

Mahaweli Authority - 2011

01. Financial Statements

1.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraphs 1.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these consolidated financial statements.

1.2 Comments on Financial Statements

1.2.1 Accounting Policies

The value of other financial assets under the non current assets in the Consolidated Balance Sheet as at 31 December 2011 was Rs.60,968,207,000 and the assets representing that value had not specifically existed. Expenditure such as all the recurrent and capital expenditure of the projects, expenditure incurred for rehabilitation and maintenance of reservoirs and tanks etc. had been included in these financial assets and system of depreciation or amortization for them had not been implemented. Accordingly, it was unable to satisfy in audit relating to existence of those assets.

1.2.2 Accounting Deficiencies

Lease rentals for building situated in a place bearing No.260/20 belonging to the Authority given for utilization of the Mahaweli Livestock Enterprises Private

Limited, sales centre operated at the place bearing No.11, Jawatta Road and farm lands at Neeraviya and Kalankuttiya had not been computed and brought to account.

1.2.3 Unreconciled Control Accounts

According to the financial statements, lease income receivable as at 31 December 2011 from 09 Residential Enterprises Management Offices amounted to Rs.332,230,109 whereas according to the report of the Lands Division, this value was Rs.294,355,000 and as such a difference of Rs.37,875,109 was observed.

1.2.4 Accounts Receivable and Payable

The following observations are made.

- (a) According to the financial statements, income receivable as at 31 December 2011 amounted to Rs.364,966,000 and of this, a sum of Rs.266,577,000 representing 72 per cent had remained for more than 01 year while a sum of Rs.75,829,000 representing 20 per cent had remained for a period of more than 05 years. Out of this receivable income, a sum of Rs.156,699,160 representing 42.5 per cent was receivable from “H” Zone.
- (b) Out of the income receivable by the Authority from “H” and “B” Zones, sums of Rs.50,694,000 and Rs.1,795,000 respectively had been provided for doubtful debts in the year 2010. Approval for this provision, action taken relating to the officers responsible to recover these leases, detailed report etc. had not been submitted for audit.
- (c) Out of the income receivable amounting to Rs.291,264 by the Mahaweli Venture Capital Company, interest on entrepreneurship loan amounting to Rs.221,306 remaining outstanding for long period had not been recovered even during the year under review. The Director General had replied that “

approval had been requested from the Treasury not only for interest but also a sum of Rs.8,619,071 including the relevant loan amount”

- (d) The value of mobilization advances to be recovered as at 31 December 2011 remaining over 05 years amounted to Rs.20,954,000 and of this, a sum of Rs.18,293,231 had been the mobilization advances paid to the contractors under the Mahaweli Joined Projects of “G” Zone completed in the year 2003 and Rehabilitation Project (MRRP) implemented in the Mahaweli “H” Zone and completed in the year 2005 and the Authority had not taken any legal action to recover them. Action had also not been taken to recover advances amounting to Rs.12,895,522 paid to the contractors under these same Projects.

The Director General had replied that “two Committees had been appointed on 02 August 2012 to make inquiries about this”

1.2.5 Non-compliance with Laws, Rules, Regulations and Management Decisions.

The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
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(a) Paragraph 487 (2) of the Companies Act No.07 of 2007	Mahaweli Agriculture Services Private Limited and Mahaweli Engineering Services Private Limited had not been registered under this Act.
(b) Section 10:1 of Chapter VIII of the Establishments Code, Public Administration Circular No.256/84 dated 12 June 1984,	A sum of Rs.78,165 had been paid on 31 December 2008 for a voucher submitted by the Director General for working 24 days on holidays at the rate of one day per month in the years 2007 and 2008 without

- Public Administration Circular No.19/89 dated 23 March 1989, Public Administration Circular No.39/89 dated 09 August 1989 and Public Administration Circular No.07/97 dated 03 February 1997.
- (c) Public Enterprises Circular No.95 dated 04 June 1994, and Public Finance Circular No.PF/PE/05 dated 11 January 2000.
- (d) Paragraph 8:12 of the Circular No.09 dated 01 March 2006 of the National Procurement Agencies.
- (e) Circulars of the Department of Management Services
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- (i) Circular No.2006/30 dated
- obtaining supporting documents in respect of prior approval, dates of arrivals, times and duties carried out
- Although only the benefits approved by the Cabinet of Ministers or the Ministry of Public Administration or General Treasury should have been paid to the employees of the Corporation, Statutory Board and Government owned companies, contrary to this, a sum of Rs.16,041,929 had been paid as professional allowances during the year under review to all the Engineers of the Authority and Dam Safety and Water Resources Planning Project as well as other 03 officers who were not chartered qualified and one officer who had obtained the Chartered Qualification, on the basis of approval of the Board of Directors.
- Value Added Tax amounting to Rs.1,976,586 had not been paid in respect of mobilization advances amounting to Rs.16,471,600 paid for four contracts for construction of roads of the Mahaweli “B” Combined Project.
- The salary of the Director General of the Authority

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who is the Chairman of the Board of Directors had been increased up to Rs.61,655 (10th stage of the salary scale of HM - 2-3) with effect from 02 July 2006 by the authority given through the decision No.2007/198/2480 dated 18 October 2007 of the Board of Directors contrary to the circular instruction. Accordingly, a sum of Rs.276,751 had been obtained in the month of November 2007 as arrears of salaries from June 2006 to October 2007.

(ii) Paragraph ix of the Circular No.DMS/A1/Salary dated 31 December 2006

A monthly allowance of Rs.55,000 had been paid to the Director (Finance) appointed on contract basis contrary to the provision of this Circular and a sum of Rs.1,348,287 had also been paid as at the end of the year under review relating to 04 allowances which are not related to the contract agreement or conditions of the appointment letter.

1.2.6 Transactions not Supported by Adequate Authority

The following matters were observed.

- (a) Rehabilitation works by removing silt and aquatic plants of three tanks such as Siyambalagahagama, Panankaniya and Hiriyaale had been completed prior to granting approval for the estimate of the above works valued at Rs.5,971,940.

The above mentioned rehabilitation works of the Ranorawa Tank had been carried out in two instances by a Farmers' Society through two estimates prepared at the value of Rs.2,566,282. Limits of contract that could be awarded to this Farmers' Society had exceeded by Rs. 2 million whereas weakness of not preparing a formal estimate for a single work was observed.

- (b) Muthuwella Animal Farm in extent of 1200 acres and Siddhapura Animal Farm in extent of 1500 acres handed over to the Mahaweli Livestock and Agriculture Enterprises (Private) Limited by the Authority had been handed over to the CIC Agriculture (Private) Limited without the consent of the Authority and lease rental had not been recovered in this regard.

1.2.7 Irregular Transactions

The following matters were observed.

- (a) Non recovery Lease Rent

An office space in extent of 12,432 square feet belonging to the Authority situated at T.B.Jaya Mawatta had been given for rent in the year 2011 for maintaining office of the Ministry of Coconut Development and Janatha Estate Development without entering into an agreement and the outstanding lease rent to be recovered for that year was Rs.7,661,373.

- (b) Misusage of Vehicles

The Residential Enterprise Manager of the of “H” Zone had utilized a vehicle in addition to a vehicle assigned to him from the month of May 2010 without the approval. Although this vehicle had not arrived to the office premises from the month of May 2010, he had certified by placing his signature for all the travelling. It was pointed out that the vehicle had started its daily travelling from Thambuttegama. However, according to the attendance register and the gate report, it was not confirmed.

Action had not been taken to conduct a formal inquiry in this regard and to recover repair expenditure amounting to Rs.201,385 and expenditure incurred for 04 new tyres through the office during the period of not using this vehicle in the office from the relevant officer.

Similarly, another Residential Enterprise Manager had been attached to the Residential Enterprise Office from 16 September 2011. Accordingly, the Authority had incurred expenditure amounting to Rs.682,298 for utilising fuel by those two officers without the approval up to 31 December 2011. This amount had also not been recovered up to June 2012.

02 Financial Review

2.1 Financial Results

According to the financial statements presented, the operations of the Authority for the year under review before taking into account the government contribution had resulted in a deficit of Rs.1,930,432,000 as compared with the deficit of Rs.2,205,591,000 for the preceding year. The deficit for the year under review had decreased up to Rs.150,432,000 after taking into account the government contribution of Rs.1,780,000,000 and the deficit for the preceding year had decreased up to Rs.475,591,000 after taking into account the government contribution of Rs.1,730,000,000. Accordingly, the financial results for the year under review had indicated an improvement of Rs.325,159,000.

2.2 Analytical Financial Review

According to the income statement presented, analytical review on income and expenditure for the year under review and preceding year is shown below.

- (a) The deficit had decreased by Rs.325 million or 70 per cent as compared with the preceding year and provision for bad debts for the preceding year by Rs.266.8 million and not making such a provision for the year under review were main reasons for that.
- (b) Maintenance expenditure for the year 2011 had increased by 36 per cent or Rs.5.9 million as compared with the year 2010 and the other expenditure had increased by 37 per cent or Rs.22.7 million.
- (c) The income earned by the Authority during the year under review from the operational activities had increased by Rs.77 million or 22 per cent as compared with the preceding year

and increase of other income by Rs.32 million or 81 per cent and increase of lease income by Rs.22 million or 10 per cent were reason for that.

- (d) Except the decrease of income from Revolving Fund by Rs.5 million or 21 per cent rest of 4 items of income had increased during the year under review from 15 per cent to 94 per cent as compared with the preceding year.

03 Operating Review

3.1 Performance

4.1.1 Whole Land Development

According to the Mahaweli General Plan, total extent of lands of 14 zones expected to develop was 420,170 hectares. The extent of land developed at present was 102,528 hectares and the extent of land being developed at present under the Moragahakanda Project was 81,422 hectares. A specific development programme had not been prepared yet for development of balance land of 236,220 hectares.

The Director General had replied that the up dating of the Mahaweli General Plan according to the present needs of the society is being done at present and according to its results, the rest of the activities are being planned.

3.1.2 Performance of the Project

The estimated capital expenditure of the Authority for the year 2011 amounted to Rs.6,329 and the actual expenditure amounted to Rs.3,755 million. The percentage of the balance provision was 41 per cent and this was the reason for the performance of the following projects remaining at lower level.

Project	Estimated Amount	Amount Spent	Savings Provision	of	Percentage of Savings
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	Rs. million	Rs. million	Rs. million		Rs. million
(a) Dam Safety and Water Resources Planning Project	2,412	1,233	1,179		48.9
(b) Moragahakanda Kaluganga Development Project	2,280	1,236	1,044		45.7
(c) <u>Feasibility Studies</u>					
(i) Moragahakanda Kaluganga Lower Valley Developments	300	11	289		96
(ii) Malwattu Oya, MaduruOya south bank and Welioya	20	-	20		100
(d) Expenditure of the Mahaweli Zones	1,095	798	297		27
Head Office	200	56	144		72

3.1.3 Test check revealed that the performance of the following activities of the Combined Projects of the Mahaweli “H” Zone and “B” Zone was at a weak level.

(a) Projects with less than 50 per cent Progress

Performance of the following projects as at the end of the year under review was at a position of less than 50 per cent.

- The progress of the programmes of providing one day old chicks was around 44 per cent.
- The progress of the Project of implementing the programme of capacity building of farmers societies was around 37 per cent.

Mahaweli “H” Zone

- The progress of the programme of putting fingerlings into the tanks was 18.5 per cent.
- The progress of the programme of establishment of a unit for production of compost fertilizer was 34 per cent.
- The progress of the programme of distributing milch cows was 34 per cent.

(b) Projects completed more than 50 per cent but not fully Completed as at 31 December 2011.

Mahaweli Combined Project - “B” Zone

Target achieved during the year under the programme of distributing milch cows was 75 per cent. Although it was targeted to distribute 1000 milch cows during the project period of 2007 - 2012 under this Project, number of cows given up to 31 December 2011 was 522.

Accordingly, the entire progress of the programme was 52 per cent.

Mahaweli - “H” Zone

- Construction of agricultural wells - Progress of 50 per cent.

(c) Projects not Implemented

The following projects planned in the Combined “B” Project and “H” Zone had not been implemented.

- Programmes of capacity building of farmers societies
- Providing fishing nets for the selected tanks
- Providing fiber boats
- Women’s development activities
- Enterprises and market development programmes

3.1.4 Training Programme

Although the Thelhiriyawa Training Centre which is a training centre belonging to the Authority situated at “H” Zone, had been established to implement the programmes such as programme of enhancement of service standard of the employees of the Authority, programme for training of self employment relating to enhancement of living standard of dwellers in the Zone etc., any training programmes relating to this had not been organized and conducted during the year under review. Therefore, it was observed that the objectives of establishment of this training centre had not been achieved.

3.2 Management Inefficiencies

Number of court cases filed against the Authority and cases filed by the Authority as at 31 December 2011 was 152.

The following observations are made in this regard.

- (i) A court case had been filed by the Private Company in the year 2007 requesting compensation of Rs.100 million for not vesting them the land on which the Kotmale Rest House was operated.

Although the Authority should establish a theatre complex coordinating with the above Company in terms of approval of the Cabinet No.CP/1992 dated 15 July 1992, both parties had not taken action in this regard.

- (ii) Although appeal had been submitted to the High Court without considering the advice of the Attorney General and to the Supreme Court against the verdict given by the Labour Tribunal relating to dismissal of 15 employees from the service, there was no change in the verdict of the Supreme Court.

Accordingly, the Attorney General had advised on 23 December 2011 to pay a sum of Rs.8,000,301 as arrears of salaries from December 2007 to July 2010 and this amount had not been paid up to August 2012. Accordingly, only the payment of compensation for 13 employees had to be incurred by the Authority without obtaining services due to submission of appeal to the higher courts.

- (iii) The Authority had to pay a compensation of Rs.1,900,000 on 26 March 2012 to the dependant of a person who died after hitting by a lorry belonging to the Department of Land Commissioner driven by a driver of the Authority in the year 1997.

It was observed that there was no opportunity to obtain the compensation in view of insurance certificate not submitted to the Authority as the Land Commissioner had possessed ownership and revenue licence at the time of occurring accident to this vehicle.

According to the examination of particulars relating to conduct of this court case, the appeal submitted to the High Court was rejected due to not placing signature by the Director, Legal of the Authority in the notice for appeal as per legal requirement.

3.3 Operating Inefficiencies

The inspection carried out at “H” Zone revealed that very large quantity of goods including furniture, building materials and vehicle spare parts which were identified in the Board of Survey of Stores in the years 2009 and 2010 as destructible or to be sold by auction had been retained in the stores without taking necessary action.

3.4 Underutilization of Funds

Although it was planned to implement 25 drinking water schemes in 31 Grama Niladhari Divisions of 06 Divisions by spending Rs.270 million under the Combined Project - “B” Zone, only 04 large water schemes had been implemented amounting to Rs.67.6 million up to the date of audit in October 2011.

3.5 Idle and Underutilized Asset

The following matters were observed.

Category of Assets -----	Number of Assets -----	Cost or Assessment Value -----	Position of Idle or Underutilization -----	Period of Idling -----
(a) <u>Vehicle –“H” Zone</u>				
Vehicles handed over to the Mechanical Engineer, Madatugama for repairs on 12 July 2011	09	7,850,000	Idle	Around 03 years

(b) Training Centre,
Thehriyawa

i. Hostel and Official Quarters	02	1,647,300	Idle	Since year 2009
ii. Inactive old water pumping station	01	Could not be obtained	Idle	Not computed
iii. Building Complex	01	15,285,000	Underutilization	For several years

3.6 Uneconomic Transaction

Four estimates prepared at the value of Rs.21,862,487 for complete reconstruction of 04 tanks in “H” Zone by evacuation of sediment had been re estimated according to the instruction of the Executive Director (Technical Service) at the value of Rs.7,697,308 not exceeding Rs.02 million per estimate so as to grant it to the Farmers Society deviating from the procurement procedure due to delay.

Particulars relating to the changes made to the estimate are given below.

Name of the Tank	Estimate for entire Reconstruction	Revised Estimate
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	Rs.	Rs.
i. Dunudambu weva	6,195,487	1,996,650
ii. Karambewa Weva	6,763,997	1,997,433
iii. Pahala Wetiyava Weva	6,702,256	1,706,575
iv. Ottappuwa Pansale Weva	2,200,745	1,996,650
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	21,862,485	7,697,308
	=====	=====

According to the revised estimates, it was evident that only 1/3 of the activities already planned had been identified to carry out. However, it was observed that it is economically fruitless to carry out only 1/3 portion of the activities such as evacuation of sediment.

3.7 Deficiencies in Contract Administration

Although a contract awarded for a sum of Rs.2,931,015 for rehabilitation of D 402 field canals at Ransarathenna Unit of the Aselapura Division under the Combined Project of “H” Zone had been abandoned by 12 April 2010 without completing the work, but action had been taken by the officers of the Mahaweli Combined Rehabilitation Project (“B” Zone) to award him again a contract for rehabilitation of distribution canals at Aselapura, Kurulubedda Unit at the value of Rs.3,559,998 on 14 May 2010. This contract had also been abandoned by the contractor on 30 April 2011.

Although a sum of Rs.830,927 had to be recovered from him for the abandoned contract, action had not been taken to recover it up to 31 December 2011.

3.8 Resources of the Authority given to other Government Institutions

Contrary to Paragraph 8.3.9 of the Public Enterprises Circular No.PED 12

The following matters were observed.

- (a) Eleven, 15 and 06 vehicles belonging to the Authority had been utilized by the Ministry of Agriculture Development, Ministry of Irrigation and Water Resources Management and other parties respectively as at 31 December 2011.
- (b) Ten drivers included in the permanent staff of the Authority had been released to the Ministry of Irrigation and Water Resources Management and other Government Institutions as at 31 December 2011 and their salaries had been paid by the Authority. Amount to be replenished from the relevant institutions in this regard as at 31 December 2011 was Rs.3,138,762.

- (c) Twenty two Engineers belonging to permanent staff of the Authority and 17 persons in other posts including 07 drivers had been attached to the Dam Safety and Water Resources Planning Project which is a foreign funded project and this attachment had not been properly incurred in terms of paragraph 33 of the Management Services Circular dated 05 April 2007.

It was observed that all these officers had been attached to the Project on the basis of covering up the duties as the allowance of 1/3 of the salary had only been given to the officers attached to the Project under the provision of paragraph 4:1:3 of the above mentioned Circular. However, the Authority had not obtained any services from these officers whereas salaries amounting to Rs.11,010,096 paid to 29 officers in the year 2011 from the Head Office of the Authority was a fruitless expenditure to the Authority.

3.9 Delayed Projects

- (a) Test check revealed that delays were observed in the implementation of contract for rehabilitation of sub canals of the Mahasenpura Unit and Peletiyawa Water Scheme amounting to Rs.3,059,720 under the Combined Project implemented in the “B” Zone.

(b) Projects Stopped in Halfway

Particulars are given below.

Serial No.	Contract No.	Activity	Contract Value	Progress as at 31 December 2011
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			Rs.	%
(i)	SYB/MCP/24A/DC/RFC/79	Rehabilitation of distribution canal of the Kurulubedda Unit	3,559,998	Not computed
(ii)	SYB/MCP/Z1/D/RFC/WS/4	Peletiyawa Water Scheme	22,376,912	- do -

A sum of Rs.4,920,508 had been overpaid for 03 abandoned contracts and this amount had not been recovered. The Director General had replied that legal action had been initiated to recover this overpayment.

3.10 Personnel Administration

The following matters were observed.

(a) Total Staff of the “H” Zone

(i) According to the audit inspection carried out at “H” Zone in the month of December 2011, number of approved cadre of the Zonal Office, 07 Divisional Offices and 26 Unit offices was 135. However, the actual cadre was 69 and as such the vacancies were 66.

There were 48 per cent of vacancies in the posts of secondary and tertiary level and it was difficult to carry out activities properly and in an up to dated manner at the relevant offices due to shortage of employees.

(ii) Even though there were vacancies in the posts as mentioned above, 27 employees had remained excess for 04 posts such as labourers.

According to the above matters, it was observed that staff of the “H” Zone had not been managed so as to achieve the objectives of the institution effectively.

(b) The approval of the Department of Management Services had not been obtained for the cadre of the Mahaweli Combined “B” Project and Moragahakanda Kaluganga Project implemented in “B” Zone as at 30 September 2011.

04 Accountability and Good Governance

4.1 Corporate Plan

(a) A Corporate Plan for the period 2011 - 2015 had been prepared at the beginning and a Corporate Plan for 05 years from 2012 to 2016 had been prepared in the year 2012.

- (b) Although it was pointed out in the Corporate Plan regarding the targets to be achieved by the Irrigation Unit in terms of ten years plan of the Mahinda Chindana, plans had not been prepared to implement them by identifying the necessary procedure to achieve the above targets.
- (c) Although responsible officers should be identified relating to planned activities and it should be shown in the Corporate Plan in terms of Section 5.2 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, it had not been shown accordingly.

4.2 Internal Audit

- (a) The post of Chief Internal Auditor had remained vacant from 30 November 2010 and a qualified Chief Internal Auditor had not been recruited up to 15 June 2012.
- (b) Adequate staff had not been recruited for the Internal Audit Unit and there were vacancies for 10 posts of Internal Audit Officers and 03 posts for Audit Assistants.
- (c) Internal Audit Unit had been established at the Head Office and continuous internal audit had not been carried out at the Zonal Offices.

4.3 Procurement Plan

Although a Procurement Plan had been prepared for the year 2011, it had not been implemented adequately.

4.4 Budgetary Control

A budget had been prepared and funds provided thereon. But, the budget had been revised so as to not making changes to the total expenditure considering the expenditure incurred at the end of the year and the approval of the Board of Directors had been obtained again and as such it was observed that the budget had not been made use of as an instrument of administrative control.

5. Systems and Controls

Deficiencies observed 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) Utilization of Buildings
- (c) Implementation of Development Programmes according to the Action Plan
 - (i) Milch Cow Programme
 - (ii) Fresh Water Fish Development Programme
- (d) Contract Administration
- (e) Implementation of Training Programmes at the Training Centers
- (f) Farm Administration
- (g) Stores Control
- (h) Collection of Taxes
- (i) Allocation and Control of Vehicles
- (j) Obtaining Labourers by entering into Agreement with Farmers Societies