7 Non – Disclosure of Related Party Transaction

	Audit Obsrevations	Management Comment	Recommendation
(a)	As per the financial statements of the Company, the payable amount to the SLRDC Service (Pvt) Ltd amounted to Rs.27.05 million. However, as per the financial statements of the LRDC Services (Pvt) Ltd, the corresponding receivable balance amounted to Rs.27.62 million. Thus, a difference of Rs.0.57 million was observed.	The bill related to Rs.0.57 million was not yet being certified. Hence, it was not shown in the accounts.	Related party transactions should be properly disclosed.
(b)	A payable balance to the Sri Lanka Land Development Corporation amounting to Rs.647,992 related to a foreign tour expenses incurred for a Company officer in 2018, had not been settled even as at end of the year under review.	Agreed with the comment. After being improved the financial position of the Company, settlement of Rs.647,992 will be made.	Action should be taken to settle the related party transactions.

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

	Reference to Laws, rules, regulations etc.	Non - Compliance	Management Comment	Recommendation
(a)	Section 3.2.1 (c) 4 of the Financial Administration Code of the Company	Even though advances should be settled within 20 days, the advances given to 5 officers amounting to Rs.139,454 had not been settled even after lapse of 678 to 1457 days as at end of the year under review.	A sum of Rs.100,000 had been settled up to now. A sum of Rs.5,000 had been given to sales Division to exchange the Money. To recover of Rs.10,000, it was informed to the account Division. Action had been taken to recover the remaining balance of Rs.24,454. Delaying in the receiving of bills was the reason for delay.	Action should be taken to get the settlement as soon as possible after completion of the work.
(b)	Section 8.1.4 of the Public Enterprises Circular No.PED/12 dated 02 June 2003	Even though the Company should operate its functions with self-financing, the Company had obtained a loan amounting to Rs.264	The contributions had been obtained from the Corporation to conduct the sea sand project, as the Corporate partner. Due to the failure of the project, the	Action should be taken to operate the Company from self-financing.

	million from the Sri Lanka Land Development Corporation and that loan was represented 36 per cent of the total assets as at end of the year under review. Further, out of the bank overdraft balances that obtained for operational activities of the Company during the preceding as years and out of that remaining unsettled balance as at end of the year under review amounted to Rs.10.11 million.	project had been abandoned. Action has been taken to make the settlement of the loan.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the net loss before tax, of the Company as at 31 December of the year under review amounted to Rs.91.02 million and the corresponding net loss before tax for the preceding year amounted to Rs.48.97 million and compared to the preceding year, a deterioration amounting to Rs.42.05 million of the financial result was observed. Decrease of income from construction contracts and sale income of cement blocks and precast concrete products amounting to Rs.61 million and Rs.10 million respectively and increase of finance cost by Rs.22 million were mainly attributed for the deterioration of the financial result of the year under review.

2.2 Analytical Review

(a) Compared to the preceding year, the contract income of the Company was decreased by Rs.61 million. As a result, the gross profit of the year was detoriated by Rs.10.8 million and in turn the gross profit margin becomes negative percentage of 7.65 per cent. Further, the accumulated contribution of all factories belonging to the Company were generated a negative contribution of Rs.42 million and that also affected to the above situation.

(b) The current and quick ratioes of the Company were 0.71 per cent and 0.56 per cent respectively. Thus, management function of the Company was not in a satisfactory level and due to representing of the above ratioes below one, it was observed that the Company had faced to the working capital management difficulties.

(c) Trade debtors' balance as at end of the year under review was increased by Rs.46.6 million and compared to the preceding year, this balance was increase by 64 per cent. Any amount of 18 creditor balances totaling Rs.1.2 million had not been settled during the year under review.

(d) Compared to the preceding year, debt equity ratio of the Company was decreased by 31.65 per cent. However, the long term debt and capital ratio of the Company, was increased to 1.11, compared to the preceding year. This indicate the going concern issues of the Company.

(e) The total debtors of the Company as at end of the year under review amounted to Rs.328 million and corresponding balance as at end of the preceding year amounted to Rs.277 million. This indicated 18 per cent increase in the above balance.

3. Operational Review

3.1 Contribution of the Factories

	Audit Observation	Management Comment	Recommendation
(a)	As per the budget of the Company for the year, the expected contribution from 08 factories of the Company amounted to Rs.20.12 million. However, the actual contribution as at end of the year under review was negative margin of Rs.42.45 million.	In order to earn the profits, the budget had been prepared accordingly. However, due to COVID situation, it was directly affected to decrease the sales. Hence, the contributions from the all factories represented negative margin.	Action should be taken to generate positive contributions from the factories.
(b)	Expect the Nawala precast concrete factory, other 7 factories were contributed negative contribution of Rs.62.25 million. Decrease of sales, not implementing of market oriented marketing strategies and management weakness were attributed for this losses. Further, even though the expected revenue from the above Divisions during the year under review by the Company amounted to Rs.230.78 million, the actual revenue amounted to Rs.28.33 million.	Due to the positive actions taken by the Company, the losses of the factories except the cement blocks factory, could be able to decreased with compared to the preceding year. Due to the heavy losses incurred by the Sea Sand processing factory, it had been handed over to the parent Company. Accordingly, it is expected to earn the profits coming years. It was unable to earn expected income in the year under review.	The sites should be converted to the profitable units.
(c)	The loss of the Nawala cement manufacturing factory amounted to Rs.13.95 million and compared to the preceding year, it was increased by Rs.2.85 million. Further, compared to the budgeted selling income of the factory, the actual income was decreased by 78 per cent. The salary cost of the	Due to the COVID pandemic situation, the country had been locked down for 6 months. Thus, the construction industry of the country also was hold in. Hence, compared to the budgeted selling income	The factory should be converted into profitable unite, by producing the expected units of products.

	factory for the year under review amounted to Rs.10.3 million, compared to the total income of the factory it was increased by Rs.2.2 million. Even though increase of employees' cost had been mainly attributed to the increase of operational loss, and it was observed that the management had not implemented a proper management procedures to upgrade the factory up to a profitable unite.	actual selling income was decreased by 78 per cent. The Company had to pay the salaries to the employees of the factory for the closed down period of the factory about 6 months. But, while decrease the sale income, salaries had to be paid exceeding the sales income of 2.2 million. Further, the cost of salaries was represented 128 per cent compared to the total income. In order to minimize the salary cost, some of the employees had been shifted to the wetland park. At presented, it has been decided to pay for employees based on the production unit basis.	
(d)	Without being applied alternative procedures to operate the Nawala factory effectively, the employees of the factory had been transferred to the Kerawalapitiya Sea Sand project. As a result, the contribution of the factory become negative of Rs.4.75 million. Compared to the preceding year, this was a negative improvement amounted to Rs.2.95 million or 164 per cent. As well, even though the budgeted sales income for the year under review amounted to Rs.14 million, non of a profit had been earned.	As an alternative solution, the employees had to be shifted to the Kerawalapitiya sand project. Due to COVID pandemic situation, iron construction works had been hold in. However, salaries had to be paid to the staff. It this situation was continued throughout the year. As an strategical solution, the employees had been shifted to the Kerawalapitiya sand factory by removing the temporaly recruited staff, in order to increase the efficiency of the permanent staff.	Action should be taken to convert the site up to a profitable unite.
(e)	An income of Rs.151.13 was expected from the Kerawalapitiya sand processing project for the year under review. Thus, it was expected to supply 36,000 cubs of sand during the year under review. However, the actual production was	Due to the COVID pandemic situation, the production functions of the factory was hold in for more than 6 months and due to spread out the COVID to the factory had	Action should be taken to convert the project up to a profitable unite by producing expected productions.

	only 9,305 sand cubs. Further, the actual income generated from the project for the year under review amounted to Rs.13.45 million or only 9 per cent of the expected income. Furthermore, the backhoe machines and Tipper lorries had been obtained for the project on rental basis incurring Rs.2.68 million. This expenditure represented 20 per cent of the total income.	to be converted into a quarantine centre. As a result, it was unable to earn expected income and action will be taken according to the replies given to the preceding year audit report.	
(f)	The expected monthly profit from the Sand packeting factory, which was established in the preceding year, investing a Rs.404.40 million, amounted to Rs.8.22 million. However, a production estimate had not been prepared for the year under review and a loss of Rs.26.70 million had been sustained by the project for the year under review and with the above loss, the accumulated loss incurred by the Company as at end of the year under review amounted to Rs.54.97 million. Further, even though the expected income from the project amounting to Rs.316.8 million the actual income was as low as Rs.0.36 million.	This factory had been constructed in a land owned by the parent company. According to the opinion of the management, it is difficult to earn profits from the project, due to the establishment of the factory without conducting a proper study. Based on the valuation the Chief Government valuer, the parent Company had agreed to give exemption to the cost incurred by the Company.	Effective actions should be taken to mitigate the continuing loss making position.
(g)	The production activities of the Higurakgoda factory had been hold in since end of the preceding year and the equipment of the factory had been kept in idle up to end of the year under review.	Due to sustaining the continuous operational losses from the Higurakgoda factory, the factory had been closed down. It has been planned to give it on lease basis or use for any other business ventures.	Action should be taken to make use the assets without being kept them in idle.
(h)	The total sale income of the Trincomalee factory for the year under review amounted to Rs.0.06 million and the loss of the factory amounted to Rs.0.91 million. Thus, the factory had been closed down during the year under review.	Due to the competitive position in the surrounding area of the factory and shortages of raw material supply, the Trincomalee factory was sustained continuous losses for a long period of time. A suitable action to be taken with regard to this factory too.	Action should be taken to make use the assets without being kept them in idle.

(i)	Even though the budgeted sale income amounted to Rs.5.71 million, the actural sale income amounted to Rs.2.40 million only compared to preceding year, and the sale income was decreased by Rs.3.31 million or 58 per cent.	The budget was prepared with a view to earn the profit. But due to the COVID pandemic situation, it was unable to reach to the targets, and it could be bale to reduce the loss than the preceding year.	Action should be taken to improve the profit, by implementing optimal budgetary control system.

3.2 Management Activities

	Audit Observation	Management Comment	Recommendation
(a)	According to the decision made by the Board of Directions No.1382 dated 10 October 2014, the Company had declared the dividends amounting to Rs.4,555,193. However, the Company had failed to pay that dividends even after lapsed of 6 years up to end of the year under review.	Even though the Company had declared the dividends based on the profits earned by the Company at that time, due to the lack of sufficient cash flows, that dividends could not be able to pay. After being improved the financial position, the dividends to be paid.	Action should be taken to settle the declared dividends.
(b)	Without being obtained the required loans from a lending institution or from the commercial banks, a loan amounting to Rs.64 million had been obtained by the Company from the parent Company, Sri Lanka Land Development Corporation, in the years 2017 and 2019 for the payment of salaries and wages. The interest payable for the above loan and for other loans amounted to Rs.33.50 million as at end of the year under review. It was observed that including the above interest, the total interest payable by the up to end of the year under review amounted to Rs.60.98 million.	Even though the Company had requested a loan from a commercial bank, the Company had failed to furnished required sureties for the loan. Hence, a loan amounting to Rs.64 million had been obtained from the Corporation. In order to pay the loan, necessary actions had already been taken.	Action should be taken to settle the loans and interests.
(c)	Any transaction had not been performed through two bank current accounts of which the remaining balance as at end of the year under review amounted to Rs.220,826.	Action have been taken to close down those two bank accounts.	Idle bank accounts should be closed down.

3.3 Transactions in Contentions Nature

Audit Observation	Management Comment	Recommendation
Without being evaluated the bids submitted by the local contractors, the contract for construction of sea sand packeting building had been awarded to a foreign contractor for Rs.265.03 million. Any action had not been taken with regard to the irregularities took place in the construction.	The investigations relating to the irregularities took place at the construction of that building by selecting a foreign contractor have been carried out. After receiving the investigation reports, action will be taken against the connected parties.	Necessary actions should be taken, by accelerating the investigations.

3.4 Deficiencies in Contract Administration

	Audit Observation	Management Comment	Recommendation
(a)	A land development contract belonging to the Ceylon Electricity Board scheduled to be completed in the year 2018 at a cost of Rs.10.69 million. However, the financial and physical progress of the project as at end of the year under review were 21 per cent and 60 per cent respectively.	Only the advance related to the contract amounting to Rs.2,232,882.25 had been paid by the Urban Development Authority. Due to not receiving of necessary instruction from the client in order to continue the remaining works, the project was hold in.	Action should be taken to carry out the works as per the agreement and to recover the receivable through the bills.
(b)	The construction contract of construction of a Hall at University of Peradeniya for Rs.19.89 million had been started in 2018 and planned to completed in the year 2019. However, although the physical progress as at end of the year under review was 75 per cent, the financial progress represented only 37 per cent.	Due to the lack of financial provisions, the client had delayed the payments. Hence, financial progress was shown lower percentage on the other hand, due to the COVID pandemic situation prevailed in 2020, the construction progress was slow down. However, the building had been handed over to the client now.	Action should be taken to carry out the works as per the agreement and to recover the receivable through the bills.
(c)	The contract for construction of two stories building at the Mundigala Monastery at a cost of Rs.13.90 million had been obtained by the Company on 20 July 2016 and scheduled to be completed the contract within 120 days. However,	The payment for the completed works of the contract and for the additional works, had not been made by the client while progressing the works and that had been informed to them	Action should be taken to carry out the works as per the agreement and to recover the receivable through

	the physical and Financial progress of the construction works as at end of the year under review were 40 per cent and 32 per cent respectively. The loss incurred from this contract as at end of the year under review amounted to Rs.4.79 million.	continuously. Further, though the information was requested from the client relating to the remaining works, the replies not yet being received.	the bills.
(d)	The contract for planning and construction of a building at the present premises had been obtained by the Company in the year 2012 for Rs.26.93 million and agreeing to complete the building by 16 November 2019. However, the physical progress of the construction works up to end of the year under review was 53 per cent even after lapse of 8 years. Further, action had not been taken to recover the bills furnished to the client amounting to Rs.15.10 million up to October 2021.	This contract had been completed on 03 April 2021 and the building had been handed over to the client and furnished the final bill on 23 April 2021.	Action should be taken to carry out the works as per the agreement and to recover the receivable through the bills.
(e)	Even though the expected contract income by the Company for the year under review amounted to Rs.388 million, the actual income amounted to Rs.72.40 million only. Compared to the budgeted income, the actual income was only 19 per cent.	Due to the COVID pandemic situation that affected to the entire world, also affected to the country and as a result the country had been locked down in several times. Thus, the scheduled projects could not be able to implemented as per the plans.	Action should be taken to carry out the works as per the agreement and to recover the receivable through the bills.
(f)	A sum of Rs.7.20 million had been charged by the clients from the Company as liquidated damages from 4 projects.	Due to not made payment in timely manner and not giving of required instruction in time, the construction works had been delayed. By stating that situation, the requests had been made to repay the deducted money again. But, positive replay has not been received so far.	Action should be taken to carry out the works as per the agreement and to recover the receivable through the bills.

(g)	Even though the construction of Auditorium of the Sapugaskanda Vishaka Vidyalaya had been obtained by the Company for Rs.13.40 million and scheduled to be completed on 24 April 2020, the financial progress only a 31 per cent as at end of the year under review and any physical progress had not been achieved.	Even though 30 per cent advance for the contract had been obtain in 2020/21, the construction works could not be able to start on scheduled time period due to the COVID pandemic situation. Therefore, to recall the tenders from subcontractors, additional time period also had to be expended.	Action should be taken to carry out the works as per the agreement and to recover the receivables through the bills.

3.5 Human Resource Management

	Audit Observation	Management Comment	Recommendation
(a)	The approved cadre of the Company as at 31 December 2020 was 105 and the actual cadre as at that date was 65. Thus, 40 vacancies were existed. As well, 10 employees were not included to the cadre. Out of the 40 vacancies, 05 middle management posts were vacant for over 6 years and 13 Assistant Management posts and 20 labour posts were vacant.	Even though the employees had been recruited for vacancies of Middle Management posts in time to time on contract basis and assignment basis, they were resigned from the service. However, due to the bad financial position of the Company, it was not attempted to fill the vacancies. By assigning the employees on covering duty basis, cover the duties of vacant posts.	The vacancies should be filled and the staff of the Company should be managed with approvals as per the requirement.
(b)	Even though the Company had prepared a recruitment procedure, the approval for the General Manager post had not been obtained. However, an appointment had been made for that post.	Without creating a post for General Manager, an appointment had been made and a policy decision should be made by the Chairman and the Director Board in this regard.	Based on the approved cadre, the recruitments should be made for the higher management posts.
(c)	The Accountant one of the middle management post, was vacant for several years. Even though an officer was appointed to cover the duties of that post, action had not been taken to recruit an officer on permanent basis, considering the responsibility of the post.	To fill this vacancy, instructions were requested since the year 2021. However, the approval had not been given so far.	Action should be taken according to the recruitment procedure.

4. Accountability and Good Governance

4.1 Presenting 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 for the year 2020, should be furnished on or before 28 February 2021, the Financial Statements had been furnished for audit on 27 July 2021 after delaying over 4 months.	Due to the COVID pandemic situation that delay was occurred.	Action should be taken according to the Treasury Circular instructions.

4.2 Meetings of the Director Board

Audit Observation	Management Comment	Recommendation
In terms of section 4.2.2 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the meetings of the Director Board should be held in every months, only 3 meetings held for the year under review.	Due to the COVID pandemic situation, only 3 meetings were held.	Action should be taken to held the meetings according to the circular instructions.

4.3 Corporate Plan

Audit Observation	Management Comment	Recommendation
In terms of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the Corporate Plan and the Action Plan had not been prepared by the Company.	Due to the prevailed situation of the country, it was unable to prepare the Corporate plan. It was prepared for the year 2021.	Action should taken as per the circular instructions.

4.4 Procurement Plan

Audit Observation	Management Comment	Recommendation
Procurement of capital goods amounting to Rs.2.22 million had been made during the year under review. However, a Procurement Plan had not been prepared according to the instructions in the procurement guidelines.	The procurements had been made according to the procurement guidelines and procurement plan had not been prepared for the year 2021.	The procurement plan should be prepared according to the procurement guidelines.

4.5 Internal Audit

Audit Observation	Management Comment	Recommendation
In Internal Audit Division had not been established in order to carry out the internal audit functions of the Company. Even though the internal audit functions had been carried out by the Internal Audit Division of the Parent Company, Sri Lanka Land Development Corporation, only one audit quary had been issued for the year under review. As per the operational capacity of the Company the audit coverage was not sufficient.	Under the supervision of the Deputy Director General (Internal Audit) of the SLLDC, two audit officers have been carried out the audit functions in the Company. The operational volume of the Company has been expended now and in pharreral the internal audit function too have to be expended and it was noted. In order to get the assistance to the management of the Company, a responsible officer for the post of Internal Auditor has been created and get the approval for the recruitment from the Board of Directors.	In order to implement the internal control system of the Company in proper manner, the internal audit system should be strengthened.

4.6 Budgetary Control

	Audit Observation	Management Comment	Recommendation
(a)	The budgeted income of the Company for the year under review amounted to Rs.672 million and the actual income amounted Rs.141 million. Thus, the actual income was only a 21 per cents compared to the budgeted income. Further, the trading loss amounted to Rs.6 million. Furthermore, though the budgeted profit for the year amounted to Rs.84 million, the loss incurred for the year amounted to Rs.86 million. Accordingly, it was observed that the budget had not been prepared in realistic manner. It was further observed that the management had not made timely decisions to achieve the budgeted targets.	The monthly accounting reports have been prepared with the budgetary information and that reports sent to the Ministry too. Due to the prevailed bad situation in the country and collapsed of the sand processing project, it was unable to reached to the budgeted targets.	The budget should be made use as an effective management tool.

(b)	In terms of section 5.2.4 of the Public Enterprises Circular No.PED/12 dated 2 June 2003, the approval for the annual budget had not been obtained from the Board of Directors, and according to section 5.2.5 of the circular, the copies of the budget had not been furnished to the respective institutions, 15 days before beginning of the financial year.	Due to the prevailed situation of the country and not nominated a specific Ministry for the Company. Thus, appointing the Board of Directors was also delayed. Hence, it was unable to obtain the approval.	Action should be taken according to the circular instructions.