

Mahaweli Consultancy Bureau (Pvt) Ltd. – 2016

The audit of financial statements of the Mahaweli Consultancy Bureau (Pvt) Ltd (“the Company”) for the year ended 31 December 2016 , comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and cash flow statement 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. My observations on the performance of the Company which I consider should be presented to Parliament in terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

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 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. Those Standards require that I comply with the 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 Company’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 Company’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.

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

1.4 Establishment of the Company

Even though it had been stated by section 42(1) under the establishment of corporations of the Sri Lanka Mahaweli Authority Act, No .23 of 1979 that the capital of the company should consist of the ordinary shares valued at Rs.100 per share, this company had been registered on 18 June 1998 with 5,000,000 shares of authorized capital value at Rs.10 per share as per the Article Of Association of the company under the Company Act No 17 of 1982.A number of 6,384 shares of the company had been issued to the Sri Lanka Mahaweli Authority and one share had been issued in favour of the Secretary General Of Sri Lanka Mahaweli Authority.

1.5 Basis for Qualified Opinion

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

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report the financial statements give a true and fair view of the financial position of the Mahaweli Consultancy Bureau (Pvt) Ltd , as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards for Small and Medium-sized Entities.

Even though fully depreciated fixed assets costing Rs.3,519,602 had been in further use due to the failure to review the effective life of non-current assets annually in terms of Paragraph 19, Chapter 17 of Sri Lanka Accounting Standards for small and medium sized enterprises.. Accordingly, action had not been taken for the revision of the estimated error.

2.2.2 Accounting Deficiencies

A sum of Rs. 4,135,400 had been paid without Value Added Tax to foreign specialists as consultancy fees for the month of March and out of that non paid tax totalled Rs. 539,400 had been refunded from the Department of Inland Revenue and that expense had been understated in the Financial Statements.

2.2.3 Unexplained Differences

Even though creditors value of two leasing companies as per the balance confirmations amounted to Rs.4,850,729 and Rs. 892,285 respectively, it had been shown in the financial statements as Rs. 4,732,952 and Rs. 1,000,448 respectively.

2.3 Accounts Receivable

Action had not been taken to recover, receivable account balances amounting to Rs.1,852,118 older than 03 years as at the end of the year under review.

2.4 Noncompliance with laws, rules, regulation and management decisions .

The following non-compliance were observed

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliances
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(a) Mahawelli Authority Sri Lanka Act, No 23 of 1979. (i)Section 39 (1)	Even though company director board should be consist of seven members including government directors and shares directors the company director board had been consisted with only 3 members.
(ii)Section 45 (1)	Even though Chairperson of the company should be a director selected from the Directors of the Company, Chairperson had been appointed by the Minister of the Line Ministry.
(b) Public enterprises Circular No. 57 dated 11 February 2011 and Paragraph 08 of National Budget circular No. 2/2015 dated 31 January 2015.	A sum of Rs.539,000 had been spent during the year under review for gifts without the approval of the Director Board.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the financial result of the company for the year under review , amounted profit of Rs.6,462,537 as compared with the corresponding year profit of Rs.772,345 for the preceding year, thus indicating an improvement of Rs.5,690,192 of the year under review. Compared with the preceding year the Profit which earned through consultancy service which sum of Rs.4,834,463 had been the main reason for the above improvement.

In analyzing financial results of the year under review and 04 preceding years, net profit after tax for the year 2012 amounting to Rs.681,855 and it had increased to Rs.6,462,537 in the year 2016. However, when taking into consideration employees' remunerations, depreciations on non-current assets and tax, company contribution in the year 2012 amounting to Rs.21,010,172 had increased to Rs.37,019,119 during the year under review.

4. Operating Review

4.1 Performance

Following observations are made

- (a) According to the Article Of Associations there were 8 main objectives and some are given below. As it is mention no action has been taken initiate the objective of foreign projects as per the article to execute the execution objectives of the foreign projects.
- The feasibility study relevant to land and water resources development project in and outside Sri Lanka., planning designing and executing land handling and water resources projects and social economic infrastructure facility development projects.
 - Conducting the surveys for environmental construction projects and preparing plans and implementing such projects and preparing survey plans and implementing environmental pollution control project inside and outside Sri Lanka.
- (b) Expected goals of sectors relating to the operations had not been shown in the action plan prepared for the year under review and it could not be able to check the achievement of performances of each sector whether it was as per the plan, due to non-preparation of performance report according to the action plan.

4.2 Identified Losses

The following observations are made.

- (a) Due to the non-remitted the Value Added Tax(VAT), National Building Tax (NBT) and PAYE Tax typically for the period from 2000 to 2012, amounting Rs.1,810,836 fine had to pay to the company in the year under review.
- (b) Due to non-disclose in the dividend in year accordance with the Inland Revenue Act section 61 B, Deemed Dividend Tax amounting Rs.55,807 from the year 2015 profit had to pay in the year under review.

4.3 Management Activities

The following observations are made.

- (a) Approval of evaluated plan for the contract of the construction of Moragahakanda Reservoir and contract of consultancy for supervision of the construction had been awarded to the Company for one year from 15 March 2016 by the Cabinet decision No. 16/0416/704/012 dated 24 March 2016 for a sum of Rs.167,174,700 (without tax). Five officers, who were nominated by the Project director of the Moragahakanda Project, had been appointed as local consultants deviate from the procurement procedure of selecting consultants with the contribution of the Project Management Section. Company had been done only the preparation of the bill. A sub contract had been given to a private engineering consultancy company for deploy foreign consultants for the above contract.
- (b) Legal action had been taken against the company and the driver on a vehicle accident in year 2011, but due to non-attempting to court activities, court has ordered to pay Rs.4.5 million as a fine in month of October 2013. Provision had not been made on financial statements in years 2013,2014 and 2015 and provision amounting to Rs.2,000,000 provisions had been made and the fine paid in the year 2017.

Even though secretary of the company has failed perform her duties related to this case she was allowed to leave from her service without a proper investigation also the driver who is involved in this accident was recruited without approval has been terminated from employment without proper investigation.

4.4 Staff Administration

The following observations are made.

- (a) Even though company is providing consultancy services for major constructions of planning and constructing for such projects, action had not been taken to approve the post and cadre of officers and staff recruitment and promotion reviewing to that according to the finance regulation 71.
- (b) The legal officer of the Ministry of Irrigation and Water Resources Management under permanent category, who has been appointed as the company secretary on a contract basis for a monthly salary of Rs.50,000.
- (c) Even though actual cadre of the company is 28 ,sub contracts had been given to consultancy services for large number of projects due to non-recruitment for the posts of chief engineer, consultant (Engineer) etc.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

According to Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the drafts Annual Report had not been presented with the financial statements of the year under review and, the financial statements had been presented on 04 April 2017 and the amended financial statements had been presented to audit on 14 June 2017.

5.2 Budgetary Control

The budget that prepared for year under review had not been approved by the board of directors and , ranging from 11 per cent to 121 per cent were observed between the budgeted information's and actual information's, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

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

Areas of Systems and Controls

Observation

(a) Debtors and Creditors control

Action had not been taken to clear balances which were continues for a long period.

(b) Operation control

Action had not been taken to achieve all objectives of the Article of Association.