

## **Mahaweli Consultancy Bureau (Pvt) Ltd. – 2017**

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The audit of financial statements of the Mahaweli Consultancy Bureau (Pvt) Ltd. for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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. My comments and observations which I consider should be published with the Annual Report of the Company appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium - sized Entities 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**

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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 Basis for Qualified Opinion**

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- (a) Action had not been taken during the year under review to rectify the Differed Tax Liability amounting to Rs. 611,866 included in the non-current assets of the financial statements.

- (b) According to the Paragraph 19 of the Chapter 17 of the Sri Lanka Accounting Standards for Small and Medium - sized Entities, although the assets cost amounting to Rs. 3,035,306 were totally depreciated, it had further being used due to the useful life of non-current assets are not review annually. Accordingly, actions had not been taken to rectify the estimated error.
- (c) According to the Paragraph 18 of the Chapter 28 of the Sri Lanka Accounting Standards for Small and Medium - sized Entities, even though Projected Unit Credit Method or any other similar method should be followed when provisioning of Gratuities, the Gratuity provision had been made by the Company consider the service period and the last drawn salary of the employees. Further, as well as the Gratuity provision had made relating to the year under review had been shown Rs. 1,609,568 understated in the financial statements.
- (d) The audit evidences require for confirm value of mobilization advances, receivable balances and retention money valued at Rs. 6,013,823 relating to six subjects were not furnished to audit.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 1.4 of this report, the financial statements give a true and fair view of the financial position of the Mahaweli Consultancy Bureau (Pvt) Ltd. as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities.

### **2.2 Report on Other Legal and Regulatory Requirements**

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In accordance with Section 163(2) of the Companies Act No. 07 of 2007, I present the following information.

- (a) The basis for opinion and scope and limitations of audit are as mention above.
- (b) - In my opinion, subject to the provisions of Section 1.4 of this report, I have obtained all the information and explanations need for the audit and according to my investigations, the company has maintained formal accounting records,
- The financial statements of the company are in line with the requirements set out in Section 151 of the Companies Act No. 07 of 2007.

### **2.3 Accounts Receivable and Payable**

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Although retentions amounting to Rs. 4,683,000 up to 1 year to 3 years, National Defense Levy payable amounting to Rs. 166,039 in 7 years, other payable amounting to Rs. 11,339,050 more than 2 years period had exceeded as at end of the year under review, actions had not been taken to settled those balances.

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

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The following instances of non-compliances were observed.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non-compliance</b>
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| (a) Public Enterprises Circular No. PED 03/2015 dated 17 June 2015.               | Even though the consent of the Finance Ministry with the recommendation of the Secretary of the Line Ministry and the approval of the Board of Directors of the Company should be obtained for getting monthly allowances of the Chairman's of the Government owned companies under "F" of the company's categorization, the recommendation of the Secretary to the Line Ministry and consent of the Minister of Finance had not been obtained for allowances of Rs. 378,715, Rs. 790,460 and Rs. 877,242 had obtained by the Chairman of the Company in the year 2015, 2016 and 2017 respectively. |
| (i) Paragraph 2.2   |   |
| (ii) Paragraph 2.10   | Even though relevant taxes should be charged from monthly allowance of the Chairman and sitting allowances of Non-executive Directors, With Holding Tax amounting to Rs. 109,324 had not been charged and remitted to the Commissioner of Island Revenue from the allowance of Rs.877,242 paid to the Chairman and Rs.216,000 were paid to 03 Non-executive Directors on attending to the meetings.   |
| (iii) Paragraph 2.11  | Even though the Sitting Allowance for board meetings can be obtained only for officers and Non-Executive Directors and couldn't be paid to the Chairman of the institute, a sum of Rs. 24,000 had been paid to the Chairman as Sitting Allowance during the year under review.  |
| (b) Paragraph 6.5.1 of Public Enterprises Circular No. PED/12 dated 02 June 2003. | The Draft Annual Report had not been furnished along with the financial statements during the year under review.  |

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Company for the year under review had been a profit of Rs. 2,170,367 as against the profit of Rs.6,462,538 for the preceding year, thus indicating a deterioration in the financial result by Rs. 4,292,171 in the year under review as compared with the preceding year. The financial result had been mainly deteriorated due to increase in the Service Cost by Rs.10,184,193.

Analyzing the financial results of 04 preceding years and the year under review, the net profit after tax of the Company amounting to Rs.650,954 in the year 2013 had been increased in year 2014 and 2016 and decreased in 2015 and the year under review. However, the contribution of the Company of Rs.23,942,274 for the year 2013 was continuously increased up to Rs.37,019,119 in the year 2016 and had decreased as Rs. 29,739,122 in the year under review.

### **4. Operating Review**

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#### **4.1 Performance**

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##### **4.1.1 Planning**

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Even though a Corporate Plan should be prepared to enabling to carry forward continuously for next years updating such plan as needed by evaluating strengths and weaknesses in the enterprise for achievement of objectives established in the Company according to the Section 5.1 of the Public Finance Circular No. PED/12 dated 02 June 2003, such a plan had not been prepared.

##### **4.1.2 Performance and review**

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The approval of the Board of Directors had not been obtained for the Action Plan had prepared by included expected activities to be implemented in the year under review. The progress was in the range of 20 per cent to 50 per cent in 03 projects out of 04 construction sector projects and the progress was 20 per cent in a consultancy sector project as per financial and physical progress reports furnished to audit.

#### **4.2 Management Activities**

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The following observations are made.

- (a) Although a sum of Rs. 650,000 was decided to distribute to shareholders as dividend by base on a sum of Rs. 6,136,013 as distributable profit according to assessment year 2016/17, a sum of Rs. 65,000 had paid on 29 September 2017 to the Department of Island Revenue as relevant dividend tax out of that, even the approval had not been given to payment of dividend by the Board of Directors until 04 April 2018.

- (b) A fine amounting to Rs. 237,873 had to be paid in the year under review due to payments were not made on Value Added Tax for first quarter in the year 2016.
- (c) Whereas the final report of the Environmental Impact Assessment (EIA) of the Kuil Oya Project was conducted by the Company had furnished to the Line Ministry on 17 July 2015, actions had not been taken to recover a sum of Rs.1,906,711 receivable for that even as at June 2018.

#### **4.3 Cadre Administration**

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The specific Cadre or Scheme of Recruitment relating to it for the Company had not been approved by the Department of Management Services or Board of Directors. As a result of this, the accuracy of recruitment for Cadre of the Company, promotions, deciding salaries and qualifications relating to the post could not be checked.

### **5. Accountability and Good Governance**

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#### **5.1 Procurement and Contract Process**

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##### **5.1.1 Procurement**

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The approval of the Board of Directors had not taken for Procurement Plan had been prepared by the organization in the year under review.

##### **5.1.2. Weakness in Contract Administration**

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The following observations are made.

##### **(a) Construction of Moragahakanda Circuit Bungalow**

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It had been signed an agreement for a sum totalling Rs. 82,544,467 as a sum of Rs.3,949,332 for design and supervision and a sum of Rs. 78,595,135 for construction with the main construction company of the Moragahakanda project dated 17 March 2017 for construction of circuit bungalow in Moragahakanda on Design and Build basis. The following observations are made in this connection.

- (i) The conditions had not included in the initial contract agreement that sub contracts could be given and this construction work had been given to a sub-contractor to a sum of Rs.75,037,303 contrary to Paragraph 4.4 of Section 03 in CIDA/SBD/04 issued for the design and build constructions by the Construction Industry Development Authority (CIDA). However, although the works due to be commenced on 20 February 2017 and completed on 20 August 2017 as per sub contract agreement, the works had not been completed even as at 05 April 2018.
- (ii) An Advance Security Guarantee had not been obtained for payment as Mobilization Advance amounting to Rs. 15,007,461 according to the

Guideline 5.4.4 of the Procurement Guideline and Performance Bond had not been obtained as per Guideline 5.4.8 of the Procurement Guideline. Further Technical Evaluation Committee had not been appointed for the construction according to the Guideline 2.8 of the Procurement Guideline.

- (iii) Even though approval of the Procurement Committee should be obtained in purchase goods over Rs. 10 million by following Shopping method according to Supplement 28 for Procurement Guideline, an iron stock valued at Rs. 10,276,675 had been purchased on behalf of a sub-contractor only on approval of the Chairman. But the conditions had not included in the agreement of sub-contract that supply of goods for construction process. However, the written evidences were not furnished to audit that the purchased iron stock was handed over to the sub-contractor.
- (iv) The sub-contractor had left the contract works in January 2018 by stop the works halfway and a new contractor for that had been selected out of procurement procedure on approval of the Chairman of the Company.
- (v) The works had not been handed over systematically to the new contractor by estimating the materials including irons are existing in the site and those values by the Company before handover the works to the new contractor. Also, there was no any document had been maintained in the site to check the ownership and transfer of this iron stocks.

**(b) Construction of Moragahakanda Information Centre**

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It had been signed an agreement for a sum totalling Rs. 90,752,812 as a sum of Rs.4,321,562 for design and supervision and a sum of Rs. 86,431,250 for construction with the main construction company of the Moragahakanda project dated 01 August 2017 for construction of Moragahakanda Information Centre on Design and Build basis.

The following observations are made in this connection.

- (i) The conditions had not included in the initial contract agreement that sub contracts could be given and an engineering estimate value at Rs.121,737,016 of sub contract for construction of Information Centre including Toilet System and Observation Gallery had been given to the company which was constructed Moragahakanda Circuit Bungalow without procurement procedure contrary to Paragraph 4.4 of Section 03 in (CIDA/SBD/04) issued for the design and build constructions by the Construction Industry Development Authority (CIDA). Although the works due to be commenced on 01 August 2017 and completed on 01 November 2017 as per sub contract agreement, the works had not been completed even as at 05 April 2018.
- (ii) An Advance Security Guarantee had not been obtained for payment as Mobilization Advance amounting to Rs. 24,347,402 according to the Guideline 5.4.4 of the Procurement Guideline and Performance Bond had not been obtained as per Guideline 5.4.8 of the Procurement Guideline. Further Technical Evaluation Committee had not been appointed for the construction according to the Guideline 2.8 of the Procurement Guideline.

- (iii) The agreement entered with the main construction company for construction of Toilets System and Observation Gallery had not been furnished to the audit.
- (iv) The sub-contractor had left the contract works in January 2018 without completing the construction works and a new sub-contractor for that had been selected on 16 January 2018 out of procurement procedure on approval of the Chairman of the Company.
- (v) Although a sum of Rs. 2,284,231 had been paid in 15 September 2017 as consultancy fee for this contract by the company, the procurement process had not been followed for selection of Consultants and the agreement signed with them also was not furnished to audit.

## 5.2 Budgetary Control

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The approval of the Board of Directors had not been obtained for budget that prepared for the year under review and the variance ranging from 12 per cent to 916 per cent were observed reconciling the budgeted income and expenditure with actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

## 6. Systems and Controls

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Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

<b>Areas of Systems and Controls</b>	<b>Observations</b>
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(a) Accounting	Failure to comply with some Accounting Standards in preparing financial statements.
(b) Control of Debtors and Creditors	Failure in taking action to settle balances remaining unsettled for a long period.
(c) Contract Administration	Failure to comply with procurement process in contract administration and failure to comply with relevant agreements.
(d) Performance	Failure to achieve desired performance from projects implemented by the Company