

Mahaweli Authority of Sri Lanka - 2013

The audit of consolidated financial statements of the Mahaweli Authority of Sri Lanka and its subsidiaries for the year ended 31 December 2013 comprising the statements of financial position as at 31 December 2013 and the statements of financial performance, statements of changes in equity and statements of cash flow for the year then ended and a summary of significant accounting policies and other explanatory information, 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 Section 13(1) of the Finance Act, No. 38 of 1971. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2)(c) of the Finance Act appear in this report. The financial statements of the Subsidiaries were audited by the firm of Chartered Accountants in public practice appointed by the Board of Directors of the respective Subsidiaries.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements 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 Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub – sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and the extent of audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion- Group

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the consolidated financial statements give a true and fair view of the financial position of the Mahaweli Authority of Sri Lanka and its Subsidiaries as at 31 December 2013 and their financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

Qualified Opinion- Authority

In my opinion, except for the effects of the matters described in paragraph 2.2.2 of this report, the financial statements give a true and fair view of the financial position of the Mahaweli Authority of Sri Lanka as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Group Financial Statements

2.2.1 Amalgamation of Financial Statements

The consolidated financial statements had been prepared by amalgamation of the financial statements of the Authority and its five Subsidiaries. However, only three Subsidiaries had been submitted their audited financial statements for this purpose. The names and the ownership of the Subsidiaries are as follows.

Name of the Subsidiary	Percentage of Ownership
-----	-----
Mahaweli Consultancy Bureau (Pvt) Ltd	100
Natural Resources Management Services (Pvt) Ltd	100
Mahaweli Engineering Services (Pvt) Ltd	100
Mahaweli Venture Capital (Pvt) Ltd	100
Mahaweli Livestock and Agro Enterprises (Pvt) Ltd	100

2.2.2 Comments on Financial Statements of the Authority

2.2.2.1 Accounting Policies

Accounting policies adopted for the preparation of income and expenditure accounts of 18 farms and two workshops had not been disclosed in the financial statements.

2.2.2.2 Accounting Deficiencies

At the audit test checks it was revealed that the capital expenditure amounting to Rs.59,572,775 had been accounted as recurrent expenditure. Therefore, the non-current assets for the year under review had been understated while the deficit for the year had been overstated by the same amount. Further, provision for depreciation had not been made for these assets during the year under review.

2.2.2.3 Accounts Receivable and Payable

According to the financial statements presented for the audit, the balance of trade and other receivable as at 31 December 2013 was amounted to Rs.1,001.8 million and the balance as at 31 December 2012 was Rs.893.4 million. The increase of trade and other receivable as compared with the previous year was Rs.108.4 million or 12 per cent. The following observations are made in this regard.

- (a) A sum of Rs.455,958,976 or 93 per cent of the receivable was rent income and out of that sums aggregating Rs.124,041,067, Rs.116,200,208 and Rs.110,694,675 were recoverable from Zone “C”, Victoria - Kothmale and Zone “H” respectively.
- (b) According to the age analysis presented for audit, it was revealed that sums of Rs.137,995,000 and Rs.53,850,000 receivable from rentees had been remained outstanding for more than five years and between three to five years respectively. Prompt action had not been taken by the Authority to recover those balances even up to the end of the year under review.
- (c) Action had not been taken to recover the mobilization advances amounting to Rs.344,272 and Rs.779,407 remained in the accounts for more than five years and between 3 to 5 years respectively even up to 31 December 2013.
- (d) Although the Mahaweli Consolidated Project-System ‘G’ and Mahaweli Restructuring and Rehabilitation Project had been completed in 2005, the outstanding mobilization advances aggregating Rs.2,700,000 and Rs.4,200,000 respectively remained outstanding without being recovered by the Authority even up to 31 December 2013.
- (e) According to the same letters No. ACCTS/CORP/DRS/2014 dated 29 January 2014 and 31 January 2014, a sum of Rs.14,152,690 had to be paid as legal fees to the Department of Attorney General. Nevertheless, only a sum of Rs.4,135,000 had been provided by the Authority as accrued expenses in this connection.

2.2.2.4 Unexplained Differences

The reasons for the following differences had not been explained to audit.

Item	Amount as per financial statements	Amount as per relevant schedule/ledger accounts	Difference
-----	----- Rs.	----- Rs.	----- Rs.
1 Rent income of ten resident managers office	247,148,000	166,910,000	80,238,000
2. Farm income			
RPM- B	858,000	10,370,000	9,512,000
RPM-Walawa	-	8,778,000	8,778,000
3. Revaluation surplus	793,820,000	884,118,000	90,298,000

2.2.3 Lack of Evidence for Audit

The following evidence as indicated against the each item shown below had not been furnished to audit.

Items of Accounts	Value	Evidence not made available
-----	----- Rs.millions	-----
Bank Balances	122.84	Bank Confirmations
Farm Produce Sales	19.88	Detail Schedules
Rent Receivables	380.35	A data base or properly maintained register
	----- 523.07 =====	

2.3 Non-compliance with Laws , Rules , Regulations and Management Decisions

The following non-compliances were observed in audit.

**Reference to Laws, Rules,
Regulations and
Management Decisions.**

Non compliance

(a) Financial Regulations of the
Democratic Socialist Republic of
Sri Lanka

(i) Financial Regulation
104 (1) (b)

The preliminary inquiries relating to two major vehicle accidents had not been carried out by a committee appointed by the Chief Accounting Officer. The total damage incurred by these accidents was Rs. 1,330,795 and out of this a sum of Rs.537,250 only had been recovered from the insurance company.

(ii) Financial Regulation
110 (1)

Register for recording the losses and damages had not been maintained.

(b) Establishment Code of the
Democratic Socialist Republic of
Sri Lanka
Section 12.5.1 of Chapter VII

An officer of the Department of Government Information had been recruited on as a media officer on secondary basis even though there is no such a post in the approved cadre of the Authority. Subsequently, he had released to the Ministry of Irrigation and Water Resources Management on full time basis from January 2011. However, he had paid a sum of Rs.50,000 per month as salary and Rs.480,095 as fuel allowance by the Authority during the period from January 2011 to September 2013 contrary to the provisions in the Establishment Code.

3. Financial Review

3.1 Financial Results

According to the consolidated financial statements presented, the operations of the Authority and its Subsidiaries during the year under review had resulted in a deficit of Rs.70.58 million as compared with the corresponding deficit of Rs. 356.84 million for the preceding year, thus indicating an improvement of Rs. 286.26 million in the financial results for the year under review. None providing the depreciation for vehicles during the year under review due to revaluation of vehicles was the main reason attributed for this improvement.

4. Operating Review

4.1 Performance

4.1.1 Liquidation of Subsidiaries

The Board of Directors of the Authority had granted an approval on 23 November 2013 to liquidate the Mahaweli Venture Capital (Pvt) Ltd and Mahaweli Engineering Services (Pvt) Ltd which were the Subsidiaries of the Authority. Accordingly Mahaweli Engineering Services (Pvt) Ltd had liquidated during the year under review while dissolving the activities of Mahaweli Venture Capital (Pvt) Ltd is being implemented.

4.1.2 Land Development Activities

According to the Master Plan of the authority, the total extent of lands expected to be developed within 14 Zones was 420,170 hectares. However, the total extent of lands which had been developed as at 31 December 2013 was only 102,528 hectares and the extent of lands currently being developed under the Moragahakanda Project, Maduru Oya South and Kiul Oya Project is 109,715 hectares. Accordingly, a specific development plans for the development of 207,927 hectares of land had not been formulated up to 31 December 2013.

4.1.3 Control and Maintenance of Circuit Bungalows

There were 17 circuit bungalows under the Authority as at 31 December 2013. Even though the circuit bungalow at Nuwara-Eliya had been closed down since June 2011 for renovations, no such renovations had been initiated up to 31 December 2013. In terms of the consolidated financial statements for the year 2013, the total income received from the circuit bungalows amounted to Rs.5.281 million and it was observed that an adequate attention had not been focused on the maintenance and control of the circuit bungalows during the year under review.

4.2 Management Inefficiencies

The following observations are made.

- (a) At the audit test check revealed that procurement procedure had not been followed by the Security Officer at Digana for purchasing stationaries and other miscellaneous items valued at Rs.605,962 during the period from January to July 2013.
- (b) The estimated annual rent and rent receivable as at 31 December 2013 at the Resident Project Manager's Office, Walawa Special area were Rs.20.6 million and Rs.67.5 million respectively. However, the actual collection was Rs.5.46 million and Rs.4.7 million respectively. Therefore, the progress of the collection of income was only 26.6 per cent and 6.9 per cent and outstanding balance from 8 main debtors was Rs. 74.13 million.
- (c) It was revealed that there were 655 unauthorized occupants in the reservation areas of Pollgolla, Kothmale, Bowathenna, Mapakada, Maduruoya and Victoria reservoirs. But

the Authority had failed to evacuate those squatters and preclude and further arrival of such squatters.

- (d) Stock shortage valued at Rs. 220,000 relating to System “L” had not been taken into accounts.
- (e) Actions had not been taken to dispose the obsolete stocks valued at Rs.1,317,000 shown in the financial statements for several years.
- (f) According to the records of the Land Division, 5,177 blocks of land had been unlawfully encroached by the outsiders. Due to delaying of legalizing process of these lands, the Authority had loss the income which can be earned.
- (g) No dividends had been received by the Authority on the investment of Rs.10 million made in the one million shares of Mahaweli Livestock and Agro Enterprises (Pvt) Ltd in 1982 and no interest had been received for Rs.9.8 million cash invested in the Mahaweli Venture Capital Company (Pvt) Ltd in 1989.
- (h) The Authority had handed over two lands at Niraviya and Kalankuttiya to the Mahaweli Livestock and Agro Enterprises (Pvt) Ltd in 1982 for their use. However, no action had been taken by the Authority to collect the lease rent from this Subsidiary to date.

4.3 Transactions of Contentious Nature

According to the provisions in Paragraph 26(f) of the Mahaweli Authority of Sri Lanka Act, No. 3 of 1978, the all grants received by the Authority should be credited to the general fund of the Authority. Even though, a separate bank account at the Bank of Ceylon Ambilipitiya Branch (Ac. No.2297822) had been operated by the Authority for the name of “Mahaweli Sport Society”, the balance in the account as at 31 December 2013 had not been taken into the accounts of the Authority.

4.4 Assets Released to Other Institutions

The following observations are made.

- (a) Buildings to the value of Rs.26,030,780 at Kothmale Training Centre had been released to the Ministry of Irrigation and Water Resources Management while 54 vehicles had been released to outside parties in contrary to the paragraph 8.3.9 of the Public Enterprises Circular No PED-12 dated 02 June 2003.
- (b) Rent had not been recovered from the Ministry of Irrigation and Water Resources Management and Water Resources Planning Project although they are occupied in three stories and part of another story out of 12 stories building of the Authority.
- (c) The Authority had constructed a building complex by spending a sum of Rs.73,771,200 in a land with an extent of 0.99 hectares at Jawatta without acquiring the land to the name of the Authority. Although this building complex (16000 square feet)

is used by the eleven Government Institutions, the Authority had failed to collect any rent from these institutions even up to 31 December 2013. Further, the Authority had not recovered the electricity, water and sanitary services charges amounting to Rs.10,190,197 relating to the period from December 2010 to December 2013 from the Ministry of Irrigation and Water Resources Management, Piory Consultancy Company and the North Central Province Consultancy Project which were utilized these buildings since December 2010.

4.5 Human Resources Management

The following observations are made.

- (a) Approved cadre for the Authority as at 31 December 2013 was 4,614 and actual cadre as at that date was 4,298, thus the vacancies was 438 by 31 December 2013. Further, excess cadre in primary level as at end of the year under review was 122.
- (b) Four managers in senior level had been recruited in 2012 and 2013 without required qualifications and experiences as stated in the Recruitment Scheme of the Authority.
 - (i) A female officer had been recruited to the post of Director (Secretary Office) in 2011, without the provision for such post in the approved cadre. Although 15 years' experience is required for this post as per the paper advertisement published, she had not full filled that required experiences. Thereafter, this officer had appointed to the post of Director (Head Quarter Operations) which also required the same qualifications and experience as per the approved Recruitment and Promotional Scheme of the Authority.
 - (ii) Another officer had been recruited to the post of Director (Human Resources and Institutional Support) in 2011 without required experience.
 - (iii) Post of Director (Mahaweli Center) had been filled on contract basis without required qualifications and experience.
 - (iv) A Grade III officer of Sri Lanka Administrative Service had been appointed by the Secretary to the line Ministry as Director (Personnel) although the required qualifications for such post was grade I. Further, this officer had been appointed as Deputy Director General (Administration and Finance) since 09 January 2014 without required qualifications for that post.

5. Accountability and Good Governance

5.1 Corporate Plan

A Corporate Plan had been prepared for the period of 05 years from 2012 to 2016 in the year 2012. Even though the targets required to be achieved by the Irrigation Division as per the "Mahinda Chinthana Ten year plan" had been pointed out in the Corporate Plan, arrangements had not been made to implement them by specifying strategies required to be adopted to achieve the said targets.

5.2 Action Plan

The following observations are made.

- (a) The officer responsible for each activity had not been identified in the Action Plan prepared for the year under review.
- (b) Audit Test check revealed that 81 Programs to the value of Rs. 1,813,000 include in the Action Plan under the Institutional Support and Human Resources Development had not been implemented during the year under review.
- (c) According to the progress report of the Land Division for the year under review, the overall performance was only 42 per cent. It was further observed that impracticable targets had been set out and inefficiencies of the relevant Divisions also affected to the poor performance.

5.3 Internal Audit

The post of Director (Internal Audit) had fallen vacant since 30 November 2010 and a qualified officer had not been recruited to that post even up to 31 December 2014.

5.4 Audit and Management Committees

In terms of Section 7.4.1 of the Public Enterprise Circular No PED/12 of 02 June 2003 the committee meetings should be conducted once in every three months. Nevertheless only 02 meetings had been held during the year 2013.

5.5 Procurement Plan

Even though a Procurement Plan had been prepared for the year 2013, the progress had not been adequately monitored.

5.6 Budgetary Control

Following significant variances were observed between the budgeted and the actual expenditure of the Authority for the year under review, thus indicating that the budget had not been use of as an effective instrument of Management Control. Such few instances are shown below.

Expenditure	Budgeted expenditure	Actual expenditure	Variance	Variance as a percentage of budgeted expenditure
-----	<u>Rs.</u>	<u>Rs.</u>	<u>Rs</u>	-----
Stationaries and Printing	14,545,000	20,583,456	6,038,456	41.52

Vehicle Repairs and Maintenance	28,401,600	87,929,898	59,528,298	209.6
Building and Structures	10,335,000	14,078,078	3,743,078	36.22
Office Equipment	6,325,000	8,231,064	1,906,064	30.14

5.7 Unsolved Audit Paragraphs

The audit observations pointed out in my previous years audit reports had not been solved even up to 30 June 2015.

- (a) The Resident Project Manager of the Zone 'H' had used an additional vehicle besides the vehicle allocated to him from May 2010 to December 2011. It was observed as per the Gate Pass Register maintained by the Security Division that the above vehicle had not arrived at the office premises during the above period. Nevertheless, the Resident Project Manager had certified every travelling specified therein placing his signature.

Even though the driver of the vehicle had stated that the daily travelling of the vehicle is started from Thambuththegama, he had not signed the register of arrival and departure maintained at the Thambuththegama office during the period from February 2010 to December 2011.

The office had incurred a sum of Rs.201,385 in respect of repairs and replacement of 04 tires to this vehicle during the period in which the vehicle was not used by the office. The Director General had informed that a preliminary inquiry had been initiated in this connection.

- (b) Upon a court order, another Resident Project Manager had been attached to the Resident Project Office of Zone H from 16 September 2011. These two officers had excessively obtained fuel valued at Rs 682,298 during the year 2011 without approval.
- (c) It was observed that about 50 per cent of the total hydro power generation of the Sri Lanka Electricity Board is produced by hydro power stations constructed in association with the Mahaweli reservoirs had been paid their electricity bills to Sri Lanka Electricity Board in 2013 by the Authority in respect of the electric lamps fixed on the dams of the Polgolla and Victoria reservoirs. Further, at the early stage of the construction of the Victoria dam, plans had been drawn to construct a micro hydro power station to meet the electricity requirement of the dam and necessary equipment for this purpose had also been provided by the first construction company. Nevertheless, the said construction had been abandoned later and the equipment had been left insecurely in various locations without using. Since payment of charges for the maintenance of reservoirs and water used by the Electricity Board are not made, attention of the Authority should be focused on securing electricity requirements of the major dams, free of charge.

6. Systems and Controls

Deficiencies observed in the systems and controls during the course of audit were brought to the notice of the Director General of the Authority from time to time. Special attention is needed in respect of the following areas of control.

- (a) Leasing of Lands
- (b) Assets Management
- (c) Farm Administration
- (d) Stock Control
- (e) Collection of Rents
- (f) Control over Vehicles
- (g) Payment of Advances
- (h) Implementation of Projects.