

**Qualified Opinion**

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The audit of the financial statements of the Mahaweli Consultancy Bureau (Pvt) Ltd “Company” for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No.19 of 2018. My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium – sized Entities (SLFRS for SMEs).

**1.2 Basis for Qualified Opinion**

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My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the auditor’s responsibilities for the audit of the Financial Statements section of this report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

**1.3 Responsibilities of the Management and Those Charged with Governance for the financial statements**

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The 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 (SLFRS for SMEs) and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operation, or has no realistic alternative but to do so.

Those charges with governance are responsible for overseeing the Company’s financial reporting process.

As per the section 16(1) of the National Audit Act No.19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

#### **1.4 Audit Scope (Auditor's Responsibility for the Financial Statements)**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatements of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that it sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation,
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company,
- Whether the Company has performed according to its powers, functions and duties,
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws,

## 1.5 Financial Statements

### 1.5.1 Accounting Deficiencies

Audit Issue -----	Management Comment -----	Recommendation -----
(a) Receivables of the Ministry of Irrigation and Water Resources Management and Mundeni Aru Development Project Rs.11,791,614 and Rs.908,000 respectively had not been accounted As Revenue Receivables.	The company was unable to bear the cost of tax on the above bill at the end of the year due to the company's revenues falling into a financial crisis that forced the company to stop acquiring new projects from early 2018.	Steps must be taken to properly account for the revenue receivables.
(b) The excess provision of the gratuity in the previous year Rs.1,609,567 was adjusted to the profit for the year under review.	Steps are being taken to correct the retained profits of 2019 financial statements.	Corrective action should be taken in preparing the 2019 financial statements.
(c) Receivable Interest income of Rs.1,284,697 relating to 3 fixed deposits had not been accounted.	Failure to remit to the Inland Revenue Department the specified amount of withholding tax payable on it and failure to determine the receivable interest rate. In addition, it is further stated that the deposit of the fixed deposit for a period of three months has not been matured.	Interest income received on fixed deposits should be properly accounted.

### 1.5.2 Non-Compliance with Sri Lanka Accounting Standard for Small and Medium-sized Entities.

**Non Compliance with the reference to particular Standard**

**Management Comment**

**Recommendation**

Even though fully depreciated fixed assets costing Rs.3,058,326 had been in further use due to the failure to review the effective life of non-current assets annually in terms of Paragraph 19, Chapter 17 of Sri Lanka Accounting Standards for small and medium sized enterprises.. Accordingly, action had not been taken for the revision of the estimated error.

The cost of the fixed assets Rs.3,058,326 had been fully depreciated in the year ended 31st December 2017, Reviewing the effective life time for 2019 and informing that the fixed assets will be revalued from 2019 and adjusted to the accounts.

Action should be taken to Comply with Sri Lanka Accounting Standards.

### 1.5.3 Unreconciled Control Accounts or Records

Item	As per Financial Statements Rs.	As per corresponding Record Rs.	Difference Rs.	Management Comment	Recommendation
(a) Revenue	90,203,907	48,899,419	41,304,488	I would point out that due to the financial crisis, the tax bills at the end of the year are so high that the company is unable to afford it.	The values in the financial statements should also be included in the tax assessment reports.
(b) Value added tax liability	3,748,751	1,862,322	1,886,429	Tax liability on receivables related to financial year 2018, not being recorded in the fourth quarter valuation report	The values in the financial statements should also be included in the tax assessment reports.

due to non-receipt of cash by the last quarter of the year 2018.

## 1.6 Accounts Receivable and Payable

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### 1.6.1 Receivables

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Audit Issue	Management Comment	Recommendation
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(a) Action has not been taken to settle retention amount exceeding 5 years amounting Rs.1,273,787 and one to five years amounting Rs.6,016,484 at the end of the year under review and to recover other outstanding balances of more than five years amounting Rs.1,762,118.	The parties have been reminded to take action to recover the retention money exceeding 5 years, To quickly settle those balances, I would like to inform that retention money no longer presented will be recognized as income.	Action should be taken to settle and recover the balances.
(b) Although, Amounting Rs.462,572 had paid for thirty cubic meters of concrete, 11.5 cubic meters amounting Rs.177,319 which had not been received by the company due to the discontinuation of construction had not been recovered by the date of the audit report.	In the case of quotations it was stated that as per condition of the concrete supplier, the quantity ordered must be paid. Accordingly, That company has been informed that payments have been made and necessary steps are being taken to repay the amount of concrete which had not been obtained.	Action should be taken to settle the receivable balances immediately.

## 1.6.2 Payable

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
National security tax payable over 8 years amounting to Rs.166,039, mobilization advances over 5 years amounting to Rs.8,410,207 and other outstanding balances over two years amounting to Rs.2,454,530 had not been settled.	Although these balances have long been recognized as a balance of payments in the financial statements, the receivable parties have not confirmed their specificity, however, taking note of how to proceed quickly.	Action need to be taken to settle the payable balances.

## 1.7 Non - Compliance with laws, Rules, Regulations and Management Decisions etc.

Following observations are made.

<b>Reference to the Laws, Rules and Regulations etc.</b>	<b>Non – compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Financial Regulations No.757	The board of survey report had not been submitted to the Auditor General in terms of financial regulations.	Annual board of Survey of the Institute has been conducted.	The board of survey report should be submitted to the Auditor General.
(b) Paragraph 2.2 of 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 had not been obtained for	I have taken notes to take action in accordance with the said circular	Action should be taken in terms of the Circular.

allowances of Rs.790,460, Rs.877,242, and Rs.1,094,183 had obtained by the Chairman of the Company in the year 2016,2017 and 2018 respectively.

- (c) Paragraph 6.5.1 of Public Enterprises Circular No. PED/12 dated 02 June 2003. The draft annual report was not presented with the financial statements of the year under review. Action will be taken to submit the draft Annual Report expeditiously. Action should be taken in terms of the Circular.

## 02 Financial Review

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### 2.1 Financial Result

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The operating result of the year under review amounted to a loss of Rs.4,690,880 and the corresponding profit in the preceding year amounted to Rs.3,625,207. Therefore, an improvement amounting to Rs.1,065,673 of the financial result was observed. The reason for the improvement is decrease of administrative costs.

## 03 Operational Review

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### 3.1 Identified Losses

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Audit Issue	Management Comment	Recommendation
<p>The company had canceled the contract for the construction of the Kanewela anicut. Accordingly, the Company incurred a loss of Rs.2,730,144 due to the non-refunding of the Performance Guarantee and Advance Security amounting Rs.1,730,055 and Rs.1,000,089 respectively. Furthermore, Ten gates and wires amounting Rs.849,744 and 562,941 respectively were purchased with 25 percentage of the construction progress. That expense was a idle expense.</p>	<p>The contract was canceled due to the loss of the project and due to the expiration of the contract due to the cost of flooding and the additional costs incurred due to climate and weather change. Accordingly only the performance security amount Rs.1,730,055 had been retained.</p> <p>The shutdown of the site caused the site to stop before the gates were installed. But the purpose of transporting the ordered gates to the site, On the instructions of the chief engineer, the site was stopped</p>	<p>Action should be taken to recover from responsible parties.</p>

and the gates were brought to the Premises of the institute.

I would like to inform you that this wire stock may be used for any other construction work or otherwise it will be disposed in a systematic manner.

### 3.2 Operational Inefficiencies

#### Audit Issue

The action plan which includes the activities expected to be implemented in the year under review has not been approved by the Board of Directors. Physical progress of the company could not be checked as the progress reports were not submitted in accordance with the action plan format submitted to the Audit.

#### Management Comment

Annual Action Plan will be submitted to the Board of Directors and action will be taken to obtain the approval.

#### Recommendation

Action should be taken to obtain the approval of the Board of Directors for the Annual Action Plan in the future.

### 3.3 Procurement Management

#### Audit Issue

The procurement plan prepared by the institute for the year under review had not been approved by the Board of Directors.

#### Management Comment

The Procurement Plan will be submitted to the Board of Directors for approval.

#### Recommendation

Action should be taken to obtain the approval of the Board of Directors for the procurement plan in future.

### 3.4 Human Resources Management

#### Audit Issue

There was no approved staff for the company and the recruitment procedure was not approved by the Management Services Department or the Board of Directors. Due to this, it is not possible to check

#### Management Comment

With the steps taken by the parent company of Sri Lanka Mahaweli Authority to liquidate our company in June 2018, the Sri Lanka Mahaweli Authority has taken steps to stop the acquisition of new

#### Recommendation

Steps should be taken to approve an approved staff and a recruitment procedure.



the accuracy of the business projects of the recruitment, promotion and company and to recruit staff, qualifications of the staff of promotions and salary the company. increases. Since the Mahaweli Authority of Sri Lanka has been instructed to do so, Company was unable to provide specific staff and the relevant recruitment procedures (SOR).