

Mahaweli Authority of Sri Lanka and its Subsidiaries - 2016

The audit of consolidated financial statements of the Mahaweli Authority of Sri Lanka and its subsidiaries for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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

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 2016 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 Standards for Small and Medium-sized Entities.

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 2016 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 03 subsidiaries with full ownership and one Company was winding up. Out of that, the assets valued at Rs.15,510,548 and liabilities valued at Rs.406,708 of the Mahaweli Venture Capital (Pvt.) Limited who carry out the winding up activities in respect of the creditors, had not been included in the consolidated financial statements.

2.2.2 Sri Lanka Accounting Standards for Small and Medium-sized Entities

The following observations are made.

- (a) The useful life of non-current assets of the Mahaweli Consultancy Bureau (pvt.) Limited had not been reviewed annually in terms of Section 17.19 of the Paragraph 17 of the Standard. As such, the fixes assets costing Rs.3,519,602 were being further used although they had been fully depreciated. Accordingly, action had not been taken to revise the estimated error.
- (b) The Mahaweli Livestock and Agro Enterprises (Pvt.) Limited had not disclosed the Going Concern and the related parties of the Company in terms of Section 3.8 of the Paragraph 3 and Section 9 of the Paragraph 33 of the Standard respectively, in the financial statements.

- (c) Even though the fixed assets amounting to Rs.6,926,566 matured by six months should be shown as current assets in the financial statements by the Natural Resources Management Services (Pvt.) Limited in terms of Section 4.5 of Paragraph 4, it had been shown as non-current assets in the financial statements .

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Even though the Mahaweli Consultancy Bureau (pvt) Limited had paid a sum of Rs.4,135,400 as consultancy fees of March for the foreign Specialists excluding the Value Added Tax , accounting had been done by setting off a Value Added Tax of Rs.539,400 not included therein against the tax payable to the Inland Revenue Department. As such, the expenditure on consultancy fees had been understated by similar amount in the financial statements.
- (b) Mahaweli Livestock and Agro Enterprises (Pvt.) Limited
- (i) Salaries totalling Rs.1,242,000 paid from the funds of the Company to a Management Assistant released to the Mahaweli Authority of Sri Lanka from the year 2010 up to the end of the year under review, had not been shown as recoverable from the Authority in the financial statements.
 - (ii) The financial statements of the year under review had been balanced by including an unidentified Inter Farm Debtors balance amounting to Rs.35,682,485 in a Suspense Account.
- (c) Natural Resources Management Services (Pvt.) Limited
- (i) Even though the computer and computer accessories costing Rs.865,700 of which the carrying amount being zero, had been sold in the year under review, the cost and the accumulated depreciation thereof had not been eliminated from relevant accounts.
 - (ii) Even though the loan amounting to Rs.600,000 obtained from a State Bank had been settled with the interest on 11 January 2016, the relevant loan interest of Rs.14,748 had been shown in accounts further as payables.

2.2.4 Unexplained Differences

The following observations are made.

- (a) According to the financial statements of the Mahaweli Consultancy Bureau (pvt) Limited , even though the value of creditors of two leasing companies amounted to Rs.4,732,952 and Rs.1,000,448, those had been Rs.4,850,729 and Rs.892,285 respectively as per the confirmation of balances.
- (b) According to the financial statements of the Mahaweli Livestock and Agro Enterprises (Pvt.) Limited , even though the value of fixed assets amounted to Rs.88,183,837, it was Rs.88,094,019 as per the Ledger Accounts. Thus, a difference of Rs.89,818 was observed.

2.2.5 Lack of Evidence for Audit

The evidence indicated against the following items was not made available to audit.

(a) Mahaweli Livestock and Agro Enterprises (Pvt.) Limited

Item	Value	Evidence not made available
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	Rs.	
Mahaweli Economic Agency	405,218,731	Documents pertaining to the confirmation and accounting of these values accounted as capital grants
Kothmale Milk Development Fund	2,900,000	
Capital Grants of the Economic Commission for Europe	3,583,706	
Foreign Aid	5,729,782	
Write off of Fixed Assets	859,256	
Accounts receivable- Mahaweli Livestock and Agro Enterprises (Pvt.) Limited	1,382,468	Method of valuation and the relevant approval Confirmation of Balances

Natural Resources Management Services (Pvt.) Limited

Item	Value	Evidence not made available
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	Rs.	
Income Receivable	391,154	Confirmation of Balances
Goods and Services Tax Payable	109,498	Schedules of Tax Computation
Intangible Assets	29,500	Documentary Evidence relating to confirmation of values

2.3 Comments on Financial Statements- Authority

2.3.1 Sri Lanka Public Sector Accounting Standards

In terms of Paragraph 47 of Sri Lanka Public Sector Accounting Standard 07, assets experience significant and volatile changes in fair value should be revalued and brought to account the fair value. Nevertheless, the fair value of 03 plots of land purchased at a cost of Rs.67,440,853 by the Authority during the period 1984-1989 action had not been taken brought to account.

2.3.2 Accounting Policies

The following observations are made.

- (a) Even though the Mahaweli Authority and its subsidiaries had adopted the Sri Lanka Public Sector Accounting Standards and Sri Lanka Accounting Standards for Small and Medium-sized Entities respectively, it had not been disclosed in the financial statements.

- (b) The accounting policy adopted to determine the value of stock of agro and livestock amounting to Rs.124,570,000 included in the financial statements, had not been disclosed.

2.3.3 Accounting Deficiencies

The following observations are made.

- (a) Even though 7,588 library books existed at the Victoria Zone, those had not been shown as assets in the financial statements while the library books purchased at a cost of Rs.985,960 by the System L in the year under review had been brought to account as expenditure.
- (b) A sum of Rs.7,700,890 receivable from the Electricity Board for the electricity generated from mini hydropower stations in the year under review had not been brought to account as income receivable while a sum of Rs.3,912,069 received for the preceding year had been shown as the income of the year under review.
- (c) According to the computations of audit, depreciation of fixed assets relating to 06 Zones and a farm had been understated by Rs.4,003,885 in the account.
- (d) The fixed assets worth of Rs.671,503,748 transferred to the Authority by the Dam Safety and Water Resources Planning Project on 27 September 2016 had not been brought to account and disclosed.
- (e) The cattle weighing scale purchased at a cost of Rs.363,025 by the Weli Oya Zone in the year 2015 had been written off as the expenditure of that year, thus the non-current assets had been understated.
- (f) Even though the 07 Sorge sewing machines purchased at a cost of Rs.247,800 in the year 2016 for the distribution among colonists in the Hurulu Wewa Zone should be brought to account as stocks, those had been brought to account as fixed assets.
- (g) The total value of 59,484 various plants existed in two Zones and 8,765 various plants valued at Rs.352,620 in one Zone as at 31 December of the year under review had not been brought to account as the closing stock.
- (h) The value of buildings of the Water Field Institute vested by the Victoria Zone in the year 2016 had not been assessed and brought to account.
- (i) The capital nature expenditure of Rs.3,027,198 incurred for the construction of a goat shed in the Aralaganwila Breeding Farm and a paddy store in the Mahawelithenna Unit by the System "B", had been shown as recurrent expenditure.
- (j) The outstanding rental income of property totalling Rs.20,960,226 received in the year under review for preceding years had been shown as the income of the year under review in the financial statements.
- (k) Lease rent of Rs.19,299,125 recoverable from the lands given to investors for the construction of 3 mini hydropower stations, had not been brought to account.

2.3.4 Unreconciled Control Accounts

In exchanging the fixed assets among the Zones of the Authority, the receipts and issue of fixed assets of relevant Zones should be balanced in consolidating accounts. Nevertheless, a difference of Rs.7,979,000 was observed in consolidating the accounts pertaining to the assets valued at Rs.136,709,000 received from Zones and assets valued at Rs.128,730,000 issued to the Zones.

2.3.5 Suspense Accounts

The Suspense Accounts of Rs.35,682,485 included in the financial statements of a Subsidiary owned by the Authority had not been identified and settled and instead, those had been shown as debtors under the current assets in the consolidated financial statements.

2.3.6 Lack of Evidence for Audit

Evidence indicated against the following account balances had not been made available to Audit.

Item of Account	Value	Evidence not made available
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	Rs.	
Investments - Mahaweli Livestock and Agro Enterprises (Pvt.) Limited	10,000,000	Investment Certificates
-Mahaweli Venture Capital (Pvt.) Limited	9,800,000	
-Mahaweli Consultancy Bureau (pvt) Limited	64,000	
-Natural Resources Management Services (Pvt.) Limited	15,000	
-Mahaweli Livestock Enterprises Limited	10,000,000	
Savings Account	2,632,908	(i) Confirmation of Balances (ii) Bank Pass Book
Fixed Deposits	727,481	(i) Confirmation of Balances (ii) Deposit Certificates

2.4 Accounts Receivable and Payable

The following observations are made.

- (a) The lease rent income of Rs.662,953,920 receivable as at the end of the year under review included a sum of Rs.140,623,878 over 05 years and a sum of Rs.35,119,000 relating to a period from 03 years to 05 years. Failure to meet the terms and conditions imposed on the

collection of rental income from leasing out lands owned by the Authority had been the main reason for the increase in the balance of outstanding rental income.

- (b) Even though the buildings owned by the Authority had been given on rent to external parties on the basis of reimbursement of electricity, water and sanitary expenses, an expenditure of Rs.3,228,320 incurred by the Authority as at 31 December 2016 had not been reimbursed by 06 external parties.
- (c) The accounts payable by the end of the year under review amounted to Rs.330,231,855 out of which a sum of Rs.12,082,658 had elapsed a period of 05 years. However, action had not been taken to confirm the completion of contract work pertaining to the retention money of Rs.5,053,925 included in the said balances and to settle the retention money.
- (d) A land of 25 acres in extent from the Kalankuttiya Farm owned by the Authority had not been properly leased out to the Livestock Enterprise Limited owned by another Ministry in the year 2010 and the lease rent recoverable from the year 2010 up to the year under review amounted to Rs.5,985,000.
- (e) Out of the lease rent recoverable from the houses in Victoria – Kothmale Zone, a sum of Rs.8,847,821 was recoverable from the employees of Mahaweli and a lease rent amounting to Rs.1,507,427 was recoverable as at 31 December 2016 from the land where the Cinema Hall leased out was located. However, no court case had been filed for the recovery of outstanding lease rent.
- (f) A sum of Rs.4,128,992 was recoverable from the Ceylon Electricity Board in respect of the kilowatts under-computed within the period from 12 December 2015 to 06 January 2016 due to a defect in the electricity meter of the Maduru Oya Power Station 1.
- (g) Action had not been taken to recover the account balances over 03 years totalling Rs.1,852,118 receivable from the Mahaweli Consultancy Bureau (pvt) Limited as at the end of the year under review.
- (h) A sum of Rs.5,820,430 receivable from the Ministry of Irrigation and Water Resource Development in respect of the stock of livestock provided by the Nirawiya Farm of the Mahaweli Livestock and Agro Enterprises (Pvt.) Limited in the year 2010, had not been recovered. Further, creditors balances over 05 years amounting to Rs.690,784 had not been settled.
- (i) Action had not been taken to recover a sum of Rs.37,970,500 receivable from the Technical Services Private Limited as the charges for land use in respect of 75,941 cubes of sand obtained from May 2015 up to 31 December 2016 from the lands of System “B”.

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 and Regulations

Non-compliance

(a) Mahaweli Authority of Sri Lanka Act, No.23 of 1979

(i) Section 39(1)

Even though the Board of Directors of Subsidiaries shall consist of Government Directors and 07 Shareholder Directors, the Board of Directors of Subsidiaries consisted of only three members.

(ii) Section 42(1)

Even though the share capital of Subsidiaries shall consist of ordinary shares of Rs.100 each, the authorized capital of the Natural Resources Management Services (Pvt.) Limited consisted 10,000,000 ordinary shares of Rs.10 each and the capital of the Mahaweli Livestock and Agro Enterprises (Pvt.) Limited consisted 5,000,000 ordinary shares of Rs.10 each.

(iii) Section 45(1)

Even though the Board of Directors of Subsidiaries should elect any one of the Directors to be the Chairman of the Subsidiary, a Director had been appointed as the Chairman by the line Minister of two Subsidiaries and the Director General of the Authority while a Chairman had not been appointed for one Subsidiary from September 2015.

(b) Section 10 (b) of the Valued Added Tax (Amendment) Act, No.17 of 2013

If the total value of supplies of goods or services or goods and services exceeds Rs.12 million within a period of 12 months in the year under review and preceding year, registration should be made for the Value Added Tax under the Act. Although the Authority had collected Rs.18 million and Rs.87 million in the preceding year and the year under review respectively from the relevant income sources, action had not been taken to register for the Value Added Tax.

(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

(i) Financial Regulation 104 (4)

Even though two motor vehicles released to two external parties had met with an accident, a proper investigation had not been conducted and action had not been taken to assess the loss and recover it from the parties responsible.

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| (ii) Financial Regulation 756 | Action in terms of financial regulations had not been taken on 292 excesses and 50 shortages identified in the Board of Survey carried out in the Hurulu Wewa Zone during the year under review. |
| (d) Audit and Management Department Circular No.01/2016 of 01 January 2016 | A computerized database on motor vehicles had not been maintained by the Sri Lanka Mahaweli Authority in terms of the Circular. As such, it was difficult to obtain the accurate information on the number of motor vehicles operate under the Authority, the registered ownership of those motor vehicles, the Division for which the motor vehicle and the driver is attached and also the motor vehicles owned by the Authority. |
| (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. | <p>(i) 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 included in the financial statements of the System "L" amounted to Rs.11,881,612.</p> <p>(ii) Even though advances cannot be obtained without settling the advances previously obtained, contrary to that, 06 Zones had granted advances for fuel and purchases amounting to Rs.1,137,401 in 61 instances. Those advances had not been settled even by the end of the year.</p> |
| (f) Public Enterprises Circular No.57 of 11 February 2011 and Paragraph 08 of the National Budget Circular No.2/2015 of 31 March 2015 | Mahaweli Consultancy Bureau (pvt) Limited had spent a sum of Rs.539,000 for rewards without the approval of the Board of Directors in the year under review. |

3. Financial Review

3.1 Financial Results

According to the consolidated financial statements presented, the financial results of the Group and the Authority for the year under review had been deficits of Rs.34,602,000 and Rs.37,853,000 respectively as compared with the corresponding deficits of Rs.271,246,000 and Rs.273,450,000 respectively for the preceding year, thus indicating a decrease in the deficits of the financial results by Rs.236,644,000 and Rs.235,597,000 respectively in the year under review as compared with the preceding year.

An analysis of the financial results of the Authority for the year under review and 04 preceding years revealed that the deficit of Rs.350,271,000 in the year 2012 had been fluctuating and had become Rs.37,853,000 in the year 2016. In readjusting employees

remuneration and depreciation for non-current assets and taxes to the financial result, the contribution of the Authority for the year 2012 amounting to Rs.1,876,561,000 had continuously increased in the years 2013 and 2014 and even though it had become Rs.3,081,393,000 in the year 2015, it had decreased as Rs.2,520,568,000 in the year under review.

3.2 Analytical Financial Review

The following observations are made.

- (a) Sales income from dairy products had increased by Rs.81,911,000 in the year under review as compared with the year 2015. Vesting the Niraviya Farm which belonged to the Moragahakanda Project with the Authority, in the year under review had been the reason for this.
- (b) Expenditure relating to rehabilitation, uplifting and sustenance of colonists had increased by Rs.763,401,000 in the year under review as compared with the year 2015. Implementation of the Consolidated Development Project in System "B" in the year under review had been the reason for this.

3.3 Legal Action instituted against or by the Authority

According to the information made available to Audit by the Head Office, 07 Zones, two divisions and a project, 161 court cases had been instituted against the Authority by external institutions and persons for the recovery of the possession of houses. Even though the financial commitment thereon amounted to Rs.8.491 million, it had been overstated in the financial statements as Rs.25.395 million. Moreover, the Authority had instituted 60 court cases against external institutions and persons claiming compensations of Rs.10,230,554 for the recovery of the possession of houses and lands and other reasons. However, it had not been shown in the financial statements.

4. Operating Review

4.1 Performance

The following observations are made.

(a) Mahaweli Master Plan

According to the Mahaweli Master Plan, out of the quantity of water of about 6,900 million cubic metres of the Mahaweli River, had been proposed for production of electricity and supply of irrigation facilities for 365,853 hectares of land in 13 Mahaweli Zones. Irrigation facilities had been supplied for only 85,252 hectares of land as at the end of the year under review and hydro power had been produced by utilizing only 06 out of 11 reservoirs proposed to be utilized for production of electricity.

The revision of the Master Mahaweli Plan prepared in the year 1968, as an updated plan, taking into consideration the present requirements, the nature of natural resources and utilization is one of the functions of the Dam Safety and Water Resources Planning Project and those Plans had been prepared and completed in the year 2013. However, necessary action had not been taken even up to the end of the year under review to implement the said Plan.

- (b) According to the Action Plan and the Performance Reports of the Lands Division, 665 blocks of land had been planned to be distributed in the year under review for commercial and investment projects. Nevertheless, only 91 blocks of land had been distributed. Moreover, even though Grants/Long Term Lease Permits had been planned to be distributed for 635 blocks of land, those permits had been issued for only 227 blocks of land.
- (c) Even though a sum of Rs.48,000,000 had been invested by the Authority in the Uva Development and Rajarata Development Bank for setting up a revolving fund in the year 2002 with a view to implementing a loan scheme for colonists, the conditions in agreements entered into with banks, had not been met. As such, the aforesaid objectives had not been achieved.
- (d) According to the Articles of Association of the Mahaweli Consultancy Bureau (Pvt) Ltd., objectives such as carrying out a feasibility study relevant to land and water resources development projects, planning and executing land use and water resources projects and planning, designing and executing social economic infrastructure facility development projects, conducting the surveys for environmental construction projects and preparing plans and implementing such projects and preparing survey plans and implementing environmental pollution control projects inside and outside Sri Lanka had not been implemented. Moreover, it could not be examined whether the performance of each sector had been achieved as planned due to failure in indicating intended targets of respective sectors according to the Action Plan and non-preparation of Performance Reports in accordance with the Action Plan.
- (e) According to the Articles of Association of the Mahaweli Livestock and Agro Enterprises (Pvt) Ltd., carrying on the business of farming, poultry farming for sale at wholesale and retail, manufacture of poultry feed and supply to farmers, breeding, selling, improving, processing and exporting of animals such as cattle, pigs, poultry etc. and carrying on business activities associated with fruits and cereals had not been achieved and only the buffaloes, milch cows, poultry, pigs and goat husbandry on a small scale and activities of dairy products were being functioned.
- (f) The main objectives of the Natural Resources Management Services (Pvt.) Ltd., in terms of the Articles of Association are mapping environmental parameters such as soil, land structures, topography, use of lands, flora and fauna, bio- diversity, the quality of water by land survey in Sri Lanka and outside the country, aerial photography, satellite photography, geographical information system, global location system, analyzing, estimating land resources, planning on the use of land, soil erosion and soil conservation, management of protectorates, plantation of herbs and consulting for sustainable organic plantation systems, preparing plans and training. However, providing Environmental Reports had been a key function of the Company. A staff with technical knowledge was not available with the Company and environmental reports were prepared and obtained by an external party and the Company was unable to certify the accuracy of the reports as well.

4.2 Management Activities

The following observations are made.

- (a) In purchasing goods required for Mahaweli System “H”, 28 cheques valued at Rs.5,123,027 written in favour of suppliers as supply advances on the approval of the procurement committee and on purchase order had been issued to officers of each division of the Authority without a written request or an agreement made by suppliers. Those cheques had been cancelled after 03 months on failure in the achievement of the relevant purpose.
- (b) Even though 02 blocks of land costing Rs.42,520,000 were being utilized by external parties without paying any rent, necessary action had not been taken to acquire those lands.
- (c) Eleven officers were performing duties in the year 2006 relating to functions such as preparing and updating a data base on the geographical information of the Upper Mahaweli Watershed area of 3,118 square kilo meters in extent, preparing and updating maps on land use patterns of Mahaweli Zones by satellite photography, control of changes in land use patterns of the Upper Mahaweli Watershed area, identifying lands suitable for reforestation and areas in which soil should be conserved, preparing and updating maps according to information of rainfall, planning land use activities by geographical information system and satellite photography and carrying out watershed management activities. However, only one officer had been deployed in service after the year 2006. Accordingly, the opportunity of proper management in environment and forest conservation in Mahaweli Zones including the Upper Mahaweli Watershed area had been lost due to non-achievement of relevant functions at present. As such, action had not been taken to increase the number of officers required and achieve a higher performance.
- (d) According to the recommendations of the Annual Physical Stock Verification Committee relating to the preceding year, the Deputy Director General (Administration and Finance) had granted approval on 18 August 2016 to dispose of 126 items of furniture, office equipment and plant which cannot be made use of in the Victoria Zone. However, they had been kept in the Warapitiya store premises even by 31 December 2017 without taking necessary steps thereon.
- (e) Three stores and 2 stores and the accommodation room of the stores complex comprising a room for accommodation located at Warapitiya in the Victoria Zone, was being made use of by the Medical Supplies Division of the Department of Health. However, it had not been legally vested with that Division. The other remaining building on the premises was being subjected to destruction due to failure in repairing for a long period.
- (f) No benefits whatsoever had been received from many years for investments of Rs.439,000,000 made by the Authority in 05 companies.
- (g) The Kotmale Tissue Culture Division had produced 734,458 bamboo plants during the five preceding years and issued 515,837 plants to the relevant field. No follow up action had been taken on planting, maintaining, nurturing and growing of those plants.

- (h) In terms of Section 13(13) of the Mahaweli Authority of Sri Lanka Act, No.23 of 1979, it has been determined that a charge or fee could be levied for the supply of water and for any service rendered by the Authority. Even though a fee is charged from external parties who use Mahaweli water, no fee had been charged from the Electricity Board for 211,391.93 million cubic metres of water used from the year 1985 up to 31 December 2016 for producing electricity from Mahaweli reservoirs. Nevertheless, the Dam Safety and Water Resources Planning Project and the Mahaweli Authority had spent a sum of Rs.8,210 million from the commencement up to 31 December 2016 for maintenance and monitor of those reservoirs and dams.
- (i) Forty six mini hydro power stations and 24 hydro power stations approved to be implemented by using water of the main rivulets of the Mahaweli River in the Upper Mahaweli Watershed area such as Kotmale, Victoria and Randenigala and reserved lands existed. Nevertheless, no appropriate arrangement had been made for the recovery of royalty from the said power stations in terms of Sections 3(1), 12 and 13 of Mahaweli Authority of Sri Lanka Act, No.23 of 1979.
- (j) The Authority had constructed buildings valued at Rs.76,580,000 on lands located in Jawatte area not owned by the Authority and action had not been taken even by 31 December 2016 to vest the ownership of those lands with the Authority.
- (k) The excessive expenditure on maintenance and the decrease in income from animals had resulted in handing over 383 animals valued at Rs.7,347,608 belonging to the Niraviya Farm of the System H to the National Livestock and Development Board in the year under review. The two parties had not entered into an agreement for the recovery of the value of animals. As such, the value of livestock could not be recovered and it had not been shown in the financial statements even as a recoverable amount.
- (l) (i) Mahaweli Consultancy Bureau (Private) Ltd

The following observations are made.

- The consultancy contract for one year amounting to Rs.167,174,700 (excluding tax) for evaluation, approval and supervision of constructions relating to plans of the contract of constructions of the Moragahakanda reservoir had been awarded to the Company since 15 March 2016 by the Cabinet Decision No.16/0416/704/012 of 24 March 2016. Instead of adhering to the procurement process and selecting consultants by the Company, five officers nominated by the Project Director of the Moragahakanda Project, had been appointed as local consultants and assigned with matters of consultancy and supervision. The Company had carried out only the preparation of bills thereon. Moreover, a sub-contract had been awarded to a private engineering consultancy firm for deploying foreign consultants relating to the contract.
- The Company had not appeared for the case claiming compensation filed in the year 2011 against the Company by an external party. As such, compensations of Rs.4.5 million had to be paid in the year 2013 according to the court order. No provision had been made in the financial statements for the years 2013, 2014 and 2015 for compensations payable while a provision of Rs.2,000,000 had been made in the year 2016 and the said amount had been paid in the year 2017. Despite the failure in

properly fulfilling the responsibilities of duties by the Company Secretary relating to this case, she had been allowed to vacate the service without conducting a formal inquiry. Moreover, the driver relevant to the above mentioned case, who had been recruited without approval had been dismissed from service without conducting an inquiry on the accident.

(ii) Mahaweli Livestock and Agro Enterprises (Pvt) Ltd.,

The following observations are made.

- The production of the milk processing unit commenced in the year 1986 in the Girandurukotte Farm had been difficult due to the rise in hygienic problems as a result of existence of machinery used since the commencement, the worn-out buildings in the factory, damages in the roof and leakage of rain water into the factory, damages in the drainage system, weaknesses in internal cleaning system. Moreover, production had been carried out under unfavourable environmental conditions. Even though there was a possibility of a rise in legal problems, the Management had failed to take appropriate measures thereon.
- Contributions of Rs.8,237,607 and Rs.334,846 was payable to the Employees Provident Fund and the Employees Trust Fund respectively from the year 2014 up to the year 2016. As such, it was observed that the Company could be liable for payment of surcharge in future.
- Action had not been taken to vest the legal ownership of lands valued at Rs.14,929,159 shown under non-current assets in the financial statements.
- Three shares out of 5,000,000 shares valued at Rs.10 each which was the authorized capital of the Company had been issued to three Directors of another private company who were initial Directors. However, the remaining shares had not been issued even up to the end of the year under review. As no shares whatsoever of the Company had been issued to the Mahaweli Authority, problematic situations were observed in respect of the Authority's ownership over the Company.

(iii) Natural Resources Management Services (Pvt) Ltd

The following observation is made.

The Company operates its office in a building owned by the Mahaweli Authority located at Digana and no agreement had been entered into in that connection. Moreover, there was no definite basis for payment of monthly lease rent to the Authority and the Company had accounted a sum of Rs.600,000 as rent payable therefor as at 31 December 2015. Subsequently, the amount payable had been written off and brought to account as other income in the year under review without any approval whatsoever.

4.3 Operating Activities

The following observations are made.

- (a) The land of approximately 26 acres in extent belonging to the Niraviya Farm of the Authority had been leased out to the Livestock Enterprises Ltd. for a period of thirty years by the Land Registry of Anuradhapura through the Long Term Lease Agreement No.2060 and එල්/4/කඹ/6/102 of 26 October 1989. Action had not been taken to recover the lease rent to the Authority by correcting this leasing carried out by an external party. Moreover, according to the Letter dated 20 September 2010 of the Secretary to the line Ministry, 07 coops belonging to the Niraviya Farm had been leased out to the above mentioned Company. Nevertheless, action had not been taken to recover the lease rents thereon.
- (b) Even though buildings valued at Rs.104,394,675 owned by the Authority are used by 13 Government institutions without entering into an agreement, the Authority had not taken action even by 31 December 2016 to recover a rent therefor. Moreover, a building valued at Rs.26,030,780, three training halls and 24 official quarters belonging to the Mahaweli Security Corps had been handed over on temporary basis to the Kotmale International Training Institute from 24 December 2012. However, action had not been taken to obtain a rent income from the date of handing over the said buildings.
- (c) In providing lands of the System H belonging to the Authority to media institutions for installation of 10 transmission towers, agreements had not been entered into with the relevant lessees and the annual lease rent had been decided on the rough assessment of the Authority on 05 lands without obtaining the market value from the Government Chief Valuer.
- (d) The information on the water levels of the Mahaweli River and its tributaries could be obtained speedily by the automatic water measurement data collecting equipment system installed in 7 small catchment areas of the Upper Mahaweli Watershed Area by spending a sum of Rs.2,277,100. However, no methodology had been formulated for analyzing this data and reporting timely, according to requirements.
- (e) Twelve motor vehicles of the Weli Oya Zone had been kept without being repaired for a period between 01 and 10 years. As such, those motor vehicles had become irreparable and disposal or any other measure relating to the motor vehicles had not been carried out.
- (f) Out of 4,342.51 acres of land provided by the Authority for the commencement of projects in Systems H, D and B, the extent of land on which projects had been commenced, stood at only 2,744.32 acres. Accordingly, necessary legal action had not been taken by finding out reasons for non-commencement of projects on the remaining 1,598.19 acres in terms of agreements.
- (g) Even though a large extent of land such as 755 acres in the System L had been provided in the years 2013 and 2014 to 30 investors for cultivation purposes, no cultivation had been commenced even by 14 July 2017. As suitable lands had not been selected before providing lands, damages to cultivation from wild animals could not be avoided. As such, the purpose in providing lands had not been achieved and it was observed that a massive damage to the environment as well had occurred due to felling of trees on the said lands.

- (h) No agri projects had been commenced even by 30 June 2017 on the extent of 1700 acres of land provided to 123 entrepreneurs by the System B during the period from 2009 to 2014 for agri projects. Even though many years had passed, in terms of agreements, action had not been taken to obtain those lands back. Moreover, the approval of the Board of Directors obtained for providing lands to 49 investors as well was not made available to Audit.
- (i) Even though lease rents amounting to Rs.52,685,874 had been recoverable as at the end of the year under review from 149 investors for lands leased out on long term basis, the Authority had not taken action to recover same.
- (j) Seven farms had been in operation since the year 1999 under the Mahaweli Livestock and Agro Enterprises (Pvt) Ltd., which is a subsidiary and 05 of those farms had been provided on lease basis and on a deed of transfer to the Authority and external parties. Nevertheless, buildings and motor vehicles belonging to those farms valued at Rs.16,806,745 and Rs.6,583,340 respectively and other assets had been further shown in the financial statements of the Company as property, plant and equipment.

4.4 Transactions of Contentious Nature

The following observations are made.

- (a) It had not been planned to accurately evaluate the water collected in reservoirs for generation of power and as a result, 19,302 million cubic metres of water had spilled out from 05 Mahaweli reservoirs from the year 1985 up to the year 2016 during the rainy seasons. Finally, the quantity of water spilled out from the Rantambe and Bowatenna reservoirs which generate hydro power, stood at 8,495 million cubic metres alone and according to computations, its value had been Rs.57,125 million.
- (b) Even though the installation of cable systems should be a duty of the Electricity Board, a new cable system had been installed at a cost of Rs.150,000,000 by an investor for increasing the capacity of Maduruoya power stations 1 and 2. Moreover, it had been recommended by a Committee appointed therefor that this expenditure should be divided at the ratio of 65.8 : 34.2 on which the royalty is divided between the investor and the Authority. Further, the Board of Directors had decided that a Tri-Party Agreement should be entered into among the Mahaweli Authority, Electricity Board and the Investor to set off the royalty received by the Authority from the investor against the amount payable to the investor by the Authority. The relevant parties had not entered into a Tri-Party Agreement and according to the recommendation of the said Committee, a sum of Rs.51,300,000 out of the expenditure incurred by the investor should be incurred by the Authority. However, contrary to that, a sum of Rs.75,000,000 had been deducted from the royalty received by the Authority.
- (c) According to decisions of Cabinet meetings held on 08 July and 14 October 1992, approval had been granted to provide the land of 4.23089 hectares and building complex located at Digana owned by the Authority for a period of 50 years subjected to a long term lease of percentage of 6 per cent or maximum of 10 per cent of the assessed value for constructing a film location complex and a theme park. According to the Memory of

Understanding entered into with the Company on 21 May 1993, the building complex and the land had been valued at Rs.20 million. According to the Cabinet decision, the rent recoverable from the year 1993 up to the end of the year under review subject to 6 per cent of the assessed value amounted to Rs.28,800,000 and the rent of Rs.4,542,500 recoverable for another 11 houses provided by the Zone for this purpose had not been recovered even by the end of the year under review. Even though the Authority had taken legal action for recovery of the possession of these assets, the judgement thereon had not been received even up to the end of the year under review.

- (d) According to the agreement entered into on 09 April 1992 by the Government and the State Mining and Mineral Development Corporation for the land of 17.942 hectares in extent with the Eppawala Phosphate Deposit of the System H, lease rents had been paid to the Provincial Land Commissioner. As such, no lease whatsoever had been recovered from this land by the Authority from the year 1992 to the year 2015. However, according to the agreement subsequently entered into with Lanka Phosphate Limited by the Authority in the years 2016 and 2017, it had been agreed to pay a service charge of Rs.300 per cube of phosphate. However, the actual quantity of phosphate mined, could not be ascertained due to failure in carrying out mining under supervision of the Authority. According to the reports of the Company, only a sum of Rs.1,803,300 had been recovered for 6,011 cubes of phosphate and large rocks had remained here and there on the land due to non-rehabilitation of the land after mining.

Even though mining for Apatite had been carried out in another 9 hectares in the area of the authority of Mahaweli, the examination of mining licences revealed that this land had belonged to the Divisional Secretary. However, action had not been taken to settle this position.

- (e) It had been planned to issue permits to 29 persons for the purpose of removing soil by surveying the lands of 671 acres owned by the Mahaweli Authority located in Mayurapura Division in the area of authority of Walawa for supplying about 500,000 cubes of soil for the Southern Expressway Development Project of the Road Development Authority and mining licences had been issued to two persons. The following observations were made in that connection.

- (i) In terms of internal circulars of the Mahaweli Authority, the approval of the Regional Physical Planning Committee for mining minerals in the area of authority and the approval of the Head Office for granting lands, had not been obtained and an Initial Environmental Examination Report or an Environmental Impact Assessment Report as well had not been obtained therefor.
- (ii) As per the request dated 23 March 2016 made by the lessee, the Residential Business Manager had granted the approval to increase the extent of land of 08 acres given to lessees for removing soil on lease basis up to 50 acres in extent without the proper approval. Moreover, the Residential Business Manager had recommended the extension of the Mining Licence as well in two instances without obtaining the environmental recommendations.

- (iii) Various environmental issues such as deprivation of habitats of wild lives, destruction of trees with and without a commercial value and affecting the groundwater level due to removing of soil exceeding the approved limit with the approval of the zonal officers without a study on land using plans and a proper environmental evaluation. Out of the lands surveyed, 115 acres belonged to the wild elephant management area and as such, recommendations of the Central Environment Authority and the Department of Wild Life had not been given therefor.
- (iv) According to the Order of the Geological Survey and Mines Bureau, the mining capacity and the mining depth should not be more than 1000 cubes and 08 feet respectively. However, the Residential Business Manager had increased the mining depth up to 15 meters (49 feet) and the mining capacity up to 3,000 cubes without the approval. Even though it had been proposed to create “Pathana” so as to retain water on the land after removing soil, a plan on extent, depth and location thereof had not been presented.
- (v) Soil had been removed exceeding the approved limit due to failure in granting lands according to a proper plan and the quantity of soil removed from two places given as per the survey reports had been 137,719 cubes. However, land use charges of Rs.2,800,000 had been received to the Authority only for 5,000 cubes of soil. A sum of Rs.85,522,640 receivable for 132,719 cubes of soil removed in excess had not been recovered. Moreover, proper removal of soil required for this Project had not been planned and as such, the opportunity for providing an effective contribution, removing soil so as to minimize the environmental damage and for earning an income of approximately Rs.280 million from soil had been deprived of by the Authority.
- (f) The Dolomite deposit in Digana had been leased out to the Mahaweli Venture Capital (Pvt.) Ltd in the year 2005 by the Victoria–Kotmale Zone. In terms of the recommendations of the Committee appointed for re-vesting the Dolomite deposit with the Zone in the year 2014, the Director General had informed the Residential Business Manager of the Zone on 17 September 2014 to take over the documents of the Project, stores of gun powder and the relevant licences properly and to enter into agreements with persons who involve in mining hither to under the Company by ascertaining that there was no money whatsoever recoverable to the said Company from them. Nevertheless, action had not been so taken even by 31 December 2017.

4.5 Idle and Underutilized Assets

The following observations are made.

- (a) A sum totalling Rs.254,043,270 of the Head Office and 11 Zones had been retained as cash in hand as at the end of the year under review without paying attention to invest remaining money by retaining an adequate amount in hand for daily expenses.

- (b) Out of 442 buildings valued at Rs.131,696,730 remained idle in 06 Zones and in one Division of the Authority, there were 262 unserviceable buildings, 34 buildings which are suitable to utilize and 146 buildings which can be utilized after renovating. However, expedite measures had not been taken to renovate those buildings before being subject to destruction.
- (c) Two lorries, 03 tractors, 04 houses, 02 buildings, 12 coops, 05 piggeries, a goat shed and a slaughter house for chicken of the Niraviya Farm had remained idle and as such, a proper arrangement had not been made to dispose of or utilize those assets.
- (d) The Geographic Information Systems Division (GIS) located at Polgolla had been transferred to the Environment and Forest Conservation Division at Kotmale in the year 2007. As such, a computer, a laptop, 03 GPS devices, 06 tables, 07 chairs, 03 printers 06 filing cupboards, a digital camera, a digital safe and a scanner owned by that Division, had remained idle.
- (e) A circuit bungalow with 10 rooms and another building valued at Rs.9,953,619 in the Weli Oya Zone, owned by the Authority and the primary school building and the toilet system valued at Rs.5,492,833 belonging to the Project on Development of Southern Bank of the System "B", had remained idle since the year 2015 without being utilized.
- (f) Ten paddy planting machines and weeding machines valued at Rs.1,484,500 of the Mahaweli System "H" had remained idle since the year 2016 and it was ascertained at the physical verification that only 6 cattle had been herded in a cattle shed constructed for herding 20 cattle of the Weli Oya Zone.
- (g) A number of 6,409 equipment and items valued at Rs.6,513,390 purchased in the year 2013 and furniture and equipment valued at Rs.2,425, 065 purchased in the years 1992, 2015 and 2016 to be distributed among resettled people in the Weli Oya Area, had remained idle in a store and in a circuit bungalow of the System L.
- (h) Goods and constructions including cattle sheds and goat sheds constructed by spending Rs.12,501,900 in the years 2014/2015 with a view to converting the Girandurukotte Farm owned by the Mahaweli Livestock and Agro Enterprises (Pvt) Ltd. into an animal husbandry training centre, had been valued for Rs.8,967,600 and vested with the Livestock and Agro Enterprises (Pvt) Ltd. on 08 February 2016 by the System "C" of the Mahaweli Authority. These constructions and Goods were decaying since the date of vesting due to unavailability of a specific plan or methodology with the Company for utilizing them.
- (i) No crops whatsoever had been cultivated in the Girandurukotte Farm with an extent of about 1,054 acres, owned by the Mahaweli Livestock and Agro Enterprises (Pvt) Ltd. and animal husbandry as well had been carried out on a small scale and as a result, that land had remained underutilized. Further, fixed assets valued at Rs.2,720,000 of the Dairy Products Factory located therein had remained idle since the year 2013 and 06 condemned motor vehicles and a machine costing Rs.2,056,000 had remained idle in the office premises of the Girandurukotte Farm.

4.6 Identified Losses

The following observations are made.

- (a) The Value Added Tax, Nation Building Tax and Pay As You Earn Tax relating to the period from the year 2000 to the year 2012, had not been properly remitted to the Department of Inland Revenue by the Mahaweli Consultancy Bureau (Pvt) Ltd. As such, the Company had to pay a penalty of Rs.1,810,836 in the year under review. Further, a Deemed Dividend Tax of Rs.55,807 had to be paid in the year under review relating to the profit of the year 2015 due to failure in stating the dividends within the due period.
- (b) Two cheques valued at Rs.25,202,879 written on 30 December 2016 in favour of the Electricity Board for obtaining power required for pumping of water from tube wells constructed by the Mahaweli System "L" for colonists, had been retained without being issued and had been issued only on 24 March 2017. As estimated rates had increased in the year 2017, those payments payable to the Board had been delayed. As such, an additional cost of Rs.2,121,320 had to be incurred due to making payments on new estimated rates.

4.7 Procurement and Contract Process

The following observations are made.

- (a) The Authority had entered into an agreement with the Road Development Authority to construct the road from Gajabapura at Weli Oya to Nedunkarni to a contract value of Rs.466,312,000 within a period of 06 months from 08 December 2016 on the approval of the Cabinet of Ministers. A sum of Rs.390,085,714 of the contract, had been paid by April 2017 and it was observed at the physical inspection carried out on 11 July 2017 that the forest area had been cleared and about 23 small bridges /culverts had been constructed. Even though this contract to be completed on 08 June 2017, had not been completed, necessary measures in terms of agreements in that connection had not been taken.
- (b) A sum of Rs.2,530,000 had been paid to the Faculty of Agriculture of the Rajarata University in the year 2014 for carrying out a hydro geological survey (a feasibility study) to construct agro wells in the Weli Oya Zone. Construction of agro wells in 48 places had been recommended by that survey and further it had been recommended that construction of agro wells in other 32 places is appropriate after carrying out a proper study. However, construction of 17 wells by spending Rs.4,203,200 had been abandoned halfway in the years 2014 and 2015.
- (c) Even though a total sum of Rs.46,412,996 had been spent by the end of the year under review for the construction of 25 tube wells in the year 2014, 40 tube wells in the years 2015 and 2016 and for carrying out tests on water capacity and water samples and for the construction of 25 water tank stands required therefor in the Weli Oya Zone, works had not been completed even by 21 August 2017 in a manner in which water of those wells can be used. Moreover, it was observed that a sum of

Rs.73,205,264 had to be spent further for obtaining electricity and for water tank stands in order to obtain benefits of this project.

- (d) Contrary to the procurement process, the Mahaweli Livestock and Agro Enterprises (Pvt) Ltd. had purchased poultry feed valued at Rs.8,407,159 and 19,000 chicks valued at Rs.2,278,000 in the year under review. Variations in price of a chick ranging from Rs.70 to Rs.155 were observed due to purchase of chicks from various institutions.

4.8 Utilization of Motor Vehicles

The following observations are made.

- (a) There were 881 motor vehicles owned by the Authority and out of them, 790 motor vehicles were older than 20 years. As such, the expenditure on repair and maintenance of motor vehicles had been Rs.67,800,000 and Rs.102,600,000 in the preceding year and the year under review respectively. The expenditure on repair and maintenance had increased by Rs.34,800,000 representing 51.3 per cent in the year under review as compared with the preceding year due to failure in taking action to remove old motor vehicles with high repair and maintenance cost or to take other alternative step in that connection.
- (b) Even though the Director of the Head Work Administration, Operation and Maintenance Division had informed to take action to dispose 12 motor vehicles remained idle in that Division since year 2008 and to sell by calling Tenders in the years 2010 and 2014, action had not been so taken even by the end of the year under review.
- (c) Even though 22 motor vehicles owned by external parties had been utilized by the Authority, action had not been taken to settle the ownership of those motor vehicles and to vest in the Authority.

4.9 Delayed Projects

The following observations are made.

- (a) Even though provisions of Rs.1,775 million had been made from the year 2012 to the year 2016 for the Kiwuloya Reservoir Project proposed to be implemented in the Weli Oya area of the Mahaweli Authority, it could not be implemented due to failure in obtaining the environmental approval for the commencement of the Project. Out of the provisions made for that Reservoir Project, a sum of Rs.182 million had been spent for the functions of the Weli Oya Consolidated Project implemented by the Weli Oya Zone of the Authority, such as development of access roads, rural areas and infrastructure facilities.

- (b) The Authority had entered into an agreement with the Department of National Community Water Supply on 11 September 2015 for a sum of Rs.30 million for installation of water purification machines and for maintenance of them for a period of 10 years, required for the supply of pure water to colonists. In terms of agreements, water purification machines should be installed in 12 selected places before 30 November 2015. However, works in three places had not been completed even by the end of the year 2017.

4.10 Resources of the Authority given to other Government Institutions

The following observations are made.

- (a) Forty Security Officers of the Mahaweli Security Corps had been released to the Government institutions in the year 2012 and a sum of Rs.29,976,062 as salaries in the year under review and a sum of Rs.18,720,252 as overtime and travelling expenses in the years 2015 and 2016 had been paid to those officers. However, action had not been taken to reimburse that money from the relevant institutions even up to 30 September 2017.
- (b) Even though a Management Assistant and a Driver of the Hurulu Wewa Zone of the Authority had been attached to the line Ministry and a sum of Rs.697,324 had been paid as salaries in the year under review, those monies had not been reimbursed by the Authority.

4.11 Staff Administration

The following observations are made.

- (a) There were 12 and 169 vacancies in the senior level management and the medium level management respectively and 118 were in excess as at 31 December 2016 of the Authority. Forty one persons recruited temporarily to the posts not approved had been included in excess cadre.
- (b) Officers had been recruited on contract and secondary basis to cover duties of vacant posts instead of taking action to recruit qualified officers on permanent basis in terms of Scheme of Recruitment for the posts of Deputy Director General (Admin and Finance), Director (Lands), Director (Planning and Monitoring), Director (Mahaweli Centre) and Deputy Residential Business Manager of Systems “C”, “B” and Hurulu Wewa Zone.
- (c) A staff including 369 officers such as a Deputy Director, a Sociologist, a Geologist, 40 Engineers, 13 Assistant Engineers, 12 Technicians and 51 Management Assistants had been attached to the projects of the Ministry of Irrigation and Water Resources Management and Ministry of Mahaweli Development and Environment. As such, those officers who were so released could not be employed in the posts of approved cadre of the Authority and there were no vacancies in the posts of the cadre so released. Therefore, new officers could not be recruited to those posts.

- (d) A specific cadre and a Scheme of Recruitment for the Natural Resources Management Services (Pvt) Ltd and the Mahaweli Consultancy Bureau (Pvt) Ltd. had not been approved by the Department of Management Services or the Board of Directors.
- (e) A person holding a permanent post in another Ministry had been recruited on contract basis as the Secretary of the Mahaweli Consultancy Bureau (Pvt) Ltd. and an officer had been recruited on contract basis to the post of Accountant by the Natural Resources Management Services (Pvt) Ltd without conducting a proper interview.
- (f) Salaries and contribution to the Employees Provident and Trust Funds of 06 employees of the Company attached to the Niraviya Farm owned by the Mahaweli Livestock and Agro Enterprises (Pvt) Ltd. which has come under the line Ministry since October 2010, were being paid by the Ministry of Finance and at present by the Mahaweli Authority. Nevertheless, the Company had not taken action to release those employees properly.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

The financial statements and the draft Annual Report should be furnished to Audit within 60 days after 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. Even though the financial statements had been furnished to Audit by the Mahaweli Consultancy Bureau (Pvt) Ltd. and the Natural Resources Management Services (Pvt) Ltd in June 2017 and by the Authority in 04 December 2017, the draft Annual Report had not been furnished along with them.

5.2 Corporate Plan

Even though the Corporate Plan should be prepared in terms of the Public Finance Circular No. 1/2014 dated 17 February 2014, the Corporate Plan for the year under review had not been prepared and the approval of the Board of Directors had not been obtained therefor. Further, the Mahaweli Livestock and Agro Enterprises (Pvt) Ltd. and the Natural Resources Management Services (Pvt) Ltd had not prepared a Corporate Plan including future plans for achievement of their objectives.

5.3 Action Plan

The following observations are made.

- (a) The Annual Action Plan which should be prepared in terms of the Public Finance Circular No.1/2014 of 17 February 2014, had not been prepared and the revised Action Plan prepared in compliance with the performance of the year under review had been approved by the Board of Directors on 29 December 2016. The Performance Report of the Authority prepared according to the Action Plan had not been presented to Audit even by 10 January 2018.

- (b) In terms of the Public Finance Circular No.1/2014 of 17 February 2014, the Annual Action Plans had not been prepared by the Mahaweli Livestock and Agro Enterprises (Pvt) Ltd. and the Natural Resources Management Services (Pvt) Ltd for operating the functions of the year under review properly.

5.4 Internal Audit

The Chief Internal Auditor is serving since the year 2015 in the post of Internal Auditor (Director) of the Authority, which was vacant over a period of 05 years from the year 2010 to the year 2015 and the Authority had failed even by the end of the year under review to recruit an officer who had fulfilled the qualifications cited in the Scheme of Recruitment.

5.5 Budgetary Control

The Natural Resources Management Services (Pvt) Ltd had not prepared a budget for the year under review and the variances ranging from 10 per cent to 582 per cent, 11 per cent to 121 per cent and 14 per cent to 100 per cent were observed between the budgeted and actual expenditure in the Authority, the Mahaweli Consultancy Bureau (Pvt) Ltd. and in the Mahaweli Livestock and Agro Enterprises (Pvt) Ltd. respectively, thus indicating that 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) About 50 per cent of the total hydro power generation of the Ceylon Electricity Board is generated by hydro power stations associated with Mahaweli Reservoirs and it was observed that electricity charges for electric lamps installed on dams of reservoirs such as Polgolla, Victoria and Kotmale are paid by the Authority to the Ceylon Electricity Board. As charges are not paid for the maintenance of reservoirs and the water used by the Electricity Board, the Authority had not paid attention to 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.

6. Systems and Controls

Weaknesses 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

(a) Management of Fixed Assets

(b) Utilization of Lands and Buildings

(c) Management of Income and Expenditure

(d) Contract Administration

(e) Project Management

(f) Control over Motor Vehicles

Observations

Even though the annual verification of assets had been carried out for ascertaining the existence of assets, the relevant reports had not been presented and proper measures had not been taken in respect of idle and underutilized assets.

Utilization of buildings owned by the Authority, by external parties without paying rentals, idling of buildings of Zones and failure in taking action to manage the lands with mineral resources and to earn income.

Unavailability of an accurate methodology for collecting rental income and outstanding rental income, failure to enforce Terms and Conditions relating to collecting of rental income and non-settlement of advances obtained in terms of Financial Regulations.

Dividing the contracts for which the approval of the Department Procurement Committee should be obtained, so as to obtain the approval of the Regional Procurement Committee and calling for bids therefor without basis whatsoever.

Failure to obtain Environmental Evaluation Reports and approvals to be obtained from other relevant institutions prior to execution of projects.

Failure in taking action to get back the motor vehicles released to external parties and to carry out annual surveys in respect of motor vehicles.