

Mahaweli Authority of Sri Lanka - 2012

1. Financial statements

1:1 Qualified Audit Opinion- Group

In my opinion, except for the effects of the matters described in paragraph 1:2 of this report, the consolidated financial statements give a true and fair view of the financial position of the Mahaweli Authority of Sri Lanka and its subsidiary companies as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

Qualified Audit Opinion- Authority

In my opinion, except for the effects of the matters described in paragraph 1:2 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 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Comments on Financial Statements.

1.2.1 Consolidated Financial Statements

Amalgamation of accounts

Financial statements had been prepared by amalgamating accounts of the Authority and its five subsidiary companies. Following observations are made in this connection.

- (a) Three major projects had been included in the consolidated financial statements of the Authority in the preceding year and two projects which were directly implemented under the Ministry had been removed from the accounts of the Authority in 2012.

- (b) The financial year of the subsidiary companies being 01 April to 31 March, only the accounts of 04 companies relating to 03 months were audited accounts while the accounts relating to the remaining 09 months were not audited accounts. Accounts of one subsidiary company had not been audited since 2007.

1.2.2 Accounting Policies.

Decrease in non-current liabilities.

Expenditure for infrastructure facility development and improvement, construction of roads, and expenditure for community development, maintenance of agricultural and irrigation facilities had been shown as other financial assets under non-current liabilities up to the year 2011 and a decision had been taken to identify them as capital maintenance expenditure and write off through the financial performance statement annually.

Accordingly, Rs 1.471 million had been written off in 2012. Further, other financial assets brought forward in the consolidated statement of financial position as at 31 December 2011 amounting to Rs.59.63 billion had been written off against the Accumulated Fund. Accordingly, assets in the consolidated statement of financial position as at 31 December 2012 had decreased by 95 per cent as compared with the previous year. The approval of the Board of Directors in respect of changing accounting policies had not been furnished to audit. I had been informed by the reply of the Director General dated 04 December 2013 that, the relevant documents had been referred to the Department of State Accounts for obtaining approval in this regard.

1.2.3 Accounts receivable and payable

In terms of the financial statements as at 31 December 2012, the balance of the trade and other receivable amounted to Rs.893.4 million and out of which a sum of Rs.478.7

million was lease income receivable and it represented 53.5 per cent of the income receivable. Following observations are made in this connection.

- (a) According to the reports of the land division it was revealed that, Rs.370 million or 87 per cent of the receivable income was lease income receivable. Out of such lease income Rs.170 million or 45 per cent was recoverable from Zone “H” while 21 per cent was recoverable from Zone “C”.
- (b) The rental receivable for the year with regard to the lands granted by the Authority for the use of Niraviya and Kalankuttiya farms of the Mahaweli Livestock Enterprises Company Ltd. had not been calculated and brought to the accounts of the year under review. I had been informed by the letter of the Director General dated 04 December 2013 that, action would be taken to recover the rental applicable to the building since 2013.
- (c) In terms of the financial statements as at 31 December 2011, the value of the accounts receivable from various sources amounted to Rs. 368,481,000 and it was Rs.478,727,000 by the end of the year 2012. Accordingly, an increase in the outstanding accounts receivable by Rs.110,246,000 or 29 per cent was observed.
- (d) According to the records of the land division, the number of blocks of lands which had been unlawfully encroached amounted to 7,333 and it was observed that, the delay occurred in legalizing these lands deprives the Authority of the rental income which can be earned from the lands from which rental can be recovered.
- (e) In terms of the accounts, the contingent liabilities for the cases filed against the Authority as at 31 December 2012 amounted to Rs.144.23 million.

1.2.4 Unreconciled accounts.

In terms of the statement of financial performance, the lease income receivable from 07 regional project management offices amounted to Rs.357.9 million and as per the records of the Land Division it was 105.7 million. As such, a difference of Rs.252.2

million of the annual income was observed. The reasons for this difference were not apparent.

1.2.5 Irregular Transactions.

According to a sample test, two regional offices of the Authority had incurred a sum of Rs.879,844 for the supply of fuel for the vehicles of the Ministry of Irrigation and Water Resources Management and as expenditure for food and beverages during the year under review and action had not been taken to get such money reimbursed from the Ministry.

1.2.6 Lack of evidence for audit.

Detailed reports and age analysis of lease income receivable amounting to Rs.370 million had not been furnished to audit.

1.3 Non- compliance with laws, rules, regulations and management decisions

Following non-compliances were observed.

| <u>Reference to laws, rules and regulations etc.</u> | <u>Non compliance</u> |
|--|-----------------------|
|--|-----------------------|

Financial Regulations of the Democratic Socialist Republic of Sri Lanka

- | | |
|-------------------------------|--|
| (a) Financial Regulations 371 | (i) Even though the maximum amount which can be granted as an ad-hoc imprest at a time amounted to Rs.20, 000 on the contrary, payment of advances up to Rs.196,000 exceeding the said limit during 68 instances were observed under the Rambakenoya project in the year 2012. |
| (2) (b) and (d) | |

The Director General, by his letter dated 04 December 2013, had informed that since this limit being an obstacle

to maintain institutional affairs continuously and efficiently, advances have to be granted thus exceeding the limit.

- (ii) According to a sample test, it was observed that advances had been paid to the officers of Rambakenoya Zone and Mahaweli Security Divisions who were not in the staff grade in 08 and 100 instances respectively.

- (iii) Even though the ad-hoc imprest should be settled immediately after the completion of the relevant purpose, it was observed that there were instances where advances had not been settled up to the period of 08 months.

2 Financial Review

2.1 Financial Result

As per the consolidated financial statements presented, the operations of the Authority and its subsidiary companies for the year under review had resulted in a deficit of Rs. 3,318,273,000 before taking into account the Government contribution as compared with the corresponding deficit of Rs. 2,878,546,000 for the preceding year. After taking into account the Government contribution of Rs.3,206,888,000 the deficit for the year under review amounted to Rs.111,384,000 while such deficit for the preceding year amounted to Rs.231,257,000 after taking into account the Government contribution of Rs.2,647,289,000 for the previous year. Accordingly, an increase of Rs. 119,873,000 in the consolidated financial results was observed.

2.2 Analytical Financial Review.

- (a) As per the statement of financial performance presented, income, expenditure and an analytical review for the year under review and the previous year are given below.
- i As compared with the previous year, deficit had decreased by Rs.119.8 million or 48 per cent.
 - ii Expenditure for the supply and transport had increased by Rs.17.4 million or 19 per cent in the year 2012 as compared with the year 2011, whereas other expenditure had decreased by Rs.53.3 million or 64 per cent. The decrease in the other administration expenditure of the Mahaweli Consultation Bureau had resulted in this decrease in other expenditure.
 - iii As compared with the previous year, income of the Authority and its subsidiary companies on the operational activities of the year under review had increased by Rs.257.3 million or 68 per cent. Increase in the Royalty by 54.8 million or 299 per cent and lease income by Rs.207.7 million or 114 per cent had been the reasons for this increase.
 - iv In comparison with the figures relating to three years in the statement of financial performance, the calculated ratios are given below

| Income and expenditure account. | 2012 | 2011 | 2010 |
|---|------|------|------|
| | % | % | % |
| Government grants to the total income | 73 | 86 | 86 |
| Personal emolument expenditure from the total expenditure | 73 | 52 | 56 |
| Rental income from the total operational income | 61 | 74 | 83 |
| Total expenditure over total income | 103 | 105 | 119 |

3. Operating Review

3.1 Performance

Following observations are made.

3.1.1 Liquidation of Companies

For the purpose of liquidating two companies viz Venture Capital Company Ltd. and Mahaweli Engineering Services Company out of 5 subsidiary companies, a Director Board Paper had been submitted to the Board of Directors in 2010 and it had been kept behind for taking decisions following further discussions.

On 04 December 2013 the Director General had informed me that approval of the Board of Directors had been granted on 23 November 2013 to liquidate the above mentioned two companies and the Mahaweli Livestock and Agriculture Enterprises Company (Private) Ltd.

3.1.2 Entire Land development

As per the Mahaweli General Plan, the total extent of lands expected to be developed within 14 zones was 420,170 hectares. The extent of lands which had been developed as at 31 December 2012 was 102,528 hectares and the extent of lands currently being developed under the Moragahakanda Project is 81,422 hectares. Accordingly, a specific development programme for the development of 236,220 hectares had not been formulated up to 31 December 2012.

It had been informed by the reply of the Director General given on this matter on 04 December 2013 that, taking into consideration the present day needs, nature of the natural resources and their usage, the Mahaweli General Plan was being developed by the Dam Safety and Water Resources Planning project and the development activities of the

southern bank of the Maduruoya and Welioya ,which had been unattended due to longstanding war atmosphere had been initiated.

3.1.3 Administration and development affairs of the farms.

As per the Corporate Plan, there are 16 farms owned by the Authority within an entire land area of 204.8 hectares in 08 zones. In accordance with the consolidated financial statements of the Authority and its subsidiary companies, income earned by the farm production amounted to Rs.10,241,000 as at 31 December 2012 and the income for the year 2011 being a sum of Rs.14,600,000 a decrease of the income by Rs.4,359,000 was observed. Further, it was observed that administration, supervision and maintenance affairs of the farm had not been at a satisfactory level.

3.1.4 Purchase of 105,000 seed coconuts for the distribution of saplings

For a special programme which was not included in the Annual Action plan, 50,000 seed coconuts had been purchased at a cost of Rs.1,750,000 from a plantation company in July 2012 in order to distribute coconut saplings among new residents and the business personnel of the Zone “L”. Further, 50,000 seed coconuts had been purchased by the Rambakenoya project from the estates of the Janatha Estates Development Board and private sector incurring a sum of Rs.1,600,000. In the selection of seeds for the coconut trees which bring forth yield for more than 50 years, though the technical assistance should have been obtained from the institutions such as Coconut Research Institute and Coconut Development Board who are expertized on their quality, required arrangement in this regard had not been made by the officers responsible. Accordingly, it was observed that, this expenditure had not been utilized so as to gain optimum economical productivity.

3.1.5 Animal husbandry

Following observations are made.

(a) Zone “L”

In the end of year 2011 and during the early months of 2012, 200 goats, 200 milch cows, and 20 stud bulls valued at Rs.13,685,340 had been purchased in order to distribute among the farmers, free of charge. Quotations in terms of the paragraph 3.2 of the Procurement Guidelines had not been invited for this purpose.

(b) Ridimaliyadda Development Project.

A policy decision had been taken to extend concurrence to the implementation of this project, after conducting a feasibility study in terms of the Cabinet decision dated 11 September 2011. Nevertheless, a report of the feasibility study prepared in accordance with this Cabinet decision had not been furnished to audit.

Seven activities valued at Rs.6,950,000 planned under the animal husbandry as per the action plan, 2012 of this project had been abandoned without execution during the year.

Under the milch cow programme implemented for the distribution of milch cows among the farmers, although the target was to distribute 75 milch cows, only 45 milch cows had been provided. Therefore, the progress of the year was only 60 per cent. In the purchase of such milch cows, criteria on the standard of the animals had not been formulated and assistance of an Agricultural Officer had not been sought.

3.1.6 Training activities.

Following observations are made.

- (a) Even though training programmes on self-employment relating to the amelioration of the living standard of the residents within the zone should be conducted by the main training centres of the Authority, it was observed that, Thelhiriyawa training centre in the Zone H and Girandurukotte training centre in the Zone C had not arranged and conducted timely training courses.

Even though about 10 sewing machines had been provided to the training centers in Zone L for the training purposes, any training programme had not been conducted during 2012. Accordingly, it was observed that buildings and machines of these centers had remained underutilized.

The Director General had informed by his letter dated 04 December 2013 that, training programmes such as Juki machine training, bridal dressing and Computer training were being conducted only at the Suriyawewa Training centre and a part of the centre had been temporarily given for the training activities of the youth cops (Yovun Senankaya).

- (b) Even though a sum of Rs. 3,250,000 had been allocated for the institutional development and training activities of the Rambakenoya Residential Enterprises Management Office, training programmes had not been implemented by the office.

The Director General had informed by his reply letter dated 04 December 2013 that since Farmers Associations could not be established owing to the delay occurred in the resettlement, this provision could not be utilized.

3.1.7 Control and maintenance of circuit bungalows

There were 17 circuit bungalows under the Authority as at 31 December 2012. Even though the circuit bungalow at Nuwara- Eliya had been closed down since June 2011 for renovations, no such renovations had been initiated up to 31 December 2013. In terms of the consolidated financial statements, 2012 the total income received from the circuit bungalows amounted to Rs.2,792,000. It was observed that an adequate attention had not been focused on the maintenance and control of the circuit bungalows during the year under review.

3.1.8 Performance of the land division

In the inspection of the performance of the Land Division for the period from 2009 to 2012, it was observed that the work relating to 26 targeted activities valued at Rs.199,628 had not been fulfilled and the progress of another 11 activities had been below 50 per cent. Following observations are made in this connection.

- (a) It was observed that the targets had been set impracticably and in the achievement of performance, inefficiencies of the relevant divisions have affected thereon.
- (b) It was observed that even though the Residential Enterprises Management Office of the Zone H had planned to distribute 1,506 blocks of land for various purposes under the Land Development Ordinance, only 03 blocks of lands had been distributed. The Director General had informed by his reply letter dated 04 December 2013 that delays occurred in obtaining diagrams from the Department of Survey and reports from the Department of Valuation had given rise to the delays of the above activities.
- (c) Under the Crown Land Ordinance 2,984 various annual permits and 399 long term leases had been targeted to be granted for the year 2012, whereas only 1,172 permits and 06 leases had been granted.

3.2 Management Inefficiencies

Following observations are made.

- (a) i Value of the total products purchased to be sold at the Mahaweli stall in 2012 amounted to Rs. 1,671,419 and out of which 40 per cent or products valued at Rs.674,031 were not Mahaweli products. Accordingly, it was observed that although Mahaweli stall had been set up for the sale of Mahaweli products, the objective had not been achieved.
 - ii Even though the Director (Agricultural crops and Projects) had instructed to formulate a system to purchase fresh vegetables and fruits twice in a week , action had not been taken accordingly.
 - iii An officer who had been recruited as the Chef had carried out all the affairs including financial control of the stall.
- (b) In terms of the paragraph 4.2.4 of the manual on the maintenance of the Victoria dam, the condition of the cables which fastened the concrete slab of the dam gates had to be checked in 2000, whereas it had not been carried out up to 31 December 2013. The Director General had informed by his reply letter dated 04 December 2013 that, it had been planned to implement such activity as a special programme under the Dam Safety Project.
- (c) It was observed that about 50 per cent of the total hydro power generation of the Sri Lanka Electricity Board is produced by hydro power stations constructed in association with the Mahaweli reservoirs and a sum of Rs.4,576,989 had been paid to Sri Lanka Electricity Board in 2012 by the authority as electricity charges in respect of the electric lamps fixed on the dams of the Polgolla and Victoria reservoirs. Further, at the early stage of the construction of the Victoria dam, plans had been drawn to construct a micro hydro power station to meet the electricity requirement of the dam and necessary equipment for this purpose had also been provided by the first

construction company. Nevertheless, the said construction had been abandoned later and the equipment had been left insecurely in various locations without using. Since payment of charges for the maintenance of reservoirs and water used by the Electricity Board are not made, attention of the Authority should be focused on securing electricity requirements of the major dams, free of charge.

(d) Unauthorized occupation within the dam reservations

It was revealed that there were 655 unauthorized occupants in the reservation areas of Pollgolla, Kothmale, Bowathenna, Mapakada, Maduruoya and Victoria reservoirs and Authority had failed to evacuate those squatters and preclude further arrival of such squatters.

According to the reply of the Director General, a sub-committee of the Parliamentary Advisory Council had been appointed with regard to the evacuation of squatters and future action would be taken according to the decision of the said sub-committee.

(e) Construction of tube wells in the Zone L

Even though a sum of Rs.500,000 had been allocated to construct 10 tube wells in the year, at least a single new tube well had not been constructed and a sum of Rs.1,048,992 had been paid to the Water Resources Board in February 2012 for reconstruction of 6 tube wells. Out of them only 04 tube wells had been reconstructed as at 31 December 2012 and reconstruction of remaining wells had been abandoned. The Authority had not taken action to recover the sum of Rs.318,864 paid in excess to the Water Resources Board or to get the said work done.

3.3 Underutilization of funds

The capital expenditure estimate of the Authority for the year 2012 amounted to Rs.2,050 million and as per the accounts the expenditure was Rs.1,486 million. Savings of the provision was Rs.564 million or 27.51 per cent. The lower level of the performance of following projects had been the reason for this purpose.

| Expenditure item Project | For the year 2012 | | | | | | Reasons for lower performance |
|---|---|---------------------------|--------------------------|-----------------------|---|-------------------------|--|
| | Total expenditure of the project Rs.Mn | Estimated amount Rs.Mn | Amount Received Rs.Mn | Amount spent Rs.Mn | Savings of the provision as per estimated amount Rs.Mn | Savings as a percentage | |
| i Redeemaliyadda Project | - | 100 | 15 | 45.7 | 54.3 | 54.3 | Shortage of the staff and unfavourable weather condition |
| ii Rambakenoya Project | 1086 | 100 | - | 29 | 71 | 71 | Delay in the completion of the construction of Rambakenoya Reservoir |
| iii Kivuloya Project Zone-L | - | 100 | - | 3.33 | 96.7 | 96.7 | Delays in carrying out environmental studies. |
| iv Expenditure of Mahaweli zones | - | 846 | 670 | 674 | 172 | 20 | |
| v. Head office | - | 292 | 130 | 118 | 174 | 59 | Delays in receiving imprests |
| vi Agriculture Productivity Development Programme | - | 121 | 61 | 107 | 14 | 11 | Unfavourable weather conditions |
| vii. Livestock Development Programme | - | 132 | 1 | 15 | 17 | 53 | Delay in obtaining standard milch cows. |

Even though the amount estimated to obtain from the Consolidated Fund for Ridimaliyadda, Rambaken oya and Kivuloya projects in the year was Rs.300 million, a sum of Rs.15 million had been received for such projects and as such, expenditure amounting to Rs.63.03 had been incurred from the money received for the activities of the Authority.

3.4 Uneconomic Transactions

As per the stock books of the Zone L, the value of the non-moving stocks which remained over a period of 04 years was a sum of Rs.1,263,396 and it is observed that it is an unnecessary investment on stocks.

3.5 Deficiencies in contract administration

Following deficiencies were observed on contract administration.

- (a) From among the contracts inspected, it was observed that action had not been taken to blacklist the names of 05 contractors whose contracts had been cancelled for not completing the work on due dates, who had half way abandoned the contracts and who had not commenced work under the contract.
- (b) It was observed at the sample test that although action should be taken to recover bid security from the contractors who had not commenced work of the contract, action had not been taken accordingly during two instances in respect of contractors who had not commenced work of the contract.
- (c) It was observed at the sample test that unnecessary delays had occurred in 06 instances in checking and forwarding bills submitted by the contractors to the Head Office.

3.6 Utilization of vehicles

Following observations are made.

- (a) The Residential Enterprises Manager of the Zone H had used an additional vehicle besides the vehicle allocated to him from May 2010 to December 2011. It was observed as per the Gate pass register maintained by the security division that the above vehicle had not arrived at the office premises from May 2010 to December 2011. Nevertheless, the Residential Enterprises Manager had certified every travelling specified therein placing his signature.

Even though the driver of the vehicle had stated that the daily travelling of the vehicle is started from Thambuththegama , he had not signed the register of arrival and departure maintained at the Thambuththegama office during the period from February 2010 to December 2011.

The office had incurred Rs.201,385 in respect of repairs and replacement of 04 tires to this vehicle during the period in which the vehicle was not used by the office. The Director General had informed that a preliminary inquiry had been initiated in this connection.

- (b) Upon a court order, another Residential Enterprises Manager had been attached to the Residential Enterprises Office of Zone H from on 16 September 2011. These two officers had excessively obtained fuel valued at Rs 682,298 during the year 2011 without approval.

3.7 Resources of the Authority given to other public institutions

Contrary to the Chapter 8.3.9 of the Public Enterprises Circular dated 02 June 2003, 06 vehicles had been utilized by the Agricultural Development Ministry, the previous line ministry while 16 and 06 vehicles had been utilized by the Ministry of Water Resources Management, the present line ministry and other public parties respectively.

4. Accountability and Good Governance

4.1 Corporate Plan

A Corporate Plan had been prepared for the period of 05 years from 2012 to 2016 in the year 2012. Even though the targets required to be achieved by the Irrigation Division as per the “Mahinda Chinthana Ten year plan” had been pointed out in the Corporate Plan , arrangements had not been made to implement them by specifying strategies required to be adopted to achieve the said targets.

4.2 Action Plan

The officer responsible for each activity had not been identified in the Action Plan prepared for the year under review.

4.3 Internal Audit

The post of Director (Internal Audit) had fallen vacant since 30 November 2010 and a qualified officer had not been recruited to that post up to 15 November 2013.

4.4 Audit and Management Committees

In terms of the section 7.4.1.of the Public Enterprise Circular No PED/12, committee meetings should be conducted once in three months, only 03 meetings had been held during the year 2012.

4.5 Procurement Plan

Even though a Procurement Plan had been prepared for the year 2012, it had not been implemented adequately.

4.6 Budgetary Control

A budget had been prepared and funds provided thereon. However, the budget had been revised so as not to make changes to the total expenditure considering the expenditure incurred at the end of the year and the approval of the Board of Directors had been obtained again annually and as such, it was observed that the budget had not been made use of as an instrument of control.

6. Systems and Controls

Deficiencies 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 of control.

- (a) Leasing of Lands
- (b) Utilization of Buildings
- (c) Implementation of Development Programmes according to the Action Plan
 - (i) Agricultural programmes
 - (ii) Milch Cow Programme
 - (iii) Fresh Water Fish Development Programme
- (d) Contract Administration
- (e) Implementation of Training Programmes at the Training Centers
- (f) Farm Administration
- (g) Stores Control
- (h) Collection of Taxes
- (i) Allocation and Control of Vehicles
- (j) Obtaining Labour by entering into Agreements with Farmers Societies
- (k) Payment of advances
- (l) Implementation of projects.