

Mahaweli Authority of Sri Lanka – 2015

The audit of consolidated financial statements of the Mahaweli Authority of Sri Lanka and its subsidiaries for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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. The audit of the financial statements of the subsidiaries is carried out by the firms of Chartered Accountants appointed by the Board of Directors, of the subsidiaries.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka 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

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 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 Audit Opinion

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

2. Financial statements

2.1 Qualified Audit Opinion

2.1.1 Group

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 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.1.2 Authority

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 2015 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

2.2.1 Consolidated Financial Statements

The consolidated financial statements had been prepared by integrating the Authority and its 04 subsidiaries with hundred per cent ownership and the Board of Directors had decided on 02 July 2015 to operate one company, that is, the Mahaweli Livestock and Agro Enterprises (Pvt) Ltd. as a Public Private Partnership.

2.2.2 Going Concern

On the decision of the Board of Directors meeting held on 12 September 2012 , it had been decided to wind up the two subsidiaries, namely the Mahaweli Venture Capital (Pvt.) Ltd and the Natural Resources Management Services (Pvt.) Ltd. Out of that, a Liquidator had been appointed only for the Mahaweli Venture Capital (Pvt.) Ltd on 20 November 2014, whereas action had not been taken to wind up even by the year under review.

2.2.3 Sri Lanka Accounting Standards

The following observations are made.

- (a) The Auditor of the company had reported that the Natural Resources Management Services (Pvt.) Ltd was not following the Sri Lanka Accounting Standards and the financial statements for the year under review had been prepared based on the comparative figures of the unaudited financial statements of the year 2014.
- (b) In spite of lack of going concern of the two subsidiaries proposed to be liquidated, the financial statements prepared contrary to the provisions of Sri Lanka Accounting Standard 10 had been utilized for the preparation of consolidated financial statements.

2.3 Comments on Financial Statements- Authority

2.3.1 Sri Lanka Public Sector Accounting Standards

Sri Lanka Public Sector Accounting Standard 07

- (a) Although revaluation of fixed assets should be carried out by a professionally qualified member engaged in the profession of valuation, the revaluation of the fixed assets in the year under review had been carried out by a Mechanical Engineer and two Accountants of the Authority and a payment of Rs.300,000 had been made in that respect.
- (b) In the revaluation of assets, although the assets of one Zone had been depreciated by taking into consideration the determined future life, the remaining zones and sections had followed the old depreciation policy for the depreciation of the revalued assets without considering the estimated future life in the revaluation.
- (c) As 556 items costing Rs.39,714,672 could not be physically identified in the revaluation of fixed assets, approval of the Board of Directors had been granted to account a sum of Rs.30,286,542 hypothetically determined by the Fixed Assets Revaluation Committee by considering it as the revaluation value of those assets.

2.3.2 Accounting Policies

The following observations are made.

- (a) Although the Authority had maintained 18 farms on commercial basis, a policy had not been identified to prepare accounts in a manner enabling to identify the profit and loss separately after adjusting the stock.

- (b) Although there were 22,327 animals of various kinds in 18 farms owned by the Authority and 142,060 perennial and seasonal crops, herbal plants, fruits and economic crops cultivated on 12.1 hectares of land, policies had not been identified to value and bring them to account.

2.3.3 Accounting Deficiencies

The following observations are made.

- (a) The value of 03 lands of the Authority situated in Colombo had not been identified and brought to account. Although 02 of those lands were occupying by outside parties, action had not been taken to recover a monthly rent.
- (b) The royalty amounting to Rs.36,158,435 receivable for the preceding year from the micro hydro power station productions purchased by the Electricity Board had not been brought to account as receivable income and a sum of Rs.20,757,264 received for that purpose had been shown as an income of the year under review.
- (c) The receivable fixed deposit interest as at the end of the year under review had been understated by Rs.3,063,354 in the accounts.
- (d) As a sum of Rs.5,840,198 received as the other income during the year under review had been adjusted to the Interest Income Receivable Account, the income relating to the year under review and the receivable interest had been understated by that amount.
- (e) In the revaluation of assets owned by the Mahaweli Security Force, although the consumables that could not be identified as the assets had been disposed of and brought to accounts, the accumulated depreciation thereon amounting to Rs.1,394,938 had not been eliminated from the account.
- (f) A policy had not been identified to account for the Government Capital Grants and the capital assets valued at Rs.31,724,045 purchased by the use of capital grants during the year under review had been written off from the profit as the expenditure on rehabilitation and improvements.
- (g) As the depreciation had been made contrary to the accounting policy on depreciation of the Authority, depreciations of the Motor vehicles and office buildings had been overstated by Rs.3,252,965 and Rs.2,741,056 respectively.
- (h) According to the accounting policy of the Authority, provisions for the gratuity should be made for the employees who had completed an uninterrupted service of one year. Nevertheless, action had not been taken accordingly and as such provision for gratuity had been understated by Rs.1,758,548.
- (i) The building of the Kothmale Training Center valued at Rs.26,136,630 and the other assets belonging to the Authority had been vested in the Ministry of Irrigation and Water Resources Management in the year 2012. Nevertheless, those assets and the

relevant depreciation of Rs.1,152,359 had been shown as the assets and the expenditure in the accounts of the Mahaweli Security Force under the Mahaweli Authority even up to the year under review.

2.3.4 Unexplained Differences

The following observations are made.

- (a) Even though the revaluation value of the fixed assets had been shown as Rs.43,415,077 according to the financial statements, it had been Rs. 41,459,210 according to the revaluation report, thus indicating a difference of Rs.1,955,867.
- (b) According to the financial statements arrears of house rent as at the end of the year under review amounted to Rs.1,679,420, whereas it was Rs.970,117 according to the House Rent Register, thus indicating a difference of Rs.709,303.

2.3.5 Suspense Accounts

The balances of Rs.31,079,000 older than 5 years of 4 zones and 02 completed projects and assumed as irrecoverable had been shown in a suspense account. The approval obtained to adjust those balances in a suspense account had not been made available to Audit.

2.3.6 Lack of Evidence for Audit

Although the Director General had informed that the Share Certificates for a sum totalling Rs.20,477,000 invested by the Mahaweli Authority in its subsidiaries would be subsequently submitted to audit, those certificates had not been submitted. Accordingly, those could not be established in audit.

2.4 Accounts Receivable and Payable

The following observations are made.

- (a) Out of the receivable rental income of Rs.727,358,000 as at the end of the year under review, a sum of Rs.224,184,000 had exceeded a period of 05 years while a sum of Rs.148,634,000 had elapsed a period from 03 years to 05 years.
- (b) Even though the buildings owned by the Authority had been given to 05 Government institutions on the basis of reimbursement of electricity, water and sanitary expenses, a sum of Rs.4,030,119 spent on them by the Authority during the year under review had not been reimbursed.
- (c) A sum of Rs.12,543,000 out of the payable balances totalling Rs.267,364,000 had elapsed a period of 05 years, but action had not been taken to settle those balances.

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

The following instances of non-compliances were observed

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a) Part X of the State Land Ordinance No.08 of 1947	In case of failure to settle the lease rental within 90 days from the date of entering into lease agreement, the lease agreement should be terminated forthwith. Nevertheless, the lease rental that remained in arrears exceeding a year amounted to Rs.457,373,000 by the end of the year under review. But action had not been taken to terminate the relevant agreements.
(b) Section 10 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 month, registration should be made for the Value Added Tax. Although the Authority had collected Rs.47 million and Rs.18 million in the preceding year and the year under review respectively from the income sources, action had not been taken to register for the Value Added Tax.
(c) Section 12 of Chapter vii of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.	The Senior Accountant appointed to cover up the duty of the Director (Finance) had been paid the fuel allowance of Rs.517,205 from April 2013 to 31 December 2015 contrary to the provisions of the Establishments Code subject to the approval of the Director General.
(d) Financial Regulation 104 (4) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	Action had not been taken to recover the damages amounting to Rs.924,467 caused to 10 vehicles of the Authority and the final reports on the accidents had not been issued as required by the Financial Regulations.
(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.	Although the advances should be settled within 07 days from the completion of the purpose for which the advance was obtained, the advances unsettled and older than one year by the end of the year under review amounted to Rs.8,923,000.

3 Financial Review

3.1 Financial Results

According to the consolidated financial statements presented, operations of the Group and the Authority for the year under review had resulted in a deficit of Rs.227,147,000 and Rs.229,217,000 respectively as compared with the corresponding deficit of Rs.391,013,000 and Rs.392,871,000 respectively for the preceding year, thus indicating a decrease in the deficit by Rs. 163,866,000 and Rs.163,654,000 respectively of the financial results for the year under review as compared with the preceding year.

Analysis of the financial results of the year under review and 04 preceding year revealed that the deficit of Rs.223,662,000 of the Group in the year 2011 had been a deficit of Rs.227,147,000 in the year 2015. In taking into consideration the employees remuneration and depreciation for the non-current assets and taxes, the contribution of the Group amounting to Rs.1,875,228,000 in the year 2011 had ceaselessly increased and it had turned out to be Rs.3,081,393,000 in the year under review.

3.2 Legal actions instituted against or by the Authority

The Authority had instituted 21 court cases against the external institutions and persons and according to the information made available to Audit, external institutions and persons had filed 212 court cases against the Authority for the recovery of the possession of houses. Although the financial commitment thereon amounted to Rs.49.4 million, it had been stated as Rs.33.55 million in the financial statements.

4. Operating Review

4.1 Performance

In terms of the Mahaweli Authority of Sri Lanka Act No.23 of 1979, the functions of the Authority, in relation to any Special Area shall be to plan and implement the Mahaweli Ganga Development Scheme including the construction and operation of reservoirs, irrigation distribution system and installations for the generation and supply of electrical energy, secure the co-operation of Government and private institutions therefor, secure economic and agricultural development , conserve and maintain the physical environment and to further the general welfare and cultural progress of the community.

The following observations are made in the fulfillment of those functions.

- (a) Although it had been planned to develop 420,170 hectares of land in 14 Mahaweli Zones according to the Grater Mahaweli Plan, only 102,528 hectares of land had been developed by the end of the year under review and 104,281 hectares of land were being developed under the Moragahakanda Project. The Authority had not prepared a specific programme for the development of the remaining 213,361 hectares of land.

- (b) According to the Action Plan of the year under review, there were 88,899 targeted activities relating to 10 major activities of the Land Division of which 61,329 activities or 69 per cent had not been completed.
- (c) Although the Residential Business Management Office had planned to distribute 14,420 blocks of land under the Land Development Ordinance and the State Land Ordinance, 12,564 blocks of land had not been distributed.
- (d) Although the Authority had planned to obtain valuation reports of 3,539 blocks of land from the Department of Valuation, valuation reports on 3,282 blocks of land had not been obtained.
- (e) Although it had been planned to award 48,573 Permits and Grants under the Land Development Ordinance during the year under review, only 15,467 Grants had been awarded. Further, it had been planned to distribute 3,707 Annual Permits and 1,830 long term leases, whereas only 653 Permits and 585 leases had been granted.

4.2 Management Activities

The following observations are made.

- (a) Although a loss of Rs.450,000 had been estimated according to the inquiry conducted on an accident caused to a motor vehicle on 03 September 2015 , action had not been taken to recover that loss from the party responsible for and as a result of delay in repairing the motor vehicle up to 15 March 2017, the Residential Business Manager of the Zone had reported that another repair had cropped up.
- (b) Although 14 buildings had been constructed at a cost of Rs.76,500,000 in Jawatta area in the years 1977 and 1979 for the use of the Authority, action had not been taken to get that land vested in the Authority.

4.3 Operating Activities

The following observations are made.

- (a) Although the beneficiaries of the Agrarian and Business Development Project had paid a sum of Rs.34,510,730 to 03 Zones as the security for the lands, those lands had not been developed even up to 13 March 2016. A sum of Rs. 10,778,500 out of that represented the deposits older than 02 years and action had not been taken to cancel the deposits relating to the lands that had not been developed within a specific period and invalidate the relevant permits of the lands.
- (b) No development whatsoever had been done in 312.4 hectares of lands awarded for approved 63 projects of the project beneficiaries of 05 Zones and action in terms of the agreement had not been taken on those lands. As a specific duration had not been prescribed for the development of lands in awarding lands for the new projects, the duration relating to the non-development of lands had ranged from 01 year to 31 years.

- (c) Out of 1,555.56 hectares of lands given on long term lease basis to 54 investors from the year 1991 to the year under review for agrarian and business development activities, 580.2 hectares of lands had not been developed.
- (d) The lands 19.5 hectares in extent awarded to the project beneficiaries for 12 projects during the period from 1992 to 2013 had been abandoned by the year under review and 79.1 hectares of land had been utilized for other purposes without being used for the approved purpose.
- (e) As the lands had not been precisely identified and reserved for the agrarian and business development projects, 20.6 hectares of land required to be set apart as wildlife reservations had been given to three lessees during the year under review.
- (f) Although the Authority had spent a sum of Rs.1,297,533 to identify 20 locations suitable for the construction of micro hydropower stations from the year 2011 to 2013, lands had not been granted to the investors to implement 12 projects out of the above projects by the end of the year under review.

4.4 Transactions of Contentious Nature

The following observations are made.

- (a) In terms of Section 13 (13) of the Mahaweli Authority Act, it had been determined that any charge or fees may be imposed for the water or any service supplied by the Authority. Nevertheless, the Electricity Board had used 204,691.7 Cubic meters of water from the Mahaweli reservoirs for the production of electricity from the year 1985 to the year under review, free of charge. Further, the Mahaweli Authority had spent a sum of Rs. 7,237.4 million for the maintenance and operations of the reservoirs and dams.
- (b) As it had not been planned to use the water collected in the reservoirs for the generation of electricity by correctly measuring its volume , 19,223.4 millions of Cubic meters of water had spilled out of the Mahaweli reservoirs during the rainy seasons from the year 1985 to the end of the year 2015 and the value thereof had been Rs.50,613.2 million according to the computations.

4.5 Idle and Underutilized Assets.

Two hundred and forty three buildings valued at Rs. 89, 977,800 belonging to Mahaweli Zone “B” and 69 buildings of Primary Work Control Operating and Maintenance Division had remained idle without being utilized by the end of the year under review.

4.6 Contract Process

The following observations are made.

- (a) In the selection of contractors for the work contracts by using the Shopping method in terms of Section 3.4 of the Procurement Guidelines, the decision in respect of the constructions/ repairs, the estimated cost of which exceeds Rs.2,000,000 should be taken by the Procurement Committee of the Department. Contrary to that, the contract for the construction of Development Centre, the estimate of which was Rs.3,768,000 had been awarded under the Direct Contract Method by dividing it into 05 parts without any base on the approval of the Regional Procurement Board.
- (b) For the construction of a wall on the riverbank under the “ Mahaweli River Bank Safety Project ”, an agreement for a contract amounting to Rs.102,178,910 had been entered into with a local contractor in the year 2012 to complete the contract within 365 days on the approval of the Cabinet. Although it had been estimated to construct the wall on a natural stone layer, the expected stone layer was not found in the process of construction and as such the contract value and the contract period had been extended by Rs.101,264,684 and 466 days respectively than the original contract by a Variation Order. There was no evidence that the estimates had been prepared after conducting a feasibility study before the implementation of the project and the cost of the project and the period of the contract had increased by 99 per cent and 101 days respectively due to the subsequent variations.

4.7 Resources of the Authority given to other Government Institution

Seven drivers had been temporarily released to the Line Ministry and other Government institutions during the year under review and the Authority had paid a sum of Rs.1,718,360 as their salaries and the contributions to the statutory Funds, of which a sum of Rs.95,029 only had been reimbursed. Further, 14 vehicles owned by the Authority had been given to various Government institutions.

4.8 Staff Administration

The following observations are made.

- (a) As 09 Accounting Officers had been recruited without the approval of the Board of Directors, the Board of Directors had taken a decision on 02 June 2015 that the disciplinary action should be taken against the respective officers. Nevertheless, action had not been taken accordingly.
- (b) In terms of the Management Services Circular No.33 dated 05 April 2007, it had been stated that the employees could not be released for the service of the foreign aid projects for more than 05 years. Nevertheless, 43 employees in various posts of the Authority had been attached to various foreign aid projects implemented under the Ministries of Mahaweli Development and Environment and Irrigation and Water Resources for more than a period of 5 years by the end of the year under review.

- (c) By the end of the year under review, 08,117 and 68 posts of Senior, Middle and Junior Management level had fallen vacant respectively and there was an excess cadre of 472 including the Drivers, Security Officers, heavy vehicle operators and the Karyala Karya Sahayaka. It was observed in audit that the existence of 193 vacant posts of management level may adversely affect the operating process of the Authority.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Although the financial statements and the drafted Annual Report should be furnished to Audit within 60 days from the close of the financial year in terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the financial statements for the year under review had been furnished on 01 September 2016, after a delay of 06 months and the draft Annual Report had not been presented.

5.2 Corporative Plan

In terms of Sections 5.1.2 and 5.1.3 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, although the Corporate Plan approved by the Board of Directors should be presented to the Line Ministry, General Treasury and the Auditor General 15 days before the commencement of the financial year, even the approval of the Board of Directors had not been obtained for the Corporate Plan of the year under review.

5.3 Action Plan

The approval of the Board of Directors had not been obtained for the Action Plan prepared for the year under review and the amended Action Plan prepared in compliance with the performance as at the end of the year had been approved on 30 June 2016 by the Board of Directors.

5.4 Internal Audit

The Post of Director (Internal Audit) of the Internal Audit Division of the Mahaweli Authority functioning under 36 Divisions including the Engineering Offices under the Residential Business Management Offices, Companies, Major Work Operations and Control had fallen vacant for more than a period of 05 years from the year 2011 to 2015. Although the approved cadre was 27 according to the scheme of recruitment of the year 2006, it had been diminished up to 10 in the year 2013. However, the actual cadre was 04 and as such the Authority had failed to attach an adequate number of staff to carry out an effective internal audit.

5.5 Budgetary Control

The following observations are made.

- (a) In terms of Section 5.2.5 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, although the amended final budget should be presented to the Line Ministry, General Treasury and the Auditor General 15 days before the commencement of the financial year, the approval of the Board of Directors for the budget relating to the year 2015 had been obtained on 20 February 2015.
- (b) As variations ranging from 50 per cent to 2026 per cent were observed between the budgeted and actual expenditure, the budget had not been made use of as an effective instrument of management control.

5.6 Unresolved Audit Paragraphs

The following observations are made.

- (a) As charges are not paid for the maintenance of reservoirs and the water used by the Electricity Board, attention of the Authority should be paid on the supply of electricity requirement of the main dams, free of charge.
- (b) It was revealed that 655 encroachers were residing within the reservation areas of the Polgolla, Kothmale, Bowathenna, Mapakada, Maduruoya and Victoria reservoirs and the Authority had failed to evacuate those encroachers and prevent the resettlement of encroachers.
- (c) The annual lease rent receivable from the lands given to the Mahaweli Livestock and Agrarian Businesses (Pvt.) Ltd. by the Authority for the use of Niraviya and Kalankuttiya farms had not been brought to account. Although I was informed by the Reply Letter dated 04 December 2013 of the Director General stating that action would be taken to recover the rent in respect of the relevant buildings from the year 2013, action had not been taken accordingly in the years 2013, 2014 and 2015.
- (d) According to the records of the Land division, the number of unlawfully occupied blocks of land as at 31 December 2014 was 6,223 and as the activity of legalizing those lands had been delayed, the Authority had deprived of the rent income which could have been received from the said lands.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Director General of the Authority. Special attention is needed in respect of the following areas of systems and controls.

Areas of Systems and Controls

Observations

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| (a) Leasing of Lands and collection of Income | A proper methodology had not been prepared for leasing lands. |
| (b) Utilization of Buildings | Buildings are utilized by the outside parties without paying rents and the buildings of the Zones were remaining idle. |
| (c) Farms Administration | Operating losses of the farms had been reported and a proper accounting system had not been introduced thereon. |
| (d) Personnel Administration | There were 193 vacancies of the Managerial Level and 472 excess cadre in other employee categories. |
| (e) Accounting | Suspense accounts had not been reconciled and settled. |
| (f) Vehicle and Fuel Control | Action had not been taken to get back the vehicles used by the outside parties and annual surveys had not been conducted on motor vehicles. |
| (g) Payment of Advances | The advances obtained had not been settled in terms of the Financial regulations and the Financial Procedure of the Authority. |
| (h) Contract Administration | Action had not been taken in accordance with the Procurement Guidelines. |