

Mahaweli Consultancy Bureau (Private) Limited - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Mahaweli Consultancy Bureau (Private) Limited for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects from the matters described in Paragraph 1.5 of this report, the financial statements of the Company give a true and fair view of the financial position as at 31 December 2020, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium Sized Enterprises.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards for Small and Medium Sized Enterprises, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observation on Preparation of Financial Statements

1.5.1 Internal Control on Preparation of Financial Statements

Company is required to “design and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non-compliance to the Sri Lanka Accounting Standards for Small and Medium Sized Enterprises

Following observations were made.

Non-compliance with the reference to the relevant Standard	Comments of the Management	Recommendation
(a) Stock of iron wire and iron gates purchased in 2018 for the construction of Kanewela Anicut had being corroded and become to an unusable condition due to the termination of that contract. In accordance with paragraph 13.4 of the Accounting Standards for Small and Medium Sized Enterprises, though it should be accounted the lower of the cost of inventory or the net realizable value as assets, the cost of Rs.1,412,685 had been accounted without calculating the net realizable value of that iron stock.	In accordance with paragraph 13.4 of the Accounting Standards, it was accounted by considering the net realizable value as the market value as at day. But, that stock could not be valued year after year by a technical officer due to the matters out of the administration of the Company (from 2018), the approval of the Board of Directors had been taken to dispose the stock by now.	It should be acted as per Accounting Standards.
(b) In accordance with paragraph 10.21 of the Accounting Standards for Small and Medium Sized Enterprises, the material prior period errors should be restated by adjusting retrospectively in the approved financial statements and the nature of the	The Bank has recovered the withheld performance value and advance security due to the lack of opportunity to complete this contract as the required technical officers leaving the company	It should be acted as per Accounting Standards.

errors and the way of adjusted should be disclosed in the financial statements. However, error in accounting for the operating loss of Rs.2,730,169 incurred in the previous year as bank charges had not been rectified in the financial statements as per the provisions of the Standard due to non-fulfillment of the contract for the construction of the Kanewela Anicut as per the agreement.

because of it was expecting to liquidate the company by that time. This is an incident beyond the administration of the company.

- (c) Although 25 fixed assets items worth Rs.3,629,951 that owned by the Company were fully depreciated as not reviewing the useful life time for the non-current assets annually in accordance with paragraph 17.19 of the Accounting Standards for Small and Medium Sized Enterprises, it was being used further. Accordingly, no action had been taken to rectify the estimated error occurred.
- In line with that standardized matter, management has been instructed to take the necessary steps from this year to revalue the assets and include them in the books.
- It should be acted as per Accounting Standards.

1.5.3 Accounting Deficiencies

Following observations were made.

	Audit Observation	Comments of the Management	Recommendation
(a)	Although the withdrawal of a fixed deposit of Rs.2,972,630 should be stated as cash outflow in the cash flow statement, it had been stated as a cash inflow.	Action will be taken to correct the error in the cash flow statement by 2021.	Financial statements should be prepared properly.
(b)	Although this company has been approved for liquidation by Cabinet Decision No.AMP/19/2550/104/076 dated 25 September 2019, Subsequently, the Company was approved to be transferred to the Ministry of Agriculture, Rural Economic Affairs, Irrigation and Fisheries and Aquatic Resources Development in accordance with Cabinet Decision No. AMP/ 19/2770/104/083 dated 15 October 2019. Accordingly, although this company has been attached to the Ministry of Irrigation from 30 December 2020, no any disclosure in the company's financial statements regarding the implementation of that policy decision and the changes that took place in the company's shareholding.	The company's financial statements were not disclosed, as the ownership would be completed after the acquisition of the shares, and however, it was a matter that expected to take place in 2021 in line with the expected policy decision.	It should be acted in accordance with the cabinet decisions.

1.6 Accounts Receivables and Payables

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
It was not presented the balance confirmations for 09 accounts receivables over 05 years of Rs.7,718,908 to the audit. The amount of Rs.1,319,471 receivable from the Mahaweli Authority of Sri Lanka was not stated in the financial statements of the Authority. The recovery of Rs.442,647 receivable from the dam protection project was problematic as that project was terminated. Further, a balance of Rs.100,000 under fixed assets, was also stated in the financial statements without further confirmation.	Letters have been sent to confirm all receivable balances. As per the instructions of the management, this balance has been obtained up to Rs.3,058,057 by March 2021 and, at present the balance has been reduced to Rs.4,660,851 and, actions are being taken to obtain the remaining balance.	Actions should be taken to settle the accounts receivable balances.

1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
There were account payable balances payable of Rs.13,343,494 as at 31 December 2020 and, Out of which Rs.10,243,521 remained unsettled for more than 05 years.	Although Rs.10,243,521 from the payable balances over 5 years was shown as at 31 December 2020, the outstanding balance of Rs.6,644,211 has been settled by April 2021 by acting as per the instructions of the management and, the remaining balances indicate the retention advances on ongoing projects.	Actions should be taken to settle the accounts payable balances.

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

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Management	Recommendation
Paragraph 6.5.1 of the Public Enterprise Circular No. PED/12 of 02 June 2003	The draft annual report had not been submitted with the financial statements for the year under review.	So far the draft annual report has not been submitted by the institute and, it is kindly informed that the Draft Annual Report will be prepared and submitted from the year 2021.	Arrangements should be made to submit financial statements in accordance with the circulars.

2. Financial Review

The operating result for the year under review was a surplus of Rs. 13,924,210 and, the profit of the previous year corresponded to that was Rs. 2,373,187. Accordingly, a deficit of Rs.16,297,397 was observed in the financial result. The company has not taken over any new operations from the project and engineering divisions for the years 2019 and 2020 had been reasoned mainly for this deficit.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation

Company had not taken the approval of the Board of Directors by preparing the an Action Plan by including the expected activities to be implemented in the year under review and a Procurement Plan including the procurements to be implemented during the year.

Comments of the Management

Due to the decision taken to liquidate the company at that time, appropriate action was being taken for that, no expected action plan and expected procurement plan for the year under review have been prepared as no new operations have been undertaken in 2018, 2019 and 2020. However, as per a Cabinet decision, the institution will be re-established and new operations will be carried out in the year 2021.

Recommendation

Relevant plans should be prepared in accordance with the circulars.

3.2 Operational Inefficiencies

Audit Observation

The company had not taken over any new operations from the projects and engineering divisions for the years 2019 and 2020 and, operating income of the company had been decreased from Rs.90,203,907 in 2018 to Rs.29,808,040 in 2019. No income was received during the year under review and, only a fixed deposit interest of Rs. 4,083,465 was received. Accordingly, profits continued to be made in previous years. The company had incurred a loss of Rs. 13,924,210 during the year under review.

Comments of the Management

Due to the decision taken to liquidate the company at that time, appropriate action was being taken for that, no any income was reported as no new operations have been undertaken in the years of 2018, 2019 and 2020. However, as per a Cabinet decision, the institution will be re-established and new operations will be carried out in the year 2021.

Recommendation

Steps should be taken to maintain administrative matters efficiently.

3.3 Procurement Management

Audit Observation	Comments of the Management	Recommendation
The company had incurred a loss of Rs.20,200,000 due to non-compliance with the procurement guidelines when awarding sub-contracts for the construction of Moragahakanda Circuit Bungalow and Observation Gallery in the year 2017. Although the Committee on Public Enterprises held on 21 February 2019 recommended that a formal inquiry be initiated into this matter and that a report be submitted to the Committee within one month, those recommendations had not been implemented. Legal action to recover the money had not been initiated until 02 August 2021, the audit date.	As the chairman, who was being observed for violating procurement guidelines, has died by now, the Attorney General has been consulted for advice on possible legal action to recover and, the above actions will be taken after receiving those instructions.	Action should be taken to implement the recommendations of the Committee on Public Enterprises.

3.4 Human Resource Management

Following observations were made.

Audit Observation	Comments of the Management	Recommendation
(a) There was no approved cadre for the company and, a scheme of recruitment had not been approved by the Management Services Department or the Board of Directors. As a result, it could not be examined on the accuracy of recruitment, promotions, qualifications of the positions and salary determination for the cadre of the company.	Due to the decision taken by the company to liquidate, it could not be carried out the termination of the company's ongoing projects from 2018 and to do actions in relation to the specific cadre for the company and scheme of recruitment for that based on the cadre recruitments, promotions, and suspensions on salary increments. Under the new management in the year 2021, the company is considering new projects and is considering measures to change the organizational structure accordingly.	Steps should be taken to make the administrative matters efficient with the approval of the Department of Management Services.
(b) Although there was a vacancy from the year 2019 for the post of Manager (Projects) and Engineer in the Engineering Division related to the implementation of the consulting services which was the main operation of the Company, actions had not been taken to recruit until September 2021.	Due to the decision taken to liquidate the company, the projects that the company has been carrying out since 2018 had to be stopped. Therefore, officers cannot be appointed to the relevant posts.	-Do-