Land Reclamation & Development Company Limited – 2021

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Land Reclamation & Development Company Limited ("the Company")for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, statement of changes in equity and cash flow statement and notes to financial statements for the year then ended 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 presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and its financial performance and cash flow for the year then ended in accordance with Sri Lanka Accounting Standard for Small and Medium sized Entities.

1.2 Basis for Qualified Opinion

My opinion is qualified based 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 opinion.

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

The management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standard for Small and Medium sized Entities 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 Sub-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 the Audit (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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design 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. 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 relating to the Preparation of Financial Statements

1.5.1 Sri Lanka Financial Reporting Standards for Small and Medium sized Entities

	Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
a)	According to Section 23.17 of the Sri Lanka Financial Reporting Standards for Small and Medium sized Entities, the contract income and expenditure should be recognized based on the stage of completion of the contracts relating to the reporting period. Nevertheless, it was observed that contract income had been recognized based on the dates on which the works had been certified by the client by disregarding the dates on which the bills had been presented contrary to the policy followed to recognize the contract income of the Company. As such, the accuracy of contract income for the year under review amounting to Rs. 86.91 million could not be verified. Accordingly, the value of bills presented to the clients during the year under review by the Company totaled Rs. 76.27 million though, the sum received from those institutions at the end of the year under review totaled Rs. 48.59 million whereas the balance for which no payments had been made after certifying the works, amounted to Rs. 27.68 million.	According to Section 23.17 of the Accounting Standard, the works certified by the client and the works certified by the Engineer of the institution as at 2021.12.31 had been brought to the account for the year. Accordingly, the institution had recognized an income of Rs. 86.10 million.	Measurements should be made in a combined manner in terms of Sri Lanka Financial Reporting Standards, and bills should be presented with the consent of the client.
b)	According to Section 13.4 of the Financial Reporting Standards for Small and Medium sized Entities relating to accounting for stocks to be sold and Note No. 2.2.1 to the accounts of the financial statements, accounting process should be done to the value of stock, cost or the net realization amount, whichever is less. However, when valuing the items of the Company such as concrete blocks, and premix concrete products valued at Rs. 19.24 million by the end of the year under review, computations had been made by considering the cost rather than the net realization value.	All the stocks are maintained under the weighted average cost method (WAC). When stocks are valued according to the net realization value and the cost, the cost is always less than the net realization value. As such, the stocks had been computed to the value of the cost.	As per the provisions of the Standard, the net realization value should be computed and compared to the cost, thus the lower value should be brought to the accounts.

c)	As for the construction contracts executed by the Company during 2012-2017, a sum of Rs. 32.76 million pertaining to 10 contracts comprising 5 contracts that had been completed and 05 abandoned contracts, had been shown under work in progress. The bills relating to those expenses had been presented to the relevant clients during the period 2012-2017, but they had not been certified even during the year under review thus failing to recognize them as income. Nevertheless, an uncertainty in transforming those works in progress into income was observed though, the Company had not taken action even in the year either to identify as losses by reviewing the existence thereof or make suitable allocations on impairment.	The sites of those contracts had been identified as being problematic during 2012-2017 and until such problems are solved, they had been brought to accounts under work in progress. Letters of request had been presented in that connection, and once the problems at those sites are solved, the values will be adjusted to the profit and loss account of the year 2022. Furthermore, the bills relating to those projects had not been certified by the client.	In case that the existence of assets shown in the statement of financial position is uncertain, adequate allocations should be made thereon or write-offs should be made.
d)	An actuarial valuation should be made for identification of actuarial gain or loss when computing employee benefits in terms of Section 28.24 of the Financial Reporting Standards for Small and Medium sized Entities. Nevertheless, it had not been done so by the Company even by the end of the year under review.	The actuarial gains or losses will be identified in the year 2022 and adjustments will be made accordingly.	Benefits to the employees should be computed in accordance with instructions given in the Financial Reporting Standard.
e)	According to Section 17.2 of the Financial Reporting Standards for Small and Medium sized Entities, depreciation should be done since the asset is put into use whereas the depreciation process should be stopped as the asset is withdrawn from use. Contrary to that, the Company had made depreciations for the entire year in which the assets had been purchased whereas no depreciations had been made for the entire year in which the assets had been withdrawn from use.	According to the accounting policy followed by this institution to depreciate on assets, depreciation is made for the entire year in which the assets had been purchased whereas no depreciations had been made for the entire year in which the assets had been withdrawn from use.	Policy for depreciating assets should be maintained in accordance with Financial Reporting Standards.

1.5.2 Accounting Policies

Non-compliance with Reference to the Relevant Policy	Comment of the Management	Recommendation
According to Accounting Policy No. 2.2.2 of the financial statements, it was stated that allocations for doubtful debts would be made for the debtors specifically identified at the end of the year of accounts. Nevertheless, no provision for doubtful debts had been made in favor of debtors' balances totaling Rs. 13,791,136 that had remained due over 2-5 years by the end of the year under review.	Allocations for doubtful debts are made only for the debtors specifically identified. Action is being taken to recover the loan balances of the debtors continued to exist over 2-5 years. It is scheduled to receive the funds from those debtors. Some of the debtors had settled their balances in the year 2022.	Allocations for doubtful debts should be made by specifically identifying all the debtors.

1.5.3 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
The expenditure of Rs. 2.3 million paid to the sub-contractor in the year 2011by the Company for construction of the pavilion of Philip Gunawardana Stadium in Avissawella had been brought to accounts as a mobilization advance. Hence, the current assets shown in the financial statements had been overstated by that amount over a period of 10 years.	The sum of Rs. 2.3 million paid by the Company intermittently to the sub-contractor in the year 2011 had been brought to accounts as a receivable mobilization advance due to non-receipt of bills certified by the engineer of the client.	Payments of expenses made to the contractors should be recognized as contract expenses in terms of Financial Reporting Standards.

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivable

	Audit Observation	Comment of the Management	Recommendation
(a)	The balance of mobilization advance amounting to Rs. 20,848,972 by the end of the year under review comprised a sum of Rs. 13,940,949 that had remained outstanding over 05 years whilst the balance of advance that had remained due over 2-5 years amounted to Rs. 4,494,247.	As the settlement of contract bills had been halted, the mobilization advance of Rs. 13,940,949 could not be settled. Contracts worth Rs. 6,608,022 reach conclusion, and once presented, the bills will be settled.	Bills should be settled promptly.

(b)	The receivable retention monies amounting to Rs. 75,163,586 by the end of the year under review, comprised a sum of Rs. 28,891,521 that had remained due over 2-5 years whereas a sum of Rs. 40,193,638 remained due over 05 years.	As for the receivable retention monies amounting to Rs. 75,163,586, contracts worth Rs. 8.4 million therefrom are being completed during this year, and letters have been presented with respect to the balance monies. Furthermore, action has been taken through our Ministry to obtain those monies.	After expiration of the relevant period since the completion of contracts, action should be taken for prompt settlement of the retention monies.
(c)	Although the agreements entered into with 04 institutions during 2012-2017 for obtaining fuel to the Company had been terminated, action had not been taken even by the end of the year under review to recover the deposit monies amounting to Rs. 282,616 given in that connection.	The relevant officers have been instructed to recover those monies.	Once the agreement have been terminated, action should be taken to promptly recover the deposit monies by producing the relevant documents.
(d)	Of the sum amounting to Rs. 89,769,631 shown in the accounts as being receivable to the Company from trade and construction contract debtors by the end of the year under review, a sum of Rs. 16,723,416 remained due over 1-5 years whilst a sum of Rs. 10,102,634 remained due over 05 years. Furthermore, 58 per cent of the trade debtors remained receivable from the parent Company being the Sri Lanka Land Development Corporation.	Of the sum amounting to Rs. 89,809,501, an amount of Rs. 31.49 million had been collected during the year 2022.	A methodology should be put in place to promptly settle and recover the receivables and that methodology should be implemented continuously by the management.

1.6.2 Accounts Payable

	Audit Observation	Comment of the Management	Recommendation
(a)	The cash balance of Rs. 57,184,360 existed by the end of the year under review after being retained from the contracts, comprised a sum of Rs. 33,216,915 that had not been settled despite the lapse of retention period.	Once released to us by our clients, the payable retention monies amounting to Rs. 57,184,360 will be paid. Requests have been made for those monies.	An efficient internal control system relating to the retention monies and the relevant payments, should be introduced and implemented.

	Audit Observation	Comment of the Management	Recommendation
(b)	The balance of trade creditors and construction contract creditors amounted to Rs. 107,242,663 by the end of the year under review, and a sum of Rs. 44,765,096 that had remained unsettled over 2-5 years included therein whereas the balance of creditors continued to exist over 05 years amounted to Rs. 15,812,340.	A sum of Rs. 170.2 million out of the creditors' balance will be released with the sand project being handed over. In addition, a sum of Rs. 2.5 million had been settled in the year 2022. A sum of Rs. 8.11 million out of the contract creditors' balance amounting to Rs. 17.4 million, has been settled.	Action should be taken to settle the payables.

1.7 Transactions of the Related Parties

	Audit Observation	Comment of the Management	Recommendation
(a)	A sum of Rs. 29.58 million had been shown in the financial statements of the Company as being payable to the Company by the subsidiary company, but that sum had been shown only as Rs. 30.93 million in the financial statements of the subsidiary company, thus observed a difference of Rs. 1.35 million .	Agreed with the observation. Once the bills worth Rs. 1.5 million are received after being certified by the engineer, those bills will be accounted for and payments will be made.	In preparing the financial statements, balances of transactions relating to the connected parties should be reviewed, reasons for differences should be identified and adjustments should be made.
(b)	A sum of Rs. 20,292,346 had been shown in the financial statements of the Company as being payable by the end of the year under review to the Company by the Sri Lanka Land Development Corporation with respect to 293 invoices relating to the sale of concrete blocks. However, according to the information furnished by the Corporation, only a sum of Rs. 10,027,598 remained payable to the Company with respect to 142 invoices, thus observing a difference of Rs. 10,264,749. The Company had not identified the reasons for that difference thus failing to make necessary adjustments.	The observation is agreed upon. Several discussions were held with the parent company in that connection. It is scheduled that the relevant GRNs will be presented to the Accounts Division by the engineers of the sites.	In preparing the financial statements, balances of transactions relating to the related parties should be reviewed, reasons for differences should be identified and adjustments should be made.

(c)	The sum of Rs. 647,992 payable to the Sri Lanka Land Development Corporation by an officer of the Company in respect of his proceeding abroad in the year 2018, had not been settled even by the end of the year under review.	The observation is agreed upon. As soon as the financial position of the Company becomes favorable, action will be taken to settle the said amount of Rs. 647,992.	Action should be taken to settle the transactions among related parties.
(d)	Following a decision taken by the Board of Directors of the Sri Lanka Land Development Corporation, the parent institution of the Company, on 04 October 2018, a sum of Rs. 200 million had been granted to the Company in the year 2019 for implementing a project to package sea sand. Without conducting any project evaluation or a feasibility study, this project had been implemented on 04 November 2019 by the Company at a land in Kerawalapitya belonging to the parent Corporation by incurring a sum of Rs. 382.50 million (only the direct expenses) including the said amount. Having been stated that the project sustained losses continuously, the project had been terminated in the year 2020 by the Board of Directors of the Sri Lanka Land Development Corporation, the parent company, subject to the covering approval on 30 July 2021. The land and building used for the project had been given on long term lease to a private institution by the parent Corporation on 02 June 2021, and those properties had been handed over in writing on 14 June 2021. Furthermore, this asset had been assessed to the value of Rs. 326.30 million by the Government Valuer on 19 November 2021, and the building had been taken over by the Corporation at the said value.	The project to package and wash sea sand had been implemented in the year 2019 as a long term commercial enterprise at a land in Kerawalapitya owned by the Corporation. Following the failure in conducting any project evaluation or a feasibility study, the project to package sea sand had been halted and washing sea sand had been continued. As the building used to package sand had become idle, it was vested in the Corporation and the land had been given on long term lease to a private institution. Accordingly, it was scheduled that the expenditure of Rs. 382.50 million incurred by the Company on the project would be written off by the Corporation, thus preventing that amount from becoming uneconomic.	A feasibility study should be conducted before implementing new projects. The total expenditure incurred by the Company on the task should be settled by the parent Corporation.

Accordingly, having deducted a sum of Rs. 326.30 million from the value off Rs. 331.02 million shown under work in progress in the books of the Company, the difference of Rs. 4.72 million had been shown under work in progress in the statement of financial prostitution as at 31 December 2021. The difference between the assessment and the book value had not been shown in the statement of revenue.

According to a decision taken by the Board of Directors of the Company on 08 December 2022, the sum of Rs. 467.53 million being the value of accounts payable to the Sri Lanka Land Development Corporation, the parent Corporation, by the Company had been set off against this value. Nevertheless, a sum of Rs. 141.23 million remained further payable out of the loan granted to the Company solely for this project.

Accordingly, it was observed that the independence, and financial and operating performance of the Company had been adversely affected due to decisions taken by the parent Corporation irregularly.

1.8 Non-compliances with Laws, Rules, Regulations , and Management Decisions

Reference to Laws, Rules, and Regulations etc.	Non-compliance	Comment of the Management	Recommendation
Paragraph 2.2.3 (b) of the Public Enterprises Circular, No. PED/12, dated 02 June 2003.	The Company had prepared financial procedural rules and an administrative constitution to maintain their operations, and only approval of the Board of Directors had been obtained thereon. However, approval of the Treasury and the Ministry	The relevant officers have been instructed to obtain the approval of Treasury on the financial procedural rules and the administrative constitution for which approval of the Board of Directors had	Approval of the Treasury should be obtained to implement the financial procedural rules and the administrative constitution.

of Public Administration had not been obtained in that connection, and operations of the Company had been continued in accordance with those rules.	been obtained after being prepared by the Company.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the pre-tax net profit of the Company for the year ended as at 31 December of the year under review amounted to Rs. 0.33 million as against the pre-tax net loss of Rs. 91.02 million for the preceding year. As such, an improvement of Rs. 91.35 million was observed in the financial result of the year under review. This improvement had mainly been attributed by the increase in revenue by Rs. 43.4 million as compared to the preceding year, decrease in the sales cost of the contract division by Rs. 20.46 million and the decrease of interest expenditure in the financial cost by Rs. 24.3 million.

2.2 Analytical Financial Review

Ratios of Accounting

The significant ratios of accounting relating to the Company for the year under review and the preceding year are as follows.

	2021	**2020**
Debt Equity Ratio	(15.76)	(26.60)
Long Term Loan Capital Ratio	1.19	1.11
Gross Profit Margin (Percentage)	30.83	(7.65)
Net Profit Margin (Percentage)	0.08	(48.45)
Current Ratio	1.35	0.71
Quick Ratio	1.00	0.56
Debtors Turnover Ratio	2	1.58
Loan Recovery Period	183	231

(i) With the improvement of gross profit of the year up to Rs. 56.9 million, the gross profit margin of the Company had improved from 7.65 per cent to 30.83 per cent.

(ii) The current ratio and quick ratio of the Company being 0.71 and 0.56 respectively in the preceding years, had grown into 1.35 and 1.00

(iii) The value of creditors of the Company totaled Rs. 107.24 million by the end of the year under review, and that value amounted to Rs. 328.78 million in the preceding year thus indicating an improvement of 67.3 per cent in the value of creditors during the year under review. The trade creditors included therein had decreased by 53.54 million, which indicated an increase of 44.8 per cent as compared to the preceding year. Settlement of loans payable to the parent institution had attributed thereto.

(iv) The debt equity ratio of the year under review represented minus 15.76, and the capital ratio against the long term debt of the Company indicating the value of 1.35 inferred that the going concern of the institution had become indecisive.

3. Operating Review

3.1 Performance

Audit Observation	Comment of the Management	Recommendation
The overall financial result of 05 of the 07 factories functioning under the Company together with the depot was a loss of Rs. 9.98 million. This had mainly been attributed by the inefficient cost management of the Company and failure to follow marketing strategies. Although a marketing strategy had been prepared by the Company for the year under review, the Company failed to increase sales and improve the market share in accordance therewith. Particulars are as follows.	As the cost of our products had become higher due to Government Circulars, procurement procedure, and taxes imposed by the Government, competing with domestic industrialists have become difficult.	Competitive costs and market strategies should be taken into consideration in order to proceed and develop.

Name of the Factory		Profit / (Loss) Rs. Million	
		2021	2020
(i)	Nawala Factory (Premix)	21.63	19.80
(ii)	Sand Washing Factory	2.06	(14.27)
(iii)	Nawala Factory (Concrete Blocks)	(4.29)	(13.95)
(iv)	Nawala Depot	(3.16)	(4.75)

(v)	Kotagala Factory	(0.48)	(0.53)
(vi)	Ampara Factory	(0.74)	(0.44)
(vii)	Sand Packaging Factory	-	(26.70)
(viii)	Hingurakgoda Factory	(0.39)	(0.70)
(ix)	Trincomalee Factory	(0.92)	(0.91)
Overall Contribution		13.69	(42.45)

3.2 Management Inefficiencies

	Audit Observation	Comment of the Management	Recommendation
(a)	A dividend of Rs. 4,555,193 had been declared as per Paper No. 2014/89/554 of the Board of Directors dated 10 October 2014, but the Company had failed to pay those dividends although a period of 07 years had lapsed by the end of the year under review.	Although dividends had been declared based on the then profits of the Company, those dividends could not be paid continuously due to lack of a sufficient cash flow. Those payments will be made as soon as the financial position becomes favorable.	Dividends should be declared only in case of sufficient profits and a certificate on solvency exits, and action should be taken to settle those dividends.
(b)	Two bank accounts remained dormant since the years 2014 and 2019, and the balances thereof amounted to Rs. 17,499 and 202,926 respectively.	Action will be taken to close those accounts by obtaining approval of the Board of Directors.	Dormant accounts should be closed.
(c)	The overdraft of Rs. 10.11 million used for operations of the Company existed by the end of the preceding year, had increased to Rs. 17 million by the end of the year under review.	An overdraft valued up to Rs. 12 million had resulted in due to lack of working capital.	Operational activities of the Company should be made efficient thereby completing the requirements for working capital.
(d)	The expenditure of Rs. 3.28 million incurred on the contract directly obtained from the parent company- the Sri Lanka Land Development Corporation, for	Several letters had been sent by us requesting the sum of Rs. 3.28 million incurred by the parent company- the Sri Lanka Land	Action should be taken for recovery of the funds receivable from clients.

installation of solar panels at the Medamulana D.A. Rajapaksha Memorial Museum, had not been recovered during the period from 2014 up to 30 September 2022.	Development Corporation, on the contract. Action will be taken in due course to settle that value.	

3.3 Transactions of Contentious Nature

Audit Observation	Comment of the Management	Recommendation
Bids had first been called locally for construction of the building to be used in packaging sea sand, and 05 local suppliers had presented bids the values of which had ranged from Rs. 142.03 million to Rs. 199.98 million. Nevertheless, those bids had been turned down due to reasons such as, period of the bid security had not been sufficient, non-implementation of similar projects within the 05 preceding years, and failure to furnish documents relating to those projects. Although bids had been called internationally thereafter, the contract valued at Rs. 265.3 million had been awarded to a foreign supplier in September 2018 without obtaining a bid security and entering into an agreement; and, an advance of Rs. 3.32 million had also been given without obtaining a performance security and an advance security. As such, it was observed that the contract had been awarded at higher bid value contrary to the Government Procurement Guidelines.	Complaints in this regard have been lodged with the National Procurement Commission and the Commission to Investigate Allegations of Bribery or Corruption. Those complaints are being investigated by those institutions.	An independent inquiry should be conducted internally against the officers who had violated the laws and rules, thereby taking necessary measures.

3.4 Idle and Underutilized Assets

Audit Observation	Comment of the Management	Recommendation
The sand packing machine valued at Rs. 9.79 million that had been written off as at 31 December 2021 after being purchased at the value of Rs. 17.80 million in the year 2019 to be used for the sea sand packaging project, remained underutilized without being used throughout the year under review.	Approval of the Board of Directors had been obtained for disposal of the sand packing machine purchased by us at the value of Rs. 17.80 million, and a Committee had been appointed to assess the value of the machine. Accordingly, action will be taken to sell the machine through formal procurement process.	Action should be taken to dispose of the idle asset in compliance with the Procurement Guidelines.

3.5 Management of Procurements

	Audit Observation	Comment of the Management	Recommendation
(a)	The Company had spent a sum of Rs. 2.22 million on capital expenses in the year under review in terms of Section 4.2.1 of Government Procurement Guidelines – 2006. Nevertheless, a Procurement Plan had not been prepared relating to the said purchase as per the Government Procurement Guidelines.	The procurement process had been done in accordance with the Government Procurement Guidelines. A Procurement Plan will be prepared in the year 2022.	Procurement Plans should be prepared annually.
(b)	Of the 500,000 Woven Polypropylene bags purchased by the Company in the year 2019 at the value of Rs. 13.79 million each costing Rs. 27.58 (including all taxes) to be used for packaging and selling sea sand in terms of Section 1.2.1 of the Government Procurement Guidelines-2006, the bags that had been left behind due to termination of the sand packaging project, were sent to the factory in Nawala on 12 June 2021. Without following the Government Procurement Guidelines, the Company had taken action to sell 436,406 bags costing Rs. 12.04 million in July 2022 at the value of Rs. 5.88 million. As such, the Company had sustained a loss of Rs. 6.16 million.	The Internal Audit Unit of the Corporation had conducted an inquiry in that connection. Instructions have been given to take action against the relevant officers who failed to comply with the procurement process.	Action should be taken in accordance with Government Procurement Guidelines.

3.6 Contract Administration

	Audit Observation	Comment of the Management	Recommendation
(a)	Only a sum of Rs. 2.65 million had been recovered by September 2015 out of the mobilization advance of Rs. 4.65 million given to the sub-contractor by the Company in the year 2014 for construction of the weekly fair in Horana whereas the balance of Rs. 02 million had not been recovered even by the end of the	The Company had assigned the institution named “Surge” in the year 2014 with the task of constructing the weekly fair in Horana, and a sum of Rs. 2.65 million out of the mobilization advance	According to the Government Procurement Guidelines, an advance security should be obtained when giving mobilization advances. necessary action should be taken to recover those monies.

	year under review. As advances had been paid to the sub-contractor without obtaining a security contrary to Section 5.4.4 of the Government Procurement Guidelines, the advance could not be recovered by the Company. It was also observed that the Company had not entered into a formal agreement with the sub-contractor.	amounting to Rs. 4.65 million given in that connection had been recovered. Letters had been sent to him in order to recover the balance of Rs. 02 million. It is scheduled to take action in this regard by obtaining information through the Urban Development Authority.	
(b)	Progress of 02 contracts worth Rs. 56.62 million had exceeded 50 per cent by the end of the year under review. Nevertheless, invoices had not been issued to the clients by the Company even by the end of the year under review.	Progress of the contracts remained 75 per cent even by 2021.12.31, but issue of invoices delayed as our Unit had to be closed following the Corona pandemic in the year 2021, and the employees became sick.	Measurements should be taken promptly on the works done, thus issuing invoices to the clients.
(c)	Works of the contract to develop a land owned by the Ceylon Electricity Board that had been awarded to the Company at the contract value of Rs. 10.69 million by the Urban Development Authority under the agreement of completing the contract on 15 May 2018, had been abandoned since 2019. According to a letter of the Urban Development Authority dated 21 August 2018, it was verified that the preliminary works already done under the contract had not complied with the required standards. As such, the progress claim valued at Rs. 6.61 million sent by the Company to the client on 10 December 2018, had not been certified by the client even by the end of the year under review thus making no payments. The financial and physical progress of the abandoned contract remained 21 per cent and 60 per cent respectively as at 31 December 2021.	This was caused due to delay of the Urban Development Authority in demolition works and clearing the sites. The bill has been presented with respect to the works to be done.	The Company should ensure proper supervision and take follow up action on the standard and targets of the activities done by the sub-contractors.

(d)	The physical progress of the project to construct a hall for the University of Peradeniya at the contract value of Rs. 19.89 million scheduled to be completed by April 2019 after being implemented in the year 2018 as per the agreement, remained 75 per cent by the end of the year under review whereas the financial progress stood at 37 per cent.	This situation occurred due to delay of the University in certifying the bills following internal issues although works of the site had been completed. After completion of works, bills had been presented in September 2021.	Bills should be presented within the specified period for the works done.
(e)	The contract for construction of a two storied building at the *Mundigala Aranya Senasanaya* at the contract value of Rs. 13.90 million had been accepted by the Company on 20 July 2016. Although the contract should have been completed within 120 days, it had not been so done even by the end of the year under review whereas the physical and financial progress thereof remained 40 per cent and 32 per cent respectively. A sum of Rs. 4.79 million had been computed as being the loss sustained by the Company due to this contract by the end of the year under review as a prolonged period had been spent on the contract. It was also observed that failure of the Company in entering into a formal agreement with the client had affected the progress of the contract.	Having completed the works of the contract, bills had been presented for additional works as well. However, the Company that had awarded the contract, had not certified the bills. Furthermore, • It was decided to opt for a mutual termination. • Goods were recorded in the inventory.	Action should be taken to recover the expenses incurred by the Company.

3.7 Human Resource Management

	Audit Observation	Comment of the Management	Recommendation
(a)	The approved cadre of the Company was 128 whereas the actual cadre stood at 87 as at 31 December 2021. As such, there existed 41 vacancies and the number of excess employees was 18. Of the 41 vacancies, the 07 posts in the middle level management such as, Engineer, Marketing Manager, Supply Manager, and Quantity Surveyor,	Vacancy in the post of Accountant has been filled. Six posts in the middle level management still remain vacant. Approval of the Ministry of Finance had been sought in writing to fill several urgent vacancies in terms of Public Enterprises Circular, No. 04/2022, but approval has not yet been received. Vacancies in the post of Management Assistant has become 13	Vacancies in the Company should be filled promptly. The staff should be maintained in accordance with the approval.

	remained vacant over 07 years. Eighteen posts of Management Assistant and 12 posts of Laborer also remained vacant by the end of the year under review.	from 18 at present whilst the 10 excess posts of Management Assistant have become 02. Four vacancies in the junior level management have not yet been filled. Vacancies in the 12 posts of Laborer have not yet been filled.	
(b)	Although a Scheme of Recruitment had been prepared by the Company, details for the recruitment of General Manager and Assistant General Manager had not been included therein. Despite being stated in the replies to the report of the Auditor General for the preceding year that a policy decision would be taken in the year under review relating to the post of General Manager, no such decision whatsoever had been taken even up to 30 November 2022.	A review committee on SOP and SOR had been appointed as per instructions of the General Manager of Redeco. It is expected to hold discussions at the first session of the meeting of the committee thereby adding information to the SOP register relating to the recruitment of General Manager and the Assistant General Manager.	It is crucial for the existence of the Company to prepare a Scheme of Recruitment for the Chief Executive Officers of the Company being the General Manager and the Assistant General Manager.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation	Comment of the Management	Recommendation
As mentioned in the Public Enterprises Circular, No. PED/12, dated 02 June 2003 issued by the Department of Public Enterprises of the Treasury, the closing financial statements of the year 2021 should have been presented before 28 February 2022. However, those financial statements had been presented to the Auditor General after a delay of over 03 months on 03 June 2022.	The delay occurred due to instability in the country. However, the relevant officers have been instructed that the financial statements be presented to the Auditor General on time within the specified time frame.	Circulars of the Treasury should be followed.

4.2 Corporate Plan

Audit Observation	Comment of the Management	Recommendation
According to Section 5.1.2 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, the Action Plan included in the Corporate Plan should contain responsibilities of the officers of each level of management along with the goals and targets to be achieved by them within the year. Nevertheless, such information had not been included in the Action Plan prepared by the Company for the year under review. According to Section 5.1.3 of the Circular, the Corporate Plan should be presented to the institutions mentioned therein prior to 15 days of the commencement of the year of finance. However, it had not been so done. It was further observed that the Company had prepared the Corporate Plan inclusive of the Action Plan for the year under review and presented to the Board of Directors after 06 months from the commencement of the year on 11 June 2021.	Due to the instability that prevailed in the country, preparation and presentation of a Corporate Plan to the Board of Directors had delayed.	The Corporate Plan inclusive of the annual Action Plan should be prepared in accordance with provisions of the Circular, and action should be taken in accordance Therewith.

4.3 Meetings of the Board of Management

Audit Observation	Comment of the Management	Recommendation
According to Sections 4.2.2 and 4.2.5 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, the Board of Management should separately evaluate and review the performance reports of the Company, operating reports, cash flow statements, liquidity and obtaining loans, procurements, human resources, debtors and creditors age analyses, age analyses on stocks, and performance of each division of the Company on monthly basis. Nevertheless, only 05 meetings of the Board of Directors had been conducted by the Company during the year under review,	Only 05 meetings of the Board of Directors had been held in the year under review due to instability in the country. In addition to that, aspects relating to the performance reports of the Company, operating reports, cash flow statements, liquidity and obtaining loans, procurements, human resources, debtors and creditors age analyses, age analyses on stocks, and	It is the responsibility of the management to implement the provisions introduced through Circulars for the sake of good governance of the Company.

and no action had been taken to conduct the said monthly reviews or evaluations.	performance of each division of the Company had separately been evaluated through meetings of the audit committee.	

4.4 Internal Audit

Audit Observation	Comment of the Management	Recommendation
An Internal Audit Unit had not been established for the internal audits of the Company. The audits had been conducted by the Internal Audit Unit of the parent Corporation of the Company, Sri Lanka Land Development Corporation. Nevertheless, it was observed that only 01 audit query had been issued during the year under review. Considering the capacity of operations of the Company, it was observed that performance of the internal audit was not sufficient.	Internal audits of the Company are conducted with the participation of 02 internal auditors under supervision of the Deputy General Manager (Internal Audit) of the Sri Lanka Land Development Corporation. Inspection on sites had been restricted due to reasons such as, operations being affected adversely in the year under review, lockdown of the country and travel restrictions. Audits will be conducted in the year 2022 in accordance with a proper plan.	The internal auditing process should be strengthened in order to ensure proper internal control.

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