

## **Mahaweli Consultancy Bureau (Private) Limited - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Mahaweli Consultancy Bureau (Private) Limited for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance, 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 reported 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 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities.

#### **1.2 Basis for Qualified Opinion**

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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**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards for Small and Medium-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 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 Auditor's Responsibility on the Audit of the Financial Statements

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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 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 Related to the Preparation of Financial Statements

### 1.5.1 Non-Compliance with Sri Lanka Accounting Standards for Small and Medium-sized Entities

The following observations are made.

| <b>Non Compliance with the Reference to Particular Standard</b>   | <b>Comments of the Management</b>   | <b>Recommendation</b>   |
|---|---|---|
| (a) The stock of iron wires and iron gates purchased in 2018 for the construction of Kanewela Dam had becoming unusable due to the termination of the contract. The lower of the cost or net realizable value of the stock should be accounted as assets according to paragraph 13.4 of the Accounting Standard for Small and Medium-sized Entities, the cost amounting to, Rs. 1,412,685 had been accounted as assets in the year under review without calculating the net realizable value. | In the accounting of the iron wires and iron gates purchased for the construction of Kanewela Dam as assets, they had been brought to accounts at the lower value of cost and net realizable value and the closing stock had been brought to accounts as assets. Furthermore, iron wires have been kept in the container of the Company and have been securely packed to minimize rust. The Irrigation Department has already expressed its willingness to purchase these iron wires and gates. | Action should be taken in compliance with the Accounting Standards. |
| (b) Even though 40 items of fixed assets costed at Rs.3,587,095 and owned by the Company had been fully depreciated, they had been utilizing further due to not reviewing the useful life of non-current assets as per paragraph 17.19 of the Accounting Standard for Small and Medium-sized Entities. Accordingly, action had not been taken to rectify the estimated error.   | According to that standardization, the Management has advised to take necessary steps from the financial year, 2022 to revalue the assets and enter them in the books.  | -Do-  |

## 1.5.2 Accounting Deficiencies

### Audit Observation

According to Section two of the Value Added Tax Act No. 14 of 2002, the imposition of value added tax can be done only by a registered person. The Company as a tax registered entity had collected an amount of Rs.131,580 under a value added tax invoice from the Lower Malwatu Oya Reservoir Project on 02 March 2021. However, the Company had become a tax-exempt entity with effect from September 2020, and the collected tax amount had been credited to the income of the Company without remitting it to the Inland Revenue Department or returning it to the project.

### Comments of the Management

Mahaweli Consultancy Bureau (Private) Limited is a tax registered company. Our Company had entered into a contract for the Lower Malwatuoya Reservoir in the year 2013. The Company had entered in to the Agreement subject to paying both types of taxes such as value added tax and nation building tax as levied and paid as value added tax and nation building tax by a registered person. However, tax policies of the Government and values change from time to time. Accordingly, the Government has changed the tax limit and tax percentage payable from September 2020. However, this is the last invoice receivable according to the contract and we also had to collect as per the contract. The tax payable by our Company was exempted due to the increase in the limit payable as per the tax policy decision of the Government. Therefore, the amount of tax collected was adjusted to the income of the current year.

### Recommendation

Accounting should be done accurately.

## 1.6 Receivable and Payable Accounts

### 1.6.1 Receivables

#### Audit Observation

Balance confirmations, for 8 account balances receivable amounting to Rs.4,660,851, which had been outstanding over 5 years, had not been submitted to the audit. An amount of Rs.1,319,471 indicated as receivables from Mahaweli Authority had not been stated in the financial statements of the Authority. The recovery of an amount of Rs.442,647, receivable from the Dam Protection Project had become problematic as the project had been terminated.

#### Comments of the Management

Balance confirmation letters have been sent on 08/02/2022 to confirm all the balances receivable. It has been agreed to pay Rs.1,960,961, out of these balances, by May 2022, and action is being taken to recover the remaining balances as per the instructions of the Management.

#### Recommendation

Arrangements should be made to settle the account balances receivable.

## 1.6.2 Payables

| <b>Audit Observation</b>  | <b>Comments of the Management</b>   | <b>Recommendation</b>   |
|---|---|---|
| An amount of Rs.3,599,310, out of the balance payable amounting to Rs.6,793,076 as at 31 December 2021, had been a balance outstanding for more than 5 years and it had remained unsettled. | An amount of Rs.3,115,071, out of the balances remained unsettled for more than 5 years, was advances received for the Gin-Nilwala Diversion Project and the work of the project has not yet been finalized. The remaining amount of Rs.318,200 was advance payments of the Yanoya Project and work of that Project has not been completed. | Arrangements should be made to settle the account balances payable. |

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review was a loss of Rs.7,284,205 and the corresponding loss of the previous year was Rs.13,924,210. Accordingly, an improvement of Rs.6,640,005 was observed in the financial result. The increase in operating income as compared to the previous year was the major reason for this improvement.

## 3. Operational Review

### 3.1 Management Inefficiencies

| <b>Audit Observation</b>   | <b>Comments of the Management</b>   | <b>Recommendation</b>                                       |
|--|---|---|
| Although the Company had submitted the action plan and the procurement plan for the year 2021 to audit on 21 June 2022, the approval of the Board of Directors had not been obtained for that. Although it had been stated in the action plan that the environmental impact assessment of 04 projects and the socio-economic survey of 02 projects and the preparation of plans for the resettlement had been the functions expected to be performed in the year 2021, the information about the deadlines for submitting the reports to the client under those expected functions, the expected deadlines for obtaining approvals when such approvals should be obtained from external parties, the deadlines for handing over the translations of the reports, the deadlines for making payments to the officers, who provide consultancy services and the expected deadlines for collecting the money for the performance of the functions had not been included in the action plan submitted. Although the Division or the officer responsible for the implementation of the activities included in the action plan should have been clearly mentioned, it had not been done so. | Both the relevant action plan and the procurement plan including procurement for the year 2021 have been prepared. This was due to the unstable situations for reaching the desired goals as Corona Pandemic situation prevailed in the country for the past few years. | The relevant plans should be prepared as per the Circulars. |

### 3.2 Operational Inefficiencies

#### Audit Observation

The Engineering Division of the Company had not undertaken any new operations for the years 2019, 2020 and 2021 and the Project Management Division had undertaken one operation in the year 2021. Although operating income amounting to Rs.9,526,584 comprised of Rs.2,789,200 by the assessment of the environmental impact of 02 projects and a sum of Rs.6,737,384 from construction activities and an interest from fixed deposits amounting to Rs.2,417,880 had been received for the year under review, the Company had incurred a loss of Rs.7,284,205 in this year as well.

#### Comments of the Management

New operations were not undertaken in 2019 and 2020 owing to the decision taken to liquidate this Company and the operations of the Engineering Division were stopped from the year 2021 as per the policy decision of the Management since the Engineering Division was continuously incurring losses for many years. In the year 2021, even though the Company received an operating income of Rs.9,526,584 and an interest income from fixed deposits amounting to Rs.2,417,880, the Company has incurred a loss amounting to Rs.7,284,205 during the current year since the Company has reported operating expenses amounting to Rs.19,229,364 as compared to the received amounts. Furthermore, it has taken a lower value compared to the previous year.

#### Recommendation

Measures should be taken to carry out the corporate affairs efficiently.

### 3.3 Procurement Management

#### Audit Observation

The Company had incurred a loss of Rs.20,200,000 in the year 2017, due to functioning in contrary to the procurement guidelines in awarding sub-contracts for the construction of the Moragahakanda Tourist Bungalow and Viewing Point. The Committee on Public Enterprises held on 21 February 2019 had recommended to initiate a formal inquiry in this regard and to report to the Committee within one month. A formal inquiry had not been conducted according to those recommendations, and it was referred to the Attorney General's Department to take legal action in 2020.

#### Comments of the Management

Since the Chairman, who was observed to have acted in contrary to the procurement guidelines, has died, legal action is being taken to recover the said amount. Advice and legal action have been requested from the Attorney General's Department in that regard.

#### Recommendation

Action should be taken to implement the recommendations of the Committee on Public Enterprises.

### 3.4 Human Resource Management

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The following observations are made.

| <b>Audit Observation</b><br>-----   | <b>Comments of the Management</b><br>-----  | <b>Recommendation</b><br>-----  |
|---|---|---|
| (a) There was no approved cadre for the Company and a Scheme of Recruitment had not been approved by the Department of Management Services or by the Board of Directors. Due to this, it was not possible to check the accuracy of decisions in relation to recruitment, promotion, qualifications pertaining to posts and salaries for the staff of the Company. | The projects carried out by the Company so far had to be stopped since 2018 and it was not possible to carry out the activities related to maintaining a specific staff for the Company and scheme of recruitment in relation to that due to the suspension of recruitment, promotion, salary increments for the staff due to the decision taken to liquidate the Company. The new projects received by the Company are being considered and necessary measures are being taken to change the organizational structure on that under the new Management during the year 2021. | Recruitment should be made with the approval of the Department of Management Services and measures should be taken to efficiently carry out the functions of the Company. |
| (b) Although the post of Manager (project) related to the implementation of the consultancy services, which had been the major operation of the Company and the post of Engineer in the Engineering Division had remained vacant since 2019, action had not been taken to recruit permanent officers up to June 2022.   | Projects of the Company that have been carried so far had to be stopped since 2018 owing to the decision taken to liquidate the Company. Therefore, it is not possible to recruit officers to the respective posts.   | -Do-  |