

Mahaweli Authority of Sri Lanka

1. Financial Statements

1.1 Opinion

In view of my comments and observations appearing in this report, I am unable to express an opinion on the consolidated financial statements of the Mahaweli Authority of Sri Lanka for the year ended 31 December 2010 presented to audit.

1:2 Comments on Financial Statements

1:2:1 Sri Lanka Accounting Standards

Profits or losses on sale of assets had not been properly computed and disclosed in terms of Standards 18.

1.2.2 Accounting Deficiencies

The following observations are made.

- (a) The Mahaweli Engineering Services Private Limited which is a subsidiary company of the Authority included in the consolidated financial statements had not prepared the financial statements after 2007 and according to the last financial statements prepared, the assets of the above company was Rs.9.6 million. Further, the financial statements of the Mahaweli Livestock Enterprises Limited which is an Associate Company of the Authority, had not been presented for audit.
- (b) The following matters were observed in respect of other financial assets amounting to Rs. 73,992,312,263 shown in the financial statements.

- (i) The completed construction works had not been identified and transferred to the fixed assets or the assets vested to the line institutions had not been eliminated from the accounts.
 - (ii) The recurrent nature of expenditure such as mahaweli sports expenditure had been brought to account as other financial assets.
 - (iii) The total expenditure including administration expenditure amounting to Rs. 46,380,139,021 of the completed 04 projects implemented under the Authority had also been included in the above balance.
- (c) The debit balance amounting to Rs. 1,430,000 and the credit balance amounting to Rs. 4,804,000 had remained in the unbalanced inter zonal current accounts as at 31 December 2010 and the above balances had been adjusted under receivable and payable accounts.
- (d) Recoveries made during the year under review from the festival advances amounting to Rs. 16,921,200 paid to the employees of the Authority had been brought to the Revolving Fund Account. “ the Director General informed me that the recoveries of advances were deposited in the Revolving Fund Account in this manner due to not obtaining additional provisions from the General Treasury for festival advances and accordingly, funds credited to this Revolving Fund Account every year while granting festival advances are being utilized.”
- (e) Revenue and repayable deposits of the Mahaveli Centre had been understate by Rs. 78,993 and Rs. 10,000 respectively.

1.2.3 Unreconciled Control Accounts

- (a) A difference of Rs. 288,489 was observed between the value of fixed assets shown in the consolidated financial statements and the register of fixed assets.
- (b) Even though the balance of the Accumulated Fund as at 01 January 2010 amounted to Rs. 98,404,890,000 , it had been shown in the accounts as Rs.98,391,489,000. As a result, a difference of Rs. 13,401,000 was observed.

1.2.4 Accounts Receivable and Payable

The following observations are made.

- (a) Total of the trade and other balances as at 31 December 2010 amounted to Rs.1,135,989,000. Out of which, a balance of Rs. 75,387,000 had remained for more than 5 years and the balances of Rs. 33,404,000 were relating to the period from 03 to 05 years. The following observations are made in this regard.
 - (i) It was observed that the outstanding lease rental income as at 31 December 2010 amounted to Rs. 315,460,000 and out of which, a sum of Rs.67,068,856 was relating to 28 large scale trade institutions and government institutions.
 - (ii) The value of mobilization advances paid to the contractors as at end of the year under review amounted to Rs. 295,324,000 and out of which, the value of advances exceeding the period of 5 years amounted to Rs. 20,954,000. The audit revealed that it was unable to take legal action as 2 projects relating to the balances of

Rs.18,293,228 included in the above balances were completed several years ago.

- (iii) The balance of the “On Account Payment” as at end of the year under review amounted to Rs. 44,194,000 and out of which, the balances of Rs.12,896,000 had remained for more than 5 years. Any detailed schedule had not been furnished to audit in this regard.
 - (iv) Advances amounting to Rs. 42,417,000 granted to the Department of Wildlife from time to time since year 2008 had not been settled.
 - (v) The balances of Rs. 14,951,000 among the miscellaneous debtors and trade debtors aggregating Rs.48,217,000 as at end of the year under review had remained for more than one year. Out of which, a sum of Rs.6,299,585 had been recovered by the month of November 2011.
 - (vi) The value of unsettled petty cash advances as at 31 December 2010 amounted to Rs.1,266,000 and out of which, advances amounting to Rs.407,000 had remained for more than 5 years.
- (b) Action had not been taken to settle the retention money amounting to Rs.13,240,000 remaining for more than 5 years and miscellaneous creditors amounting to Rs.8,940,000 remaining for more than 3 years.

1.2.5 Lack of Evidence for Audit

 The evidence shown against the following each item had not been submitted.

Item -----	Value ----- Rs.	Evidence not submitted -----
(a) Establishment of machinery workshop at Dambulla	Not computed	Decision of the Board of Directors relating to the establishment.
(b) Call deposit	93,969,000	Decision of the Board of Directors
(c) Deposits	4,637,000	Detailed schedule and confirmation of balances.

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

 Non-compliances with the following laws, rules, regulations, management decisions etc. were observed.

Reference to Laws, Rules, Regulations, Management Decisions, etc. -----	Non-compliance -----
(a) Financial Regulations of the Mahaveli Authority of Sri Lanka - Section 1.5.1	Although advances for local purchases should be settled within 7 days after obtaining the above advances, the value of advances not settled within the period from 6 months to 5 years amounted to Rs. 1,345,000.

The Director General informed me that out of this amount, a sum of Rs. 555,000 had been recovered by the month of November 2011.

Although the entire amount of advances should be settled within 2 months after obtaining the advances, miscellaneous advances amounting to Rs.265,000 had not been settled for more than 3 years period.

Although the festival advances should be recovered within a period of 10 months, the value of festival advances not recovered as such for more than one year amounted to Rs.83,000

- Section 1.5.2
- (b) Section 13.4 of Chapter XXIV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka
 - Although incentive allowance, bonus or other type of benefits or any such allowances should not be paid as the monthly allowance paid to the Directors were included all the allowances, a sum of Rs.109,695 had been paid as incentive allowances to the present Director General and the former Director General of the Authority for contributing to the consultancy services project.
- (c) Public Enterprises Circular No.95 dated 14 June 1994, Public Enterprises Circular No.122 dated 27 June 1997 and Public Finance Circular No.PF/PE/05 dated 11 January 2000.
 - (i) Six official quarters had been given to the external organizations and individuals contrary to the instructions relating to assigning of assets belonging to the Mahaweli Authority to the Pradesha Sabha / Local Authorities and Government Institutions.
- (d) Internal Circular No.ATCU/02/160 dated 03 January 2001 of the Director General of the Mahaweli Authority.

- (ii) Although rights of the official quarters entrusted to the line institutions could be assigned again to the Authority in the instances of improper maintenance of the official quarters by the line institutions entrusted to them, 06 official quarters assigned to 02 line institutions in the Dehiyattakandiya Zone were abandoned and appeared in a damaged condition due to carelessness of those institutions, but action had not been taken to take over those quarters again by the Authority.

- (e) Circular No.33 dated 05 April 2007 of the Department of Management Services

- Section 02

Moragahakanda Kaluganga Project

The approval of the Department of Management Services had not been obtained for recruitment of staff of the Project.

- Sections 5.2 and 5.3

- (i) The Project Director had obtained fuel exceeding the monthly fuel limit of 145 liters entitled to him and the approval of the Secretary of the Ministry had not been obtained for the additional fuel obtained as such.
- (ii) The Project Director had granted approval for 6145 liters of fuel monthly for 33 officers in the manner of 75 to 400 liters of fuel monthly.

2. Financial and Operating Review

2.1 Financial Review

2.1.1 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 and prior year adjustments had resulted in a deficit of Rs.2,205,353,000 as compared with the deficit of Rs.2,080,307,000 for the preceding year. The deficit for the year under review amounted to Rs.475,353,000 after taking into account the government contribution of Rs.1,730,000,000 and before taking into account the prior year adjustments and the deficit for the preceding year amounted to Rs.437,807,000 after taking into account the government contribution of Rs.1,642,500,000 and before taking into account the prior year adjustments. Accordingly, the financial results for the year under review after taking into account the government contribution had indicated a deterioration of Rs.37,546,000 as compared with the financial results for the preceding year.

2.2 Operating Review

2.2.1 Performance

The following observations are made in respect of the performance of the Authority for the year under review.

(a) Projects Management

 The following projects had not been implemented.

- (i) Fixing of electric fence for elephant calamity and improvement of communication system and training programmes under the Moragahakanda Kaluganga Development Project.

Mahaveli C Zone

- (ii) Providing barrels for burning rice husk under the programme for utilizing carbonic fertilizer.
- (iii) Providing fishing net for fishing development activities on the basis of 50% contribution of the Authority.
- (iv) Construction of agrarian wells.
- (v) Conducting training programme for mushroom cultivation for female group and field study (Marketing) under the enterprises development and marketing activities.

The following projects had not been completed.

- (i) Awarding contracts for building repairs under the technical service activities.
- (ii) Purchase of cattle for special cattle programme.

Performance of the following projects was in a weak position (Projects with less than 50% progress).

Mahaveli C Zone

- (i) Distribution of plants, distribution of seeds and conducting training programme for development of 30000 home gardens under the Api Wavamu Rata Nagamu Programme.

- (ii) Programme for distribution of seeds such as chilies, B-onion, soya, maize, gram and bengal-gram under the one crop for one village programme
 - (iii) Maintenance of camps under the technical service
- (b) Annual Action Plan and Progress Reports

Details relating to programme which were not indicated sufficient performance at the examination of Annual Action Plan and Progress Reports are given below.

- (i) Forty one programmes estimated at Rs.86.47 million had not been implemented.
- (ii) The progress of 5 programmes estimated at Rs.42.47 million was less than 10 per cent.
- (iii) The progress of 13 programmes estimated at Rs.89.44 million was between 10 per cent to 30 per cent.
- (iv) Twenty one programmes estimated at Rs.26.85 million had not shown any physical progress in the progress reports.

2.2.2 Management Inefficiencies

A sum of Rs. 856,210 recoverable in respect of vehicle repairs carried out at the machineries workshop, Dambulla during the year 2010 had not been recovered up to 14 November 2011. Bills had not been issued for the repairs carried out.

2.2.3 Assets Management

The following observations are made.

(a) Assets Given to External Parties

Particulars	Number of Assets	Value	Observations
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		Rs.	
(i) Vehicles	08	Could not be computed	Vehicles had been given to the Ministry of Agriculture Development and Agrarian Services.
(ii) Building and equipment of the Vocational Training Centre, Girandurukotte	Not computed	Not computed	Given to the Sri Lanka Vocational Training Authority, Bandarawela.
(iii) Official quarters situated in the premises of the Dehiyattakandiya Camp	01	609,745	Given to an external party

(b) Idle and Underutilized Assets

	Type of assets	No. of assets	Value	Observation
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			Rs.	
(i)	Official Quarters, Dehiyattakandiya	20	14,773,000	Idling for long period
(ii)	Tires and tubes, forest cutting machines and its blades, planting machines.	74	360,643	Existed at the stores, Dehiyattakandiya for long period without utilization.
(iii)	Stock of stationery	Not determined	Details not submitted	Idling for 2 years at the stores, Dehiyattakandiya
(iv)	Chemical items	Not determined	Details not submitted	Idling for long period at the stores, Dehiyattakandiya

2.2.4 Human Resources Management

The following observations are made.

(a) Personnel Management

- (i) According to the approval of the Director General, Budget for the year 1999, the approved cadre was 4768 and the number of employees deployed in the service as at 31 December 2010 was 4466. Even though there were 302 vacancies for employees, excess

employees had been recruited for some posts and excess of 389 employees had existed only for the post of labourers.

- (ii) Details relating to designation, contract period and deployment in the services of 174 employees recruited on the basis of contract and substitute.
 - (iii) Even though there were posts which were not included in the approved cadre of the Authority and recruitment had been made for some posts exceeding the approved cadre, acting officers had been appointed for acting in those posts.
 - (iv) Twenty two employees of the “C” Zone had been assigned to the Paddy Marketing Board for 8 months without the approval of the Director General and salaries had been paid by the Authority for those period.
 - (v) Even though 22 Engineers, a Management Assistant and 07 Drivers recruited to the permanent cadre of the Authority had been temporarily released for Bund Protection and Water Resources Planning Project, those employees had been deployed in the service of the Project on full time basis.
 - (vi) It was observed that the courses conducted at the Girandurukotte Development Centre for the year under review had been reduced. As a result, staff relating to the above courses had not been effectively utilized in the service.
- (b) Recruitments without Proper Approval and the Payment of Allowances
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- (i) Although the post of Media Advisor was not included in the approved cadre of the Authority, a Media Advisor had been appointed for the period of 6 months from the month of July 2008

at a monthly allowance of Rs.75,000. His service period had been extended from time to time up to the month of July 2010 on the approval of the Board of Directors and the approval of the Department of Management Services also had not been obtained for this recruitment.

It was further observed in audit that a sum of Rs. 1,787,824 had been paid by the Authority as allowances, fuel expenses and telephone charges for the period from July 2008 to July 2010.

- (ii) Even though a Specialist Mechanical Engineer had been appointed for the Mechanical Workshop, Dambulla, the special approval for creation of such post had not been submitted for audit. Further, it was mentioned in the appointment letter of the above Engineer that he should performed as Specialist Mechanical Engineer of the Department of Irrigation and many other named projects and salaries thereon should be paid by those projects. Although monthly salary of Rs.75,000 had been paid to this officer by the Authority, it was observed that action had not been taken to reimburse the above money from the respective projects.
- (iii) Seven subordinate staff of the Niraviya Farm vested to the Authority who were recruited under the Mahaveli Livestock and Agriculture Enterprises (Private) Limited and appropriate action had not been taken in respect of remaining service condition of those employees. Salaries of those employees had been reimbursed from the Authority.

3. Systems and Controls

Matters observed during the course of audit relating to deficiencies in systems and controls 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) Stocks and Stores Control
- (b) Contract Administration
- (c) Preparation of Progress Reports of the Zonal Offices
- (d) Administration of the Official Quarters
- (e) Recovery of Outstanding Leases
- (f) Management of Niraviya Farm and Machinery Workshop, Dambulla