

Mahaweli Venture Capital Company (Pvt) Ltd. – 2016

The audit of financial statements of the Mahaweli Venture Capital Company (Pvt) Ltd for the year ended 31 December 2016, comprising the statement of financial position as at 31 December 2016 and the statement of profit and loss , statement of changes in equity and cash flow statement for the year then ended and a summary of other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. My observations on the operations of the Company in the year under review which I consider should be presented to Parliament in terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Management’s Responsibility for the Financial Statements

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

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

1.4 Establishment of the Company

The Company registered under the Companies Act, No. 17 of 1982 to function as a private company with effect from 18 March 1987 in compliance with Mahaweli Authority Of Sri Lanka Act, No. 23 of 1979, had been reregistered on 01 December 2008 under the Companies Act, No. 07 of 2007.

1.5 Liquidation of the Company

In accordance with the recommendations of the meeting of the Committee on Public Enterprises held on 13 August 2012, the Board of Directors of the Mahaweli Authority of Sri Lanka had decided at its meeting held on 28 September 2012 to voluntarily liquidate the Company by the end of December in that year. Accordingly, a liquidator had been appointed to liquidate the Company in accordance with the special decision of the Board of Directors dated 20 November 2014. Despite being initially decided that the Company be voluntarily liquidated, it was verified as per the Letter, No. PV 9854 of the Department of Registrar of Companies, dated 25 July 2016 that the Company had been liquidated after settling the debts of the creditors. According to the said Letter, it had been informed that future action be taken by conducting a meeting of the creditors, but no evidence had been made available that such a meeting had been held. The liquidation of the Company had not been completed even by 17 December 2017.

1.6 Basis for Adverse Opinion

Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial Statements

2.1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial position of the Mahaweli Venture Capital Company (Pvt) Ltd as at 31 December 2016, and its financial performance and cash flows for the year then ended, do not give a true and fair view in accordance with Sri Lanka Accounting Standards.

2.1.1 Report on Other Legal and Regulatory Requirements

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

- (a) The basis of opinion, and scope and limitations of the audit are as stated above.
- (b) In my opinion,
 - I have obtained all the information and explanations that were required for the audit, and as far as appears from my examination, proper accounting records have not been kept by the Company.
 - The financial statements of the Company comply with the requirements of Section 151 of the Companies Act, No. 07 of 2007.

2.2 Comments on Financial Statements

2.2.1 Accounting Policies

In Preparing the financial statements of the year under review the relevant material Accounting Policies, had not been disclosed in the financial statements.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a.) The current realizable value of all the assets of a Company to be liquidated, should be shown in the financial statements as current assets, but the written off value of the assets had been shown in the financial statements.
- (b.) According to the notice on the maturity of Treasury Bills, the interest income amounted to Rs. 854,773, but the said value amounted to Rs. 908,537 in the statement of revenue, thus the income and receivable income had been overstated by a sum of Rs. 53,764, whilst the notional tax credit had been overstated by a sum of Rs. 5,377.
- (c.) The interest on the Treasury Bills had been realized at the time of purchase though, the interest receivable had been stated as Rs. 174,924, and the interest income of Rs. 25,842 received previously, had not been shown as liabilities.
- (d.) According to the notice on the maturity of Treasury Bills, the value of the Treasury Bills should be Rs. 9,797,800, but that value had been stated as Rs. 9,839,619 in the statement of financial position, thus the assets had been overstated by a sum of Rs. 41,819.

2.2.3 Lack of Evidence for Audit

As the evidence shown against the subjects given below had not been made available to audit, those subjects could not be vouched or verified satisfactorily in audit.

	<u>Subject</u>	<u>Value</u> Rs.	<u>Evidence not Made Available</u>
(a.)	Office Equipment	1,346,930	Up-to-date Register of Fixed Assets, Reports of the Board of Survey. Documents for the Verification of Value and Physical Existence.
(b.)	Motor Vehicles	116,303	
(c.)	Furniture and Fittings	149,604	
(d.)	Singer Sewing Machines	29,480	
(e.)	Loan Investments – (EEC)	2,614,327	Loan Agreements/ Loan Files
(f.)	Loan Investments – Projects	3,403,850	
(g.)	Writing off Doubtful Business Loans.	1,994,933	Loan Files and Approval for Writing off the Loans. Documents for the Confirmation of Balances.
(h.)	Writing off bad and doubtful debts		
(i)	E.E.C. Project Loans	1,368,863	
(ii)	Other Project Loans	1,952,190	
(i.)	Trade and Other Payables (Dolomite Project)	310,025	

(j.)	Receivable Income Tax	27,601	Schedules for the Relevant Taxes, and Documents for the Confirmation of Value.
(k.)	Telephone Deposits	25,000	Documents for the Confirmation of Deposits.
(l.)	Audit Fees Payable	76,394	(i) Letter of the Relevant Audit Assignment. (ii) The manner in which the Fees were Determined. (iii) Relevant Bills.

2.3 Accounts Receivable

Action had not been taken to identify and recover 04 receivable loan balances totalling Rs. 3,000,473 shown in the financial statements over long period.

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

In terms of Section 42 (1) of the Mahaweli Authority of Sri Lanka Act, No. 23 of 1979, the capital of the Company should be divided into ordinary shares of one hundred rupees each. However, according to the memorandum of association of the Company, the authorized capital comprised 3,000,000 shares each valued at Rs. 10, and of that, 1,039,800 shares had been issued to the Mahaweli Authority of Sri Lanka whilst 3 shares had been issued to other external persons, but the number of shares issued to external persons had not been shown in the financial statements.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Company for the year under review had been a profit of Rs. 786,671 as against the loss of the preceding year amounting to Rs. 135,108, thus indicating an improvement of Rs. 921,779 in the financial result of the year under review as compared with that of the preceding year. The increase in the income by a sum of Rs. 396,237 and the decrease in the expenses by Rs. 124,893 in the year under review had mainly attributed to the said improvement of the financial result.

4. Operating Review

4.1 Management Activities

The following observations are made.

- a) For the voluntary liquidation of the Company, it had been agreed to pay a sum of Rs. 125,000 for the preparation of accounts and proceeding with liquidation by appointing a liquidator on 21 October 2014. Although a sum of Rs. 62,500 being 50 per cent of the amount agreed, had been paid on 13 January 2015, the liquidation had not been completed even up to March 2018. Nevertheless, the financial statements indicating a sum of Rs. 38,500 payable again as audit fees for the preparation of accounts for the year under review, had remained questionable.

Furthermore, the approval obtained for paying the charges for liquidation and preparation of financial statements, had not been made available to audit.

- b) The Land Rover vehicle dilapidated beyond use, costing Rs. 116,303 and belonging to the British High Commission, Colombo that had been included in the financial statements of the Company, had remained parked at the premises of the Mahaweli Defence Brigade in Jawatta.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, the financial statements of the relevant year should be furnished to the Auditor General within a period of 60 days after the close of the year of accounts. Nonetheless, the financial statements relating to the liquidation of the Company, had not been furnished to Audit, whereas the financial statements of the year under review had been furnished to Audit on 06 October 2017.