

## **Mahaweli Consultancy Bureau (Private) Limited - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Mahaweli Consultancy Bureau (Private) Limited for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of profit or loss and other 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 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 2022, and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Enterprises.

#### **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 qualified opinion.

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per 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 Audit Scope (Auditor's Responsibilities for the Audit of the Financial Statements)**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Financial Statements

### 1.5.1 Non-compliance with Sri Lanka Accounting Standard for Small and Medium-sized Enterprises

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) If there has been an impairment of financial assets, the recognition of impairment losses should be done According to paragraph 11.21 of the Accounting Standard for Small and Medium Enterprises. Even so, in the receivable balance of Rs.12,627,290, there was a balance of Rs.5,703,194 that exceeded 05 years, action had not been taken to provide for impairment losses by assessing the possibility of bad debt.	Agree with the observation.	Action should be taken to assess the possibility of bad debt and make the provisions for impairment losses as per the Standard.
(b) Even though the 51 items of fixed assets at a cost of Rs.14,343,803 had been continuously used despite being fully depreciated, action had not been taken to reassess the useful life and scrap value of assets to present their fair value according to paragraph 17.19 of the Accounting Standard for Small and Medium Enterprises.	Agree with the observation.	The useful life and scrap value of the fixed assets which are fully depreciated but still being used should be reassessed as per the Standard.
(c) The Income tax expenditure relevant to the Company had not been calculated and accounted for according to paragraph 29.2 of the Accounting Standard for Small and Medium Enterprises.	Disagree with the observation. The calculation of income tax for the year and the necessary disclosures are shown under the notes to the financial statement number 3.3.2.4 and under number 04 of the financial statements according to the accounting standard.	Action should be taken to calculate and account for the relevant income tax expenditure related to the Company.

## 1.5.2 Documentary Evidence Not made Available For Audit.

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The evidence for the existence was not submitted to the audit for a tax liability amounted to Rs.611,866 and remained unsettled for more than 10 years.	Agree with the observation.	Action should be taken to produce all the evidence to the audit to confirm the balances.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Accounts Receivables

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Balance confirmation or other evidence was not submitted related to 9 account balances amounting to Rs. 5,703,194, which had been outstanding over 5 years, and 03 balances amounting to Rs. 3,135,933, which had been outstanding over 3 years, indicated under receivables, and action had not been taken to recover those balances.	Disagree with the observation. To confirm all receivable balances, balance confirmation letters had been sent on February 24, 2023, and the relevant institution had not sent a confirmation to us. Actions are being taken by the officers as per the instructions of the management to recover the balances outstanding over 8 years, 5 years, and 3 years. Furthermore, the relevant institutions have agreed to settle the amount of Rs. 1,960,961, and it will take time to obtain this amount as it has already been remitted to the General Treasury.	Action should be taken to present all the information to the audit to confirm the balances and recover the relevant balances.
(b) Even though a sum of Rs.1,319,471 to be recovered from the Mahaweli Authority of Sri Lanka had been stated in the financial statements of the company, there was no such balance in the financial statements of the Mahaweli Authority of Sri Lanka as a payable balance to the company.	Disagree with the observation. The Mahaweli Authority of Sri Lanka has not given us any confirmation yet regarding the balance due from Mahaweli in the company's financial statements.	Arrangements should be made to account for this by inquiring from the Mahaweli Authority of Sri Lanka and getting confirmation.

## 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules and Regulations, etc.	Non-compliance	Management Comment	Recommendation
(a) Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R. 387	The adequacy of the bank balance should be confirmed when making the cheque payments, and overdrafts should not be taken from any of the government bank accounts. Nevertheless, there were negative balances in the cash book of the company in January, February, June, July, and August of 2022, which amounted to Rs.243,194, Rs. 68,024, Rs. 215,580, Rs.215,580 and Rs. 215,580, respectively.	Disagree with the observation  There have been negative values in January and February of 2022 only.	Cheques should be written after ensuring that there is sufficient balance in the current account.
(b) Guidelines on corporate governance for State Owned Enterprises introduced by the Public Enterprises Circular No 01/2021 dated 16 November 2021			
(i) Section 2.2.2(a)	Even though action should be taken to convene the Board of Directors at least once a month by the chairman of the board, only one Director Board meeting has been held during the year under review.	No answers provided.	The Board of Directors shall meet at least once a month.
(ii) Section 4.2	Action had not been taken to establish an audit committee.	No answers provided.	Action should be taken to establish an audit committee.
(c) Operation Manual introduced by the Public Enterprises Circular No 01/2021 dated 16 November 2021			

(i)	Section 3.2	Even though all the Public Enterprise Carder, scheme of Recruitment and Pay Structure should be submitted for the approval of the Director General, Department of Management Service	No answers provided.	Carder of the Company, Scheme of Recruitment and the payment procedures should be approved by the Management Services Department.
		with the Board approval and recommendations of the Line Ministry, action had not been taken accordingly.		
(ii)	Section 6.6	Even though Annual Reports to be tabled in Parliament within 05 months after the end of the financial year, action had not been taken related to the annual reports from the year 2018 to the year 2021 accordingly.	No answers provided.	Arrangements should be made to table the annual reports of the company in Parliament within the stipulated time period.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review was a profit of Rs.6,430,563 as compared to the corresponding loss of Rs. 7,284,205 in the preceding year. Thus observing an improvement of Rs.13,714,768 in the financial result. Even though the cost of service had been increased by Rs.9,492,581 the increase in consultancy income by Rs.21,766,427 was mainly caused to the above improvement of the financial result.

## 3. Operational Review

### 3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
The company had awarded subcontracts to construct the Moragahakanda Tourist Bungalow and viewing point, and the company had incurred a loss of Rs. 20,200,000 in the year 2017 due to functioning in contrary to the procurement guidelines while making the interim payments. Even though the Committee on Public Enterprises held in 21 February 2019 recommended initiating a formal inquiry in this regard and to report to the Committee	Since the chairman, who was observed to have acted in contrary to the procurement guidelines, has died, legal action has been taken to recover the said amount, and the advice of the legal section and the action of the Attorney General's Department have been requested in this regard.	Legal proceedings should be followed to recover the loss incurred by the company.

within a month, the recommendations had not been implemented and the legal proceedings had not been started Up to 17 July 2023 which was the date of the audit.

### 3.2 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Specific provisions had not been indicated in the Articles of Association regarding the composition of the Board of Directors of the company, which is a minimum of 2 and a maximum of 7.	The company was under the Mahaweli Authority of Sri Lanka, and as its performance was poor, it was placed under the Ministry of Irrigation as per the advice of the Cabinet and the President.	Specific provisions regarding the composition of the Board of Directors and their appointments should be included in the Articles of Association.
(b) The approval had been granted by Cabinet Decision No. අමෙ/19/2770/104/083 dated October 30, 2019 to transfer of Mahaweli Consultancy Bureau (Pvt) Ltd., Established under Section 13 (18) of the Mahaweli Authority of Sri Lanka Act as a subsidiary company, to the Ministry of Agriculture, Rural Economic Affairs, Irrigation and Fisheries, & Aquatic Resources Development, along with its existing financial and physical assets, liabilities, staff, and ongoing consultancy services with agreements and its activities. Accordingly, the share capital of Rs. 63,850, which was 6385 shares of Rs. 10 each, was transferred to the Ministry of Irrigation on December 30, 2020. However, without updating the information about the transfer of ownership, it had been stated in the policies and notes number 3.2.3 of the financial statements of the company that the company is a subsidiary company of the Mahaweli Authority of Sri Lanka and will be placed under the Ministry of Irrigation immediately.	No answers provided.	Information about the transfer of shares of the company should be properly disclosed in the notes to the financial statements.
(c) The Board of Directors had instructed to follow the tender procedures by appointing a committee when selling at the market price or disposing of the remaining iron stock	Disagree with the observation. Due to day-to-day price fluctuations in the market of	As it is observed that the concerned committee is responsible for acting

purchased during the construction of the Kanewela Dam. Nevertheless, that stock had been sold for a consideration of Rs. 2,265,994 to the Department of Irrigation without following the tender procedures by appointing a committee consisting of officials from the Irrigation Department and the company.

the material, facing practical difficulties in calling the prices and giving an opportunity to the government agencies to be more beneficial to the government in the auction process, this stock of wire has been sold to the Irrigation Department at a value higher than the purchase cost.

contrary to the approval of the board of directors, disciplinary action should be taken in this regard.

### 3.3 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Below observations were made regarding the consultancy work executed by the company during the year under review.		
(i) Consultancy services for Environmental Impact Assessment (EIA) for Gin-Nilwala Diversion Project Proposed to be implemented by the Ministry of Irrigation had been awarded to the company on 28 April 2017 by that Ministry, and even though the relevant task should be completed within nine months, the work could not be completed until 17 July 2023 which was the date of the audit. Even though prior approval of the employee should be obtained in respect to the changes made to the agreement as per Section 2.6 of the agreement with the Ministry, approval of the employer had not been obtained for appointing seven consultants after leaving of the consultants contracted with the company from 20 July 2021.	<p>The work on the EIA report on this project had stopped when it was decided to close the company due to the controversial situation of the institute, and after the activities of the company started, those activities started again in 2021.</p> <p>The extensions up to 31 January 2023 related to this project were received from the employee (Ministry of Irrigation), as the time of nine months is not adequate at all to complete the piece of work related to such a huge project. As a result of resigning a group of consultants engaged to prepare this EIA report in 2017 due to the crisis situations during the implementation of the Ging Nilwala project, the social impact of it, and the existing complexity of the project, we have analyzed the bio-data reports to recruit new consultants, and our letter dated 7 June 2021 was submitted to the project for</p>	<p>Action should be taken to complete the work within the stipulated time period as per the agreement and get extensions when required. Furthermore, arrangements should be made to obtain a formal permission letter from the employee for the changes in accordance with the clauses of the agreement made with the employer in relation to the consultancy work.</p>

approval. A further inquiry has also been made in this regard from our letter dated 01 July 2021.

However, approval had been granted by the letter of the Minister of Irrigation dated 09 February 2022 for the revised financial proposal, including all the data presented to the Additional Secretary to the Ministry of Irrigation and Water Resource Management on 16 November 2021.

(ii) The consultancy service for preparing a report for Environmental Impact Assessment (EIA) for Yatimahana Reservoir project proposed to be implemented by the National Water Supply and Drainage Board had been awarded to the Company for a sum of Rs. 6,147,555 on 01 March 2021 and even though the relevant work should be completed on 27 August 2021 as per the agreement, it had not been completed till 17 July 2023 which was the date of audit. Even though employer had informed to submit an addendum including 08 points which have not included in the draft report, that addendum had not been submitted till 17 July 2023 which was the date of audit. An extension of 491 days had been granted by the employee to the company to complete the contract, the one and a half year validity period given to the consultants by the company had not been extended appropriately.

Only 10 percent of the work remains to be done in relation to the preparation of the final environmental impact assessment report for Yatimahana Reservoir project and the remaining 90 percent of the work has been completed. This 10 percent share is only related to submit the additional report (Addendum) with answers for the comments of the Technical Review committee given by the Central Environment Authority (CEA). Even though for this purpose, the NWSDB should identify the lands needed to settle the affected families and submit the letters of consent of the owners for the acquisition of the lands, the relevant additional report cannot be completed as the work has not been done yet. The project approval body for terms of reference for preparation of Environmental report for Yatimahana Reservoir project is Central Environment Authority and it is provided to us by the respective project proponent, NWSDB. The extension of the relevant time limit should also be done by the relevant project proponent.

The consulting work undertaken as per the agreement should be completed on the due date and the documents should be revised in relation to the changes made on occasions including time extensions.

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| (b) | Action had not been taken to recover the contract retention, amounted to Rs. 2,898,733 due from three organizations that had completed the work undertaken.                                                                                                                               | Agree with the observation. | Arrangements should be made immediately to collect the retention money to be received within the specified time period.                                        |
| (c) | Even though it had been stated that 07 laptops purchased for Rs.2,846,300 on 30 December 2022 for a consulting project were given to the consultants of the company on 02 May 2023, action had not been taken to properly hand over them and ensure the existence by the Board of Survey. | Agree with the observation. | Action should be taken to properly hand over the assets of the Company for use while handing over and ensure the existence of them by Annual Board of Surveys. |

### 3.4 Human Resource Management

Audit Issue	Management Comment	Recommendation
(a) The officer holding the post of Director (Technical Audit) of the Ministry of Irrigation who was appointed by the Secretary to the Public Service Commission as a Civil Engineer in the Sri Lanka Engineering Service had been appointed as the Chief Executive Officer and a member of Director Board of the company by the Secretary to the Ministry of Irrigation without the approval of the Public Service Commission. According to the appointment letter issued to the concerned Chief Executive Officer, it was not clearly stated whether the appointment was full-time or part-time and as his allowance, a sum of Rs. 52,342 each which included half of the salary of Rs.98,215 for a senior management position mentioned in Management Service Circular No. 02/2016 dated 25 April 2016 , salary increments of Rs.13,500 for 05 years and other allowances had been paid without the approval of the Treasury. A total of	The Secretary to the Ministry, the Honorable Minister and the Honorable President wanted a suitable officer to bring the performance and productivity of this company to a higher level, which was under the ownership of Mahaweli Authority of Sri Lanka and proposed to take under the Ministry. Taking into account the optimal support of the concerned officer and as per the relevant instructions and guidelines, he was appointed in the post of Chief Executive Officer on an interim basis and his service has been confirmed by the Board of Directors as he has made satisfactory service contribution in the interim period. In the public service, according to the public service appointments, it should be assisted to the policy activities taken by the Government time to time and it is stated that acting as per the rules and regulations imposed time to time related to the government. That is contained in the appointment letter itself. The relevant legal background should be judged to determine whether the conditions have been breached.	Arrangements should be made to obtain formal approval from the appointing officer for the appointment and all conditions related to the appointment should be included in the letter of appointment. Further, the post, recruitment procedure and allowances should be approved from the Management Services Department.

Rs.1,977,355 had been paid as these allowances till 31 October 2023.

The decision of the Board of Directors has been taken on the basis of a scientific method while paying the allowance and the circulars should not be applied as it is. In here it has been done that establishing a scientific basis and determining a fee. Therefore, other matters in the circulars based on it cannot be applied to this, and it should be considered market value as a source for the evaluation.

- (b) Even though the officer who worked as Assistant Director (Legal) of Mahaweli Authority of Sri Lanka was appointed for the position of Secretary/Legal Officer of the Company, the concerned officer was not released from Mahaweli Authority of Sri Lanka and the nature of appointment, the way of allowances are paid and other appointment conditions had not been specified in the letter of appointment. A sum of Rs. 33,700 each which included half of the salary of Rs. 55,925 relevant to the said position as per the Management Service Circular No. 02/2016 dated April 25, 2016, Rs. 6,875 for salary increments for 05 years and other allowances had been paid monthly without the Treasury approval.

Even though the way payment of allowances are made and the basis of appointment are not stipulated in the letter of appointment, the way each officer has been appointed had been mentioned in the decision sheet of Board of Directors in that regard. However, taking into consideration the facts pointed out by the audit, we will decide to include the conditions and responsibilities related to the relevant position in the Operation Manual related to the MCB institution to be prepared in the future.

Since Mahaweli Authority of Sri Lanka is the parent company of MCB, when it is placed under the Ministry of Irrigation the ministry of the Mahaweli Authority is the Ministry of Irrigation, since the relevant assignment of duties has been done by the Secretary to the Ministry, and since it is in accordance with the overall internal administrations, it can be considered that approvals have been received. Further, this appointment has done as a service providing to Private Institution as per the Establishment Code and the Financial Regulation and the relevant approved service fee mentioned in the Board paper had paid.

Action should be taken to obtain the approval of the Management Service for carder, scheme of recruitment and the pay structure and issue a formal appointment letter including basic information such as the nature of the appointment, the basis of the appointment and how allowances are paid. Disciplinary action should be taken against the officials who made the payment contrary to the approval of the Board of Directors.