

Mahaweli Venture Capital Company (Pvt) Ltd – 2017

The audit of financial statements of the Mahaweli Venture Capital Company (Pvt) Ltd for the year ended 31 December 2017, comprising the statement of financial position as at 31 December 2017 and the statement of profit and loss, statement of changes in equity and cash flow statement for the year then ended and a summary of 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 operations of the Company in the year under review 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 Standard for Small and Medium-sized Entities 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 the audit conducted in accordance with Sri Lanka Auditing Standards.

1.4 Basis for Disclaimer of Opinion

- (a) In terms of paragraph 8.5 of Section 8 of Sri Lanka Accounting Standard for Small and Medium-sized Entities, the significant accounting policies applied in the preparation of financial statements for the year under review had not been disclosed in the financial statements.
- (b) In terms of paragraphs 3.8 and 3.9 of Section 3 and paragraph 4.4 of Section 4 of Sri Lanka Accounting Standard for Small and Medium-sized Entities, the current realizable value of all assets of the Company due to be liquidated, should be indicated in the financial statements as current assets. However, the write off value of the assets had been shown under non-current assets in the financial statements.
- (c) Even though the interest income from Treasury Bills relating to the year under review amounted to Rs.958,625, it had been shown as Rs.1,115,932 in the income statement, thus overstating the interest income by Rs.157,307.
- (d) Despite having realized the interest relating to Treasury Bills at the instance of purchasing them, a sum of Rs.174,924 had been shown as the interest receivable. Moreover, the interest income of Rs.168,410 received earlier had not been shown as liabilities.
- (e) Even though the cost of assets sold in the year under review was Rs.177,833, it had been shown in the financial statements as Rs.171,533.

(f) Audit evidence indicated against the following Items of Accounts had not been made available to Audit. As such, they could not be satisfactorily verified or vouched in Audit.

<u>Item of Account</u>	<u>Value</u>	<u>Evidence not made available</u>
	Rs	
Office Equipment - Cost	1,351,280	Updated Schedules of Fixed Assets, Reports on Boards of Survey
Furniture and Fittings - Cost	154,179	
Tools	162,885	
Buildings	62,098	
Motor Vehicles	116,303	
Stock of Singer machines	29,480	Certificates of Registration Revenue Licence and Certificate of Insurance
Provision for doubtful business loans	1,994,933	Documents of confirming the value and physical existence
Provision for Bad and Doubtful Debts for European Economic Commission Project Loans	1,368,863	Loan files, Loan lists, Approval for write off of loans
Provision for Bad and Doubtful Debts for Project Loans	1,952,190	
Trade and other payables (Dolomite Project)	310,025	
Stated Capital	10,398,000	Letters of Confirmation of Balances
<u>Reserves</u>		Share certificates
European Economic Commission	10,000,000	Evidence relating to accounting as reserves
Other	150,325	

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 2.2 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 financial statements.

2.1.1 Report on other Legal and Regulatory Requirements

As required by Section 163 (2) of the Companies Act, No.07 of 2007, I state the followings:

- (a) The basis of audit opinion and the scope and limitations of the audit are as stated in this report.

(b) In my audit opinion,

-I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have not been kept by the Company,

-the financial statements of the Company comply with the requirements of Section 151 of the Companies Act, No. 07 of 2007.

2.2 Accounts Receivable

Action had not been taken to recover 04 receivable loan balances valued at Rs.3,000,473 and to identify and settle 05 payable loan balances valued at Rs.460,708 shown in the financial statements for a long period.

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

In terms of Section 42 (1) of the Mahaweli Authority of Sri Lanka Act, No.23 of 1979, the capital of the Company should be comprised of ordinary shares of Rs.100 each. However, as per the Memorandum of Association of the Company, the authorized capital had comprised of 3,000,000 shares of Rs.10 each. Even though 1,039,800 shares and 03 shares out of them had been issued to the Mahaweli Authority of Sri Lanka and in the names of other outside persons respectively, the quantity of shares issued to outside persons had not been shown in the financial statements.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Company for the year under review had been a profit of Rs.990,740 as compared with the corresponding profit of Rs.786,671 for the preceding year, thus indicating an improvement of Rs.204,069 in the financial result for the year under review as compared with the preceding year. The increase in the interest income by Rs.207,395 for the year under review as compared with the preceding year, had mainly affected the improvement of the above financial result.

4. Operating Review

4.1 Management Activities

In terms of recommendations of the Parliamentary Committee on Public Enterprises held on 13 August 2012, the Board of Directors of the Mahaweli Authority of Sri Lanka had decided at the meeting held on 28 September 2012 to wind up the Company voluntarily by the end of December of the same year. Accordingly, a liquidator had been appointed to wind up the Company as per the special decision of the Board of Directors taken on 20 November 2014 and it had been agreed to make a payment of Rs.125,000 on 21 October 2014 for winding up activities and preparing of accounts. Moreover, 50 per cent out of the said amount which is Rs.62,500 had been paid on 10 January 2015. Even though it had been decided at first to wind up the Company voluntarily, it had been confirmed according to the letter No. PD/9854 dated

25 July 2016 of the Department of Registrar of Companies that subsequently it had become a winding up by settling of creditors. It had been informed as per the said letter to hold a meeting for creditors and to proceed further. However, no evidence had been made available that such a meeting had been held and the winding up activities of the Company had not been completed even by 31 January 2019. Moreover, a sum of Rs.38,500 had been shown again in the financial statements as fees payable for preparation of accounts in preparation of accounts for the year under review and the approval obtained for the payment of liquidating charges and fees for preparation of financial statements had not been presented to Audit.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements should be presented to the Auditor General within 60 days after the closure of the year of accounts. Nevertheless, the financial statements of liquidation of the Company had not been presented to Audit and the financial statements of the year under review had been presented to Audit only on 12 November 2018.