

## **Mahaweli Authority of Sri Lanka and its Subsidiaries - 2017**

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The audit of consolidated financial statements of the Mahaweli Authority of Sri Lanka and its subsidiaries for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of financial performance, statement of changes in net assets 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 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.

### **1.2 Management's Responsibility for the Financial Statements**

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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**

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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 Auditing 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 consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements 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 the audit.

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

#### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraphs 2.2 and 2.3 of this report.

### **2. Financial Statements**

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#### **2.1 Qualified Opinion - Group**

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In my opinion, except for the effects of the matters described in paragraphs 2.2 and 2.3 of this report, the 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 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards and Sri Lanka Accounting Standard for Small and Medium-sized Entities.

#### **Qualified Opinion – Authority**

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In my opinion, except for the effects of the matters described in paragraph 2.3 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 2017 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 Financial Statements - Group**

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##### **2.2.1 Amalgamation of Financial Statements**

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The following observations are made.

- (a) The consolidated financial statements had been prepared by amalgamating the Authority and its 03 subsidiaries with full ownership while one Company was being liquidated. Out of them, assets and liabilities valued at Rs.15,550,577 and Rs.394,657 respectively of the Mahaweli Venture Capital Company (Pvt.) Ltd. of which winding up activities were being carried out by settling the creditors, had not been included in the consolidated financial statements.
- (b) Even though the Authority had followed the Sri Lanka Public Sector Accounting Standards and its subsidiaries had followed the Sri Lanka Accounting Standard for Small and Medium-sized Entities, the basis followed by the Company had not been disclosed in the financial statements.

## **2.2.2 Sri Lanka Accounting Standard for Small and Medium – sized Entities**

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The following observations are made.

- (a) In terms of Section 17.19 of Chapter 17 of the Standard, the useful life of non-current assets of Mahaweli Consultancy Bureau (Pvt) Ltd. and Mahaweli Livestock and Agro Enterprises (Pvt) Ltd., had not been annually reviewed. As such, fixed assets costing Rs.3,035,306 and Rs.7,313,171 respectively had been fully depreciated. However, they had still been in use. Action had not been taken to revise the estimated error occurred, accordingly.
- (b) The Natural Resources Management Services (Pvt) Ltd. should record fixed deposits of Rs.5,802,607 matured in six months as current assets in terms of Section 4.5 of Chapter 04 of the Standard. However, they had been shown under non-current assets.
- (c) In terms of Section 28.18 of Chapter 28 of the Standard, in making provisions for gratuity, the Projected Unit Credit Method or a method similar to that should be followed. However, gratuity had been allocated by the Mahaweli Consultancy Bureau (Pvt) Ltd. and Mahaweli Livestock and Agro Enterprises (Pvt) Ltd., based on the salary obtained for the last time by the employees and the service period. Moreover, the provisions for gratuity made relating to the year under review as well had been understated respectively by Rs.1,609,568 and Rs.1,216,096 in the financial statements.

## **2.3 Comments on Financial Statements- Authority**

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### **2.3.1 Sri Lanka Public Sector Accounting Standards**

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In terms of Sri Lanka Public Sector Accounting Standard 1, the manner in which the value of stock of agro and livestock included in the consolidated financial statements valued at Rs.134,578,000 had been assessed, had not been disclosed by a note.

### **2.3.2 Accounting Policies**

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The Authority had not introduced an accounting policy in respect of accounting capital grants and as such, capital grants had not been identified as deferred income under a systematic basis. As a result, the balance of the Capital Grants Account as at the end of the year under review had been Rs.24,404 million.

### **2.3.3 Accounting Deficiencies**

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The following observations are made.

- (a) The fair value of 03 blocks of land costing Rs.67,440,853 purchased by the Authority during the period from 1984 to 1989, had not been valued and brought to account while 02 blocks of land out of those had been used by external parties without paying any charges. However, no charges had been recovered therefor.

- (b) Capital expenditure amounting to Rs.7,305,230 incurred in the year under review in the Niraviya Farm and Mahaweli B and H Systems, had been shown as recurrent expenditure.
- (c) The cash balance in transit included in the consolidated financial statements, comprised of other receivable balances of Rs.38,251,826.
- (d) The Authority owns 3 houses, 2 bed chambers, a holiday resort and a building belonging to the Udawalawa System and the value thereof had not been assessed and brought to account.
- (e) A part of the fixed assets costing Rs.671,503,748 vested in the Authority by the Dams Safety and Water Resource Planning Project had been revalued at Rs.180,131,037 and brought to account. However, the remaining assets had been omitted from accounts.
- (f) The stock of 24,750 kilogrammes of fertilizer valued at Rs.1,161,780 remained at the end of the year in the Niraviya Farm, had not been brought to account as the closing stock.
- (g) Action had not been taken to properly vest or to assess the value and bring to account 12 motor cycles, 02 multi chopper machines, a milk transport lorry, 03 tractors, 04 buildings for poultry farming, 02 items of electronic weighing equipment and the Bailing machine provided to the Niraviya Farm during the period from 2010-2016 by the Moragahakanda Project and the River Basin Management Office.
- (h) The value of 7,588 library books in the Victoria System, had not been computed and included in the financial statements.
- (i) The income from outstanding lease rent amounting to Rs.12,620,622 received in the year under review for the preceding years, had been shown in the financial statements as income in the year under review. Moreover, in the rectification in the year under review, income from outstanding lease rent of Rs.20,960,226 of the year 2015 taken to the income in the year 2016, had been credited to the accumulated loss erroneously and debited the Receivable Lease Rent Account. As such, the accumulated loss and the receivable lease rent had been understated and overstated by Rs.41,920,452 respectively.
- (j) The land usage fee of Rs.37,970,500 receivable for 75,941 cubes of sand obtained in the year under review by a company from the lands of Mahaweli System B, had not been brought to account.
- (k) Savings deposits of Rs.2,602,908 included in cash and cash equivalents, fixed deposits of Rs.727,481 and interest on short term deposits of Rs.1,000,000 had not been identified and brought to account.
- (l) The sum of Rs.50,000,000 deposited in the Lankaputhra Sanvardhana Bank received from the Treasury in the year 2006 for a loan scheme and the interest amounting to Rs.16,196,761 relating thereto had not been shown in the financial statements of the Authority.

### 2.3.4 Unexplained Differences

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The following observations are made.

- (a) Depreciation on property, plant and equipment shown in the financial statements of the year under review and the value of investments of the Mahaweli Livestock and Agro Enterprises (Pvt) Ltd. totalled Rs.945,474,952. Moreover, the said value had been shown as Rs.915,514,765 in the relevant subsidiary books, thus observing a difference of Rs.29,960,187.
- (b) In transferring fixed assets among Systems, receipts and issue of fixed assets to and from the systems should balance in the amalgamation of accounts. However, assets received from the systems and sent to the systems had been shown as Rs.409,983,931 and Rs.266,936,487 respectively, thus observing a difference of Rs.143,047,444.

### 2.3.5 Suspense Accounts

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Action had not been taken to settle the Suspense Account of Rs.14,117,550 included in the financial statements of a subsidiary of the Authority. Moreover, it had been shown as debtors under current assets in the consolidated financial statements.

### 2.3.6 Lack of Evidence for Audit

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The evidence shown against the following balances of accounts were not made available for Audit.

Item of Account	Description	Value	Evidence not made available
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		Rs.	
Investments -	Mahaweli Livestock Enterprises Ltd.	10,000,000	Share certificates
Mahaweli Authority of Sri Lanka	Mahaweli Venture Capital Company (Pvt) Ltd.	10,398,000	
	Mahaweli Consultancy Bureau (Pvt) Ltd.	64,000	
	Natural Resources Management Services (Pvt) Ltd.	15,000	
Assets	Savings Account	2,632,908	Confirmation of Balances and Bank Pass Book
	Fixed Deposits	727,481	Deposit certificates and confirmation of balances
Income	Lease rent income from Systems H, Udawalawa and Victoria	518,363,565	Registers on outstanding lease rent

## 2.4 Accounts Receivable and Payable

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The following observations are made.

- (a) An income from lease rent amounting to Rs.712,249,000 was receivable as at the end of the year under review and sums of Rs.24,776,000 and Rs.10,463,000 out of that, had lapsed for periods of 05 years and from 03 years to 05 years respectively. A methodology had not been introduced to collect lease income from leasing out of lands owned by the Authority. Moreover, the non – implementation of terms and conditions relevant to collection of lease income had resulted in the annual increase in outstanding lease income.
- (b) Mobilization advances amounted to Rs.535,226,000 as at the end of the year under review and even though a sum of Rs.3,466,000 out of the said sum had lapsed for over 05 years, action had not been taken to recover same.
- (c) Buildings owned by the Authority had been given out to external parties on the basis of reimbursement of expenditure for electricity, water and cleaning services and an expenditure of Rs.4,030,119 had not been reimbursed from 05 parties for over a period of 04 years. Moreover, buildings valued at Rs.104,394,675 owned by the Authority were being used by 13 external parties. However, the Authority had failed to recover a rent therefor even by 31 December 2017.
- (d) The value of accounts payable by the end of the year under review amounted to Rs.766,474,000 and out of that, a sum of Rs.23,779,000 had lapsed for over 05 years. Action had not been taken to settle retention money by verifying the completion of works of contract relating to cash retained in hand amounting to Rs.9,857,000 included in the said balances.
- (e) An extent of 25 acres of the Kalankuttiya Farm owned by the Authority had not been properly leased out to a Livestock Business Company owned by another Ministry in the year 2010 and the lease rent recoverable from the year 2010 up to the year under review had been Rs.10,035,000.

## 2.5 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance with Laws, Rules, Regulations and Management Decisions were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a) Section 10 (b) as amended by the Valued Added (Amendment) Tax Act, No.17 of 2013	If the total value of supplies of goods and services exceeds Rs.12 million within a period of 12 months, registration should be made for the Value Added Tax in terms of the Act. Even though the Authority had collected an income of Rs.87 million and Rs.93 million in the preceding year and the year under review respectively from relevant income sources, action had not been taken to register for the Value Added Tax.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 104 (4)	Reports relating to 12 motor vehicle accidents had not been presented to Audit in terms of Financial Regulations. As such, it could not be verified whether action had been taken to identify the value of loss and the officers responsible therefor and to recover the said loss.
(ii) Financial Regulation 757	Reports on Boards of Survey for fixed assets relating to 08 systems of the Authority had not been submitted to Audit.
(c) Public Finance Circular No.02/2015 dated 10 July 2015	The income received from disposal of motor vehicles should be credited to the Consolidated Fund in terms of the Circular. However, a sum of Rs.36,521,474 received from disposal of motor vehicles in the year under review had been retained by the Authority, without approval.
(d) Paragraphs 3.2 and 2.3.3 of Management Services Circular Nos.33 dated 05 April 2007 and 1/2016 dated 24 March 2016	Salaries amounting to Rs.4,282,668 had been paid by the Authority without approval for the period deployed in service for 03 officers released for projects contrary to the provisions of the Circular.
(e) Section 1.5.1 of the Financial Procedure of the Authority and Section 05 of the Circular No.02/2012 dated 15 March 2012 of the Director General.	Even though the advances should be settled within 07 days from the completion of the purpose for which it was obtained, the unsettled supply advances older than one year relating to 10 systems and two sections amounted to Rs.156,851,005.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the consolidated financial statements presented, financial results of the Group and the Authority for the year under review had been a deficit of Rs.437,478,000 and Rs.433,846,000 respectively as compared with the corresponding deficit of Rs.34,600,000 and Rs.37,851,000 respectively for the preceding year, thus indicating an increase in the deficit by Rs.402,878,000 and Rs.395,995,000 respectively of the financial results for the year under review as compared with the preceding year. The increase in expenditure of the Authority by Rs.337,305,000 had been the main reason for the increase in the deficit.

An analysis of the financial results of the year under review and 05 preceding years revealed that the deficit of Rs.350,271,000 of the Authority in the year 2012 had decreased in the years 2013, 2015 and 2016 and increased in the year 2014. In readjusting employees remuneration, depreciation for non-current assets and taxes to the financial result, the contribution of the Authority of Rs.1,876,561,000 for the year 2012 had continuously increased in the years 2013, 2014 and 2015 and it was decreasing in the year 2016 and in the year under review.

#### **3.2 Legal Action instituted against the Authority**

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Eighteen cases had been filed against the Authority by external institutions and persons relating to recovery of possession of houses and non-payment of gratuity and the financial commitment thereof had been Rs.43.775 million.

#### **3.3 Analytical Financial Review**

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The following observations are made.

- (a) Royalty and income from rent of houses/lands had been received less by Rs.203,347,000 in the year under review as compared with the year 2016 due to shortcomings in collection of income.
- (b) Expenditure on rehabilitation, development and maintenance of colonists had increased by Rs.330,300,000 in the year under review as compared with the year 2016 and the implementation of the integrated development project of System B in the years 2016/2017 had been the reason therefor.



## **4. Operating Review**

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### **4.1 Performance**

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#### **4.1.1 Planning**

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As the businesses of Public Entities should be managed with a short term and long term vision, it is the full responsibility of the Board of Directors to direct the business so as to achieve the proposed targets according to a Corporate Plan prepared for at least for a period of three years in terms of Section 5.1.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003. Nevertheless, the Mahaweli Authority of Sri Lanka had not prepared the Corporate Plan as such and presented it for the approval of the Board of Directors. Moreover, the revised Action Plan prepared in accordance with the performance relating to the year 2017 had been approved by the Board of Directors on 21 December 2017. Progress reports of the Authority prepared according to the Action Plan, had not been presented to Audit even by 31 September 2018.

#### **4.1.2 Activity and Review**

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The following observations are made.

- (a) According to the Mahaweli Master Plan, supply of water for production of electricity and irrigation purposes had been planned by a quantity of 6,900 million cubic metres of water of the Mahaweli River. Moreover, according to the Master Plan, it had been proposed to supply irrigation facilities for 365,853 hectares of land of 13 Mahaweli Systems. Irrigation facilities had been supplied for 85,252 hectares of land as at the end of the year under review while hydro-electricity had been produced from only 06 reservoirs out of 11 reservoirs, to be used for the production of electricity.
- (b) Even though 13,550 Land Permits 2,530 Land Permits and 580 Land Permits had been planned to be distributed respectively for home-steads, irrigable rain-fed activities under the Land Development Ordinance by the Lands Division, only 12,093 Land Permits, 2,032 Land Permits and 426 Land Permits had been distributed respectively. Even though 10,260 Land Permits, 3,525 Land Permits and 3,070 Land Permits had been planned to be distributed respectively, only 8,668 Land Permits, 2,876 Land Permits and 2,568 Land Permits had been distributed for home-steads, irrigable rain-fed activities respectively. It had been targeted to collect a sum of Rs.216,789,000 by giving out commercial activities, investment projects and houses on lease basis. However, only a sum of Rs.189,084,000 had been collected.
- (c) The details on targeted and actual progress achieved in the Fisheries and Livestock Division implemented under the Authority are given below.
  - (i) Even though it had been expected to distribute 37,716 chicks by allocating provisions of Rs.3,065,000 for distribution of chicks among colonists on a 50 per cent contribution by the Authority, only 29,012 chicks had been distributed by spending a sum of Rs.2,679,000.

- (ii) Provisions of Rs.191,000 had been made for insurance of 158 animals of Mahaweli dairy farmers. However, only 50 animals had been insured by spending a sum of Rs.36,000.
- (iii) Even though provisions of Rs.1,970,000 had been made for establishment of 20 breeding units for breeding of ornamental fish, only 8 units had been established by spending a sum of Rs.474,000.

(d) Business Development Division – Providing Lands for Projects

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- (i) According to the information of 06 Systems made available to Audit, out of 418 leasing out of lands on long term, 153 investors were successfully running businesses and out of them, the recovery of lease rent amounting to Rs.21,194,183 receivable as at 31 December 2017 from 28 investors, had failed.
- (ii) The number of undeveloped lands stood at 158 and it represented 38 per cent of the total extent of lands leased out. Outstanding balances of Rs.6,891,708 were recoverable for 38 businesses out of those and action had not been taken to recover the said lease rent or to vest the relevant lands in the Authority again.
- (iii) Out of 60 businesses, owned by others, carrying out unauthorized businesses, closed down, discontinued, not commenced businesses and businesses under development, the outstanding lease rent recoverable from 20 businesses had been Rs.1,509,893.
- (iv) Out of 3,489.19 acres of land granted for investment projects of Systems D and B, the extent of lands developed was 1,334.09 acres representing 38.23 per cent of the total lands granted. However, the reasons therefor had not been looked into and necessary action taken accordingly.
- (v) Even though an extent of lands as large as 755 acres in the System L had been granted to 30 investors in the years 2013 and 2014, no development activities whatsoever had been carried out even by 31 October 2018, the date of Audit. Lands of a large extent had been granted for removal of timber and for carrying out development activities. Nevertheless, it was confirmed according to reports that the cultivations on the lands of investors had been destroyed by wild elephants. As suitable lands had not been selected before granting lands for businesses, damages to cultivations from wild animals could not be avoided and as such, the purpose of granting lands had not been achieved and it was observed that the environmental damage as well caused thereby had been severe.

(e) Credit Programmes implemented by the Business Development Division

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- According to the Memorandum of Understanding entered into by the Authority with the Regional Development Bank for granting loans to colonists for the “Mahaweli Saviya” credit programme, the Authority had granted a sum of Rs.72,750,000 in the year 2010. An interest equal to that of savings should be received to the Authority for funds not used for issue of loans. However, no interest whatsoever had been obtained

by the end of the year under review for a value totalling Rs.335,850,255 of cash balances remaining in each year from the year 2011 up to the year 2017 and those balances had not been shown in the financial statements of the Authority. Moreover, loans of Rs.650,000 had been granted as well to three employees of the Authority contrary to Clause 04 of the Memorandum of Understanding.

- According to the Memorandum of Understanding entered into on 07 January 2013 with the People's Bank, the "Mahaweli Aruna" loan scheme had been implemented for granting loans for development of entrepreneurship for colonists and the difference between the interest paid by the debtor and the stated interest, is borne by the Authority. A loan of Rs.600,000 had been granted to three employees of the Authority contrary to clause 02 of the Memorandum of Understanding. Follow up action had not been taken on whether the loans have been utilized in the targeted objective, whether due benefits had been obtained and the progress in repayment of loans.
- According to the Memorandum of Understanding entered into by the Mahaweli Authority of Sri Lanka in the year 2015 with the Regional Development Bank, a sum of Rs.15,435,000 had been released only to 02 Systems for uplifting the living condition of the members of Farmers' Organizations in each System under the "Mahaweli Diriya" Loan Scheme. However, this programme had not been implemented in 08 Systems.  
Loans of Rs.1,250,000 had been granted without approval by a Farmers' Organization of System H which was one of the said Systems, to three colonists exceeding the maximum credit limit of Rs.200,000 granted to debtors.
- According to the Memorandum of Understanding entered into by the Authority with the Regional Development Bank, the sum of Rs.25 million received from the Moragahakanda Development Project on 04 August 2016 for the "Vyaparika Athwela" Loan Scheme of the Moragahakanda System implemented from the year 2017, had been retained in a current account by the Authority without utilizing for the relevant purpose. Even though it had been subsequently deposited in the bank in the year 2017, it had not been shown in the financial statements of the Authority. According to the Memorandum of Understanding, an interest equal to that of normal savings accounts should be received to the Authority for moneys for which loans are not issued. However, action had not been taken to obtain an interest on the balance amounting to Rs.6,368,400 of the Fund as at the end of the year 2017.

## 4.2 Management Activities

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The following observations are made.

- (a) According to proposals of investors, there were 46 small scale hydro-electric power stations operated by using water from the main tributaries of the Mahaweli River of the upper catchment areas of Mahaweli and 24 hydro-electric power stations, for which approval had been granted for operation. Nevertheless, in terms of Sections 3(1), 12 and 13 of the Authority Act, no arrangement had been made for the recovery of royalty.

Moreover, despite of a lease rent of Rs.25,733,500 recoverable as a nominal value in terms of agreements on lands granted to investors for the construction of 3 small scale hydroelectric power stations in the year 2013, the Authority had sent Letters of Demand for the recovery of Rs.3,681,600 out of the said lease rent according to the undeveloped value of the land. However, even that amount had not been recovered up to now.

- (b) Buildings valued at Rs.76,580,000 had been constructed on lands located in Jawatte area, not owned by the Authority. Moreover, action had not been taken even by 31 December 2017 to vest the ownership of those lands in the Authority.
- (c) No benefits whatsoever had been received for investments of Rs.439,000,000 made in 05 subsidiaries by the Authority.

### 4.3 Operating Activities

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The following observations are made.

- (a) In terms of the Internal Circular of the Authority, a sum of Rs.1,000 had to be recovered per cube for 1,943 cubes of metal removed from 03 quarries located in the Mahaweli System C. However, income had been collected less by Rs.1,065,750 due to recovery of Rs.300 per cube. Even though the Geological Survey and Mines Bureau had recovered royalty for 20,934 cubes, the Authority had recovered charges considering as only 1,943 cubes had been excavated. As such, income had been collected less by Rs.20,206,750.
- (b) The electricity bills of houses of the housing scheme in the Sinhapura Division of the Mahaweli System B had been outstanding. As such, the power supply had been disconnected and action had not been taken to identify the house owners by whom outstanding electricity bills were payable and to recover relevant moneys.
- (c) Lands of approximately 26 acres in extent belonging to the Niraviya Farm of the Authority had been leased out to the Mahaweli Livestock Enterprises Ltd. in the year 1989 for a period of 30 years by Lease Agreement No.එළු /4/බල/6/102 by the Land Registry of Anuradhapura. Action had not been taken to regularize this lease out carried out by the external party and to recover rents to the Authority.
- (d) The approval of the Board of Directors had been granted on 25 June 2013 for leasing out 12 blocks of land of 589.8 acres in extent belonging to the Sinhapura and Aselapura Divisions in the Welikanda System for the cultivation of sandalwood and coconut to 12 persons on a 30 year lease basis.

The following matters were observed in this connection.

- (i) It was observed during the field inspection carried out on 9 August 2018 that these lands were located in a forest area close to Carson Lake and the canal of the left bank of Maduru Oya which is a frequent haunt of wild elephants and the project had not been implemented in compliance with the approval and orders of the Environmental Authority and the Department of Wildlife.

- (ii) According to the Report on the field inspection carried out in the year 2015 by the Physical Planning Officer, Environment Officer and Project Development Officers of the System, it had been indicated that action will be taken to cultivate sandalwood on a land of 10 hectares in extent under Land No.2137. Nevertheless, cultivations had not been carried out up to the year 2018. It was observed at the physical audit verification that no cultivation whatsoever had been carried out on another 40 hectares of land in extent.
  - (iii) Even though the lessees had used the water of the Carson Lake and canal of the left bank of Maduru Oya, neither charges had been recovered nor any other measures taken therefor in terms of Internal Circular No. MASL/DDG (Dev)/15 of 17 July 2014.
  - (iv) Loans amounting to Rs.780,000,000 had been obtained by mortgaging 12 lease agreements to a commercial bank and according to the conditions of the long term lease, the Director General of the Authority had not been informed of the mortgage within 21 days from the date of mortgage.
- (e) The Authority and the Department of National Community Water Supply had entered into an agreement on 11 September 2015 for the implementation of a project valued at Rs.80 million with the motive of supply, construction, fixing, supply of facilities incidental thereto, maintenance for a period of ten years and ensure supply of water of specific standard relating to 30 Reverse Osmosis Plants for Mahaweli Systems B and L.

The following observations are made.

- (i) As provisions therefor had not been made from the budget of the year 2015, provisions of Rs.80 million had been obtained from two projects of two Systems. The Total Cost Estimate had not been approved. In terms of Guideline 2.14.1 of the Procurement Guidelines and Supplement 33, the supplier should be selected under the Open Competitive Biddings up to Rs.100 million. However, a supplier had been selected on the direct contracting system for supply, fixing and maintenance of equipment such as Reverse Osmosis Plants. Advance Payment Guarantee and Performance Securities that should be obtained in terms of Guidelines 5.4.4 and 5.4.8 of the Procurement Guidelines, had not been obtained as well.
- (ii) Even though the period of contract had expired as at 30 November 2015, the agreed purpose had not been completed by that date. However, the conditions so as to recover liquidated damages, had not been included in the contract.
- (iii) The Reverse Osmosis Plants/ Plant Yard that had completed works and relevant accessories should be taken over by the Authority from the Department of National Community Water Supply and administrative affairs should be handed over to Farmers Organizations through formal agreements. Nevertheless, action had not been taken relating to plants that had completed works.

- (iv) In terms of the agreement, the Mahaweli Authority had failed in the supervision and regulation of building tube wells as the water source and the maintenance of reports and supervision of electricity charges, expenditure on employees to be incurred on behalf of Farmers Organizations and income from sale of water for the Reverse Osmosis Plant Yard.
- (v) In terms of the agreement, the Department of National Community Water Supply had failed to carry out supply and fixing of Reverse Osmosis Plants with warranty, certifying the quality of filtered water once a month and presenting those test reports monthly to the Resident Business Management Office, essential maintenance, supply of services and spare parts and maintenance of spare parts and Reverse Osmosis Plants for a period of 10 years.
- (vi) Despite the lapse of nearly three years after spending a sum of Rs.80 million for supply of pure drinking water to Mahaweli colonists suffering from kidney ailment, the Authority had not taken follow up action to check whether the benefits of the said invested money had been received by the colonists of the relevant villages and the level of progress thereof. However, 03 out of 12 Reverse Osmosis Plants fixed in the Weli Oya System had become inoperative and it had not been monthly examined whether the water issued from 09 Reverse Osmosis Plants had been up to standard. Out of 18 Reverse Osmosis Plants constructed in the Welikanda System, 14 Reverse Osmosis Plants had been inoperative.
- (f) A number of 247 buildings and houses in the Mahaweli H, C and Walawe Systems and the Headworks Administration Operation and Maintenance Division of the Authority had not been formally given out to external parties. As such, the Authority had been deprived of a receivable income.
- (g) A building, 03 training halls, 24 official quarters valued at Rs.26,030,780 belonging to the Mahaweli Security Corps had been handed over to the Kotmale International Training Institute on temporary basis from 24 December 2012. However, no charges whatsoever had been recovered therefor from the date of hand over.
- (h) Even though the responsibility of collecting lease rent from lands had been assigned to the Director (Lands) and Deputy/Assistant Director (Lands), that responsibility had not been delegated to Resident Business Managers in charge of each System and relevant officers of the System and included in their duty lists. Moreover, the responsibilities of collecting of revenue which could be earned from other sources of income had not been included in the duty lists of any officer. As a result, the progress of estimated collection of revenue in the year under review by System C, System H, Victoria System, Head Office and Forests and Environment Division had taken a minimum value of 37 per cent to 66 per cent.

#### 4.4 Transactions of Contentious Nature

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The following observations are made.

(a) Examination of the Sand Mining Site

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- (i) According to the request of the Resident Business Manager of System C, the Director General of Wildlife had granted approval subsequently for 50 places not recommended by the joint field inspection conducted by the Authority, Geological Survey and Mines Bureau, Department of Wildlife Conservation and Central Environmental Authority in the years 2015 and 2016 for recommending places suitable for commencing new mining sites of the Mahaweli River in the area of authority of Mahaweli. Mining of sand had been carried out by obtaining mining licences on the said approval.
  - (ii) The Authority had not taken proper and continuous follow up action in this connection as the landowner and as such, it was observed during the course of Audit that in operating sites of 16 sand mining sites in that System, the conditions imposed by the Central Environmental Authority and the Department of Wildlife Conservation had been violated.
  - (iii) Sand mining had been carried out for a period of 12 months by paying only the land usage fee relating to a month. However, the Resident Business Management Office of System C had not taken action to recover a sum of Rs.509,861,400 as land usage fees for 807,194 cubes of sand mined with 386 mining licences for the remaining 11 months in terms of provisions in the Internal Circular No. DL/1/1 of 24 August 2015 of the Mahaweli Authority. Had follow up action been taken thereon, necessary measures may have been taken by identifying this matter.
- (b) Three lands of 3.593 hectares in extent had been leased out by the Victoria Kotmale System in the year 2013 to three persons for removal of limestone. They had paid the royalty for 31,684 cubes of limestone removed from the year 2013 to the year 2016 to the Geological Survey and Mines Bureau. Accordingly, a sum of Rs.3,937,500 should have been paid to the Authority at the rate of Rs.300 per cube in terms of the Internal Circular of 24 August 2015 of the Authority. However, only a sum of Rs.1,004,580 had been paid. Even though a Letter of Demand had been sent to one lessee for the amount of Rs.3,937,500 outstanding from 31 December 2016, payments had not been made therefor and further legal action had not been taken as well.
- (c) Even though the installation of cable systems is a task to be carried out by the Electricity Board, an investor had incurred a cost of Rs.150,000,000 to install a new cable system for increasing the capacity of Maduru Oya 1 and 2 power stations. It had been recommended by a Committee appointed therefor that this expenditure should be divided between the investor and the Authority at 65.8 : 34.2, the ratio at which royalty is divided. Moreover, the Board of Directors had made a decision that a tripartite agreement should be entered into between the Mahaweli Authority, Electricity Board and the investor for setting off the royalty received from the investor to the Authority against the amount payable by the Authority to the investor. The relevant parties had not entered into a tripartite agreement

as such and according to the recommendation of the aforesaid Committee, a sum of Rs.51,300,000 of the expenditure incurred by the investor should be borne by the Authority. However, contrary to that, a sum of Rs.75,000,000 had been deducted from the royalty received to the Authority.

- (d) A number of 383 animals valued at Rs.7,347,608 of the Niraviya Farm belonging to the Thambuththegama Resident Business Management Office had been handed over to the National Livestock and Development Board in the year under review. As there was no agreement between the two parties on the recovery of the value of animals, the value of livestock could not be recovered as at the end of the year under review and it had not even been shown in the financial statements as an amount recoverable.
- (e) The land of 17.942 hectares in extent with the Eppawala Phosphate Deposit belonging to the Thambuththegama Resident Business Management Office had been leased out to the State Geological Survey and Development Corporation for a period of 30 years in terms of the agreement dated 09 April 1992. The lease out of the land had been carried out through the Provincial Land Commissioner and in terms of agreements, the lease rent should have been payable to the Provincial Land Commissioner. As such, no lease rent whatsoever had been recovered to the Mahaweli Authority from the year 1992 to the end of the year 2017. Subsequently, the Authority had entered into an agreement with Lanka Phosphate Limited for recovery of charges in two instances from 01 January 2016 to 31 December 2017 and agreed to recover a service charge of Rs.300 for a cube of Apatite mined. The following matters were observed in this connection.
  - (i) A sum of Rs.1,809,738 had been recovered for 6,011 cubes mined in the year 2017 based only on the information made available by the Company.
  - (ii) In making payments by the Company to the contractor and the Geological Survey and Mines Bureau, the weight of Apatite mined was based and in the payment to the Authority, it was observed that the Authority had to sustain a financial loss due to the basis of the number of cubes of Apatite.
  - (iii) According to the Letter No. LUS/SYS-H/PP/1-VOL-1-2015 dated 23 November 2015 of the Director General of the Mahaweli Authority of Sri Lanka, a sum of Rs.300 had been recovered per 01 cube of Apatite only until a methodology and prices are prepared for the recovery of relevant service charges. Nevertheless, a proper methodology had not been prepared relating to recovery of service charges as mentioned.

#### **4.5 Underutilization of Funds**

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A sum of Rs.48 million had been invested in the Uva Development Bank and the Rajarata Development Bank with the motive of setting up a Revolving Fund for implementing loan programmes in the year 2002. However, action had not been taken according to conditions in the agreement entered into with those banks. Moreover, the deposit value amounted to Rs.84.5 million as at the end of the year under review and in terms of agreements, retention of these funds for a long period at an interest rate of 4 per cent less than the normal interest on savings had been an uneconomic activity. Further, the purpose expected from the Revolving Fund had not been carried out even up to the year 2018.



#### **4.6 Idle and Underutilized Assets**

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The following observations are made.

- (a) According to the undated report No.MA/Asset/Build/Gen/01 of September 2017 of the Finance Division, 1,055 buildings relating to 10 Systems and 02 Divisions of the Authority were being used by external parties by the year 2017. Moreover, it was observed that 551 buildings and 293 buildings remain idle and in unusable condition respectively.
- (b) Two lorries, 03 tractors and a trailer, a bowser and a motor cycle parked in the Niraviya Farm and 15 houses, 03 buildings, 12 hen pens, 05 pig sties and a goat shed in the said farm remained idle and a proper arrangement had not been implemented to dispose of the said assets or to make use of them.
- (c) The Geographical Information Systems Division located in Polgolla had been shifted to the Environment and Forest Conservation Division in Kotmale in the year 2007. As such, 02 computers, a Laptop, 02 units of UPS, 03 GPS devices, 03 printers, a digital camera, a digital safe and a scanner had remained idle.
- (d) As water pumps were not supplied to the 02 water pump houses constructed in the Niraviya Farm, the operations of the pump house could not be implemented.

#### **4.7 Resources of the Authority given to other Institutions**

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The following observations are made.

- (a) Forty four Assistant Security Supervisors and Security Guides attached to the Mahaweli Security Corps had been released to external Government Institutions in the year 2015 and salaries of Rs.49,974,569 and overtime and travelling expenditure of Rs.21,571,442 paid by the Authority from the date of release up to the year under review had not been reimbursed.
- (b) Even though 18 motor vehicles belonging to the Authority had been given to other Ministries and Departments, such approval granted had not been presented to Audit and the existence of these motor vehicles had not been confirmed by a physical verification. Moreover, one motor vehicle given temporarily to the Presidential Secretariat had been kept with the Mahaweli Security Corps at Jawatte from 06 April 2017 without undergoing repairs after meeting with an accident.
- (c) Salaries amounting to Rs.17,936,683 and salaries, overtime and travelling expenses amounting to Rs.19,106,596 paid to 09 officers and employees released full time to various projects from the year 2015 and to 18 officers and employees released to the line Ministry and other Government Institutions respectively had not been reimbursed.

#### **4.8 Staff Administration**

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The following observations are made.

- (a) Fourteen posts of Senior Management Level, 159 posts of Middle Management Level and 509 posts of Primary Level had been vacant and a staff of 195 was in excess in the Authority as at 31 December 2017. Moreover, 83 persons had been recruited to posts not included in the approved cadre.
- (b) Action had not been taken to recruit suitable officers permanently by adhering to the recruitment procedures, in terms of the Scheme of Recruitment of the Deputy Director General (Development), Director (Lands), Director (Personnel and Administration), Director (Fisheries and Livestock), Director (Development) and Deputy Resident Business Managers of System C, System B, Huruluwewa System, Rambakenoya System and System G of the Authority. As duties are covered by persons recruited on contract basis and secondary basis in certain vacant posts, the long term service obtained from officers recruited to the Authority on permanent basis with prescribed qualifications as well as the opportunity of achieving high performance, had been lost.

#### **4.9 Utilization of Motor Vehicles**

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The Deputy Director General (Control and Finance) and Deputy Director General (Technical Services) had been informed by Letters of the Director, Headworks Administration Operation dated 09 March 2010 and 22 January 2014 to dispose of and sell by Tender 10 motor vehicles that remained idle in the Headworks Administration Operation and Maintenance Division since the year 2008. However, taking such action by the end of the year under review had failed.

#### **5. Sustainable Development**

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##### **5.1 Achievement of Sustainable Development Goals**

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Every Government Institution should act in terms of the Year 2030 “Agenda” of the United Nations on Sustainable Development and the Authority had not been aware of the manner in performing the functions that come under its scope relating to the year under review. As such, sustainable development goals relating to the functions thereof, targets and the focal points in achieving those targets and the indicators in evaluating the performance in achieving those targets had not been identified.

#### **6. Accountability and Good Governance**

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##### **6.1 Presentation of Financial Statements**

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In terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements and the draft Annual Report should be presented to Audit within 60 days after the closure of the financial year. Even though the financial statements for the year under review had been presented to Audit on 28 September 2018 with a delay of 06 months, the draft Annual Report had not been presented along with them.

## **6.2 Internal Audit**

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The post of Director (Internal Audit) of the Authority had been vacant from the year 2011 up to the end of the year under review and the Chief Internal Auditor had been appointed for the performance of duties thereof without taking action to appoint a qualified Director for the said post.

## **6.3 Procurement and Contract Process**

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### **6.3.1 Deficiencies in Contract Administration**

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The following observations are made.

- (a) A contract of Rs.1,922,818 had been awarded for the construction of the guard room and toilets of the Works Division belonging to the Resident Business Management Office of Welikanda and the Stores of the Aralaganwila Seed Farm and the works should have been commenced on 07 November 2017 and completed in 90 days. The contract period had been extended in 03 instances and the third extension was from 22 May 2018 to 02 June 2018. However, works had not been completed even by 07 August 2018, the date of Audit. Moreover, neither the contract period had been extended therefor nor relevant liquidated damages of Rs.34,610 had been recovered. Further, in construction, the estimate had been revised for laying of a concrete slab instead of building the roof with timber and asbestos and fixing Aluminum doors and windows instead of wooden doors and windows. Nevertheless, action had not been taken even by 30 September 2018 to approve the revised estimate.
- (b) A contract had been awarded to a value of Rs.1,884,610 for constructing the surrounding fence and the main gate of the Ruhunuketha Circuit Bungalow and a fence surrounding the circuit bungalow had been constructed by spending a sum of Rs.549,822 by 07 August 2018, the date of Audit. However, it had been destroyed due to damages caused by wild elephants. This area is a frequent haunt of wild elephants and a strong electric fence should have been installed before fixing the fence and it was observed that the amount spent in fixing the wire fence had been a fruitless expenditure without installing the electric fence.
- (c) Activities of 03 contracts of the Thambuththegama System for which the contract period had expired, had not been completed even by 18 July 2018, the date of Audit. Extensions of periods had not been applied for these contracts of which works had not been completed and action had not been taken to recover liquidated damages of Rs.1,025,776 in terms of agreements of contractors failed to be duly completed.

#### **6.4 Budgetary Control**

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The following observations are made.

- (a) Expenditure had been actually incurred exceeding the limit of budgetary provisions ranging from 81 per cent to 38,445 per cent relating to 6 Items.
- (b) A sum of Rs.27,968,000 had been spent for 04 activities for which provisions had not been made for the year under review and no expenditure whatsoever had been incurred for 08 activities for which provisions of Rs.32,497,000 had been made.

#### **6.5 Tabling of Annual Reports**

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The Annual Reports of the Authority relating to the years 2015 and 2016 had not been tabled in Parliament even by 30 October 2018.

#### **6.6 Unresolved Audit Paragraphs**

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The following observations are made.

- (a) About 50 per cent of Sri Lanka's total hydro-electric power is produced by the Ceylon Electricity Board through hydropower stations constructed beside Mahaweli reservoirs and it was observed that electricity charges for electric bulbs on the dams of the Polgolla, Victoria and Kotmale reservoirs are paid to the Electricity Board by the Authority. As the maintenance of reservoirs and a payment of charges is not made for the water used by the Electricity Board, the Authority should have paid attention to obtain requirement of electricity of these main dams free of charge.
- (b) It was revealed that 655 encroachers were residing in the reserved lands beside the Polgolla, Kotmale, Bowatenna, Mapakada, Maduro Oya and Victoria reservoirs and the Authority had failed to evict these encroachers and to prevent the arrival of encroachers on reoccupying.
- (c) According to the Decision at the Cabinet meeting held on 08 July 1992 and the Decisions at the Cabinet meeting held on 14 October 1992, approval had been granted to a Company of the United States of America for leasing out the land and building complex of the Authority located in Digana for a period of 50 years subjected to a long term percentage for a value of 06 per cent and for a value not less than 10 per cent at the maximum of the assessed value of the Chief Valuer for the construction of a film complex and a film location. According to the Memorandum of Understanding entered into on 21 May 1993 with the Company, the building complex and land had been valued for a sum of Rs.20 million. However, it had not been included in the lease agreements. Moreover, according to computations in Audit, the rent recoverable as at 31 December 2016 had been Rs.28,800,000 and the rent recoverable for 11 houses given out in terms of agreements had been Rs.4,542,500. Even though court measures had been taken in the recovery of possession of these assets, a final decision could not be taken.

- (d) In the supply of soil required for the Southern Expressway, the officers of the Walawe Resident Business Management Office had not granted lands according to a proper plan. As such, soil had been dug exceeding the approved limit and according to measuring reports, the quantity of soil removed from the two places provided for digging soil, was 157,719 cubes. However, land usage fees of Rs.2,800,000 had been received to the Authority for only 5,000 cubes of soil. The sum of Rs.85,522,640 receivable for 152,719 cubes of soil removed in excess had not been recovered. The recovery of these moneys had delayed, thus taking legal action required for the recovery of same had been doubtful. Taking disciplinary action against the relevant officers had been at a sluggish level.
- (e) The value of buildings of the Waterfield Technologies (Pvt) Ltd. vested in the Victoria System in the year 2016, had not been valued and shown in the financial statements of the year under review.

## 7. Systems and Controls

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Weaknesses in systems and controls 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.

<b>Areas of Systems and Controls</b>	<b>Observations</b>
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(a) Fixed Assets Management	Even though assets had been verified annually to confirm the existence of assets, non-presentation of relevant reports and failure in taking proper action relating to idle and underutilized assets.
(b) Utilization of Lands and buildings	Making use of buildings without paying rent by external parties, buildings in Systems remaining idle and action not taken to earn income by proper management of lands with mineral resources.
(c) Accounting	No accurate methodology was available for collection of tax income and outstanding tax income and terms and conditions relating to collection of tax had not been effected.
(d) Granting and settlement of advances	Advances obtained had not been settled in terms of Financial Regulations.
(e) Contract Administration	Selecting of contractors had not been carried out through a Departmental Procurement Board and duties had been allocated without any basis whatsoever, in a manner of obtaining approval by the Regional Procurement Board.

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| (f) Administration of various projects | Failure in obtaining approval from other relevant institutions for implementation of projects and obtaining environment evaluation reports |
| (g) Staff Management                   | Fourteen vacancies in senior management level and an excess staff of 195 in other categories of employees                                  |
| (h) Control over Motor Vehicles        | Failure in regaining motor vehicles custody of the external parties and in conducting Annual Boards of Survey on motor vehicles            |