

## **Mahaweli venture capital (pvt) Company - 2018**

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### **1. Disclaimer of Opinion**

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The audit of the financial statements of the Mahaweli venture capital (pvt) Company for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of Profit and Losses of changes in equity and cash flow statement 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 in conjunction with provisions of the National Audit Act No.19 of 2018 and Finance Act No.38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

### **1.2 Basis for Disclaimer of Opinion**

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

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka for Small and Medium Sized Entities Accounting Standards and for such internal control as the 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 operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Sub-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 Institute.

## 1.4 Auditor's responsibility for 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 misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is 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 my auditor's report to the related disclosures in the financial statement 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, and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

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### 1.5.1 Accounting Policy

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<b>Audit Observation</b>	<b>Response of the Management</b>	<b>Recommendations</b>
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(a) In terms of section 8.5 of Sri Lanka Accounting Standard for Small and Medium Sized Entities the significant accounting policies applied in the preparation of financial statements for the year under review had not been disclosed in the financial statement.	I will advise the liquidator to disclose the Accounting Policies followed to prepare the financial statements.	Should be adherent to the provisions of the standard.
(b) In terms of Section 3.8, 3.9 and 4.4 of Sri Lanka Accounting Standard for Small and Medium Sized Entities, the current realizable value of all assets of the company due to be liquidated, should be indicated in the financial statements as current assets. However the written off value of the assets had been shown under non- current assets in the financial statements.	I will advise to state the realizable value of all assets in the financial statement as current assets.	Should be adherent to the provisions of the standard.

## 1.5.2 Accounting Deficiencies

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Audit Observation	Response of the Management	Recommendations
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(a) Interest income from Treasury Bills amount had been understated by Rs.283,658 for the year under review.	Due to errors in calculation the interest income on the Treasury Bills had been instructed to correct as Rs.771,217 in the financial statements.	Interest income from Treasury Bills should be accounted correctly.
(b) Cost of Property Plant and Equipment had been deducted by Rs.177,533 as removing Office Equipment but Office Equipment had not been removed during the years under review.	Not answered.	Property Plant and Equipment should be accounted correctly.
(c) Although Profit on market value of Treasury bills was Rs.58,796 million instead of Rs.375,561 had been adjusted for operating profit before changing of working capital in the cash flow statement.	Will instruct to correctly state overstated amount of Rs.316,765 relating to profit on market value of Treasury Bills which happened when calculating operating profit before changing of working capital.	Action should be taken to prepared the Cash Flow Statement properly.
(d) As the company had not adjusted for losses in the past years when calculating income tax due to the income tax liability had been overstated by Rs.37,562.	In calculating income tax, I advise to make adjustments for losses related to previous years.	Action should be taken to calculate income tax correctly
(e) Interest income had been overstated by Rs.36,117 as a result of the company had regarded notional tax credit concession entitled under Section 137 of the Inland Revenue Act No 10 of 2006 as applicable until 31	It is advised to rectify the increase in interest income by Rs.36,117 which had been resulted as notional tax credit concession regarded as applicable to the whole year of 2018.	Action should be taken to calculate income tax correctly.

December 2018 which was actually valid only till 31 march 2018.

- (f) Brought forward balance of Rs.10,659,407 of allowable losses in the tax calculation report of last year had been stated as opening balance of Rs.11,053,291 for the year under review. Will instruct to rectify the brought forward balance amounting to Rs.11,053,291 which was allowable losses indicated in the tax calculation report of last year. Action should be taken to calculate income tax correctly.

### 1.5.3 Unreconciled control Accounts or Records

Item	Value According to the Financial Statements	Value as per Relevant Records	Difference	Response of the Managements	Recommendation
	Rs.	Rs.-	Rs.		
Treasury Bills	9,455,896	9,772,661	316,765	According to the Treasury Bill maturity notices, I propose to rectify the Treasury Bill. Value as Rs.9,772,661	The correct value should be accounted for acceding to the notice of maturity of Treasury Bills.

### 1.5.4 Lake of written evidence for audit

Items	Amount	Evidence not made available	Response of the Management	Recommendation
	Rs.			
(a) Buildings, Office Equipment, Furniture and Fittings, Motor	1,675,212	Updated schedules of assets reports on Boards of Survey Vehicle registration	This car is owned by the British High Commission and we do not have registration certificate, revenue license and insurance	Written evidence should be maintained to verify the accuracy of

	Vehicles		documents.	certificate.	account balances.
(b)	Provision for Bad and Doubtful Debtors.	5,315,986	Loan files, Loan lists, Approval for Write off loans	Loan files could not be traced and availability of approval to write off loans would not be found.	-do-
(c)	Trade and Other Payable Balance and Receivable Interest.	690,751	Confirmation	Balance confirmation documents could not be found.	-do-
(d)	Stated Capital	10,398,000	Share Certificates	share certificates could not be traced.	-do-
(e)	Reserves	10,150,325	Evidence relating to accounted as Reserves.	Reserve accounted relevant documents could not be found.	-do-

**1.6 Non – Compliances With Laws, Rules, Regulation and Management Decisions etc**

Reference to Laws, Rules	Non – Compliances	Response of the Management	Recommendatio
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-- The Mahaweli Authority of Sri Lanka Act No 23 of 1979 and Section 42 (1)	Although it had been indicated that the capital of the company should be compared of Ordinary Shares of Rs.100 each as per the Memorandum of Association of the company, the authorized capital had comprised of 3,000,000 shares of Rs.10 each. Even though 1,039,800 shares and 3 shares out of them had been issued to the Mahaweli Authority of Sri Lanka and in the names of other outside persons respectively, the quantity of shares issued to outside persons had not been shown in the financial statements.	No reply	should act in accordance with the provision of the Act0

## **02. Financial Review**

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The operating result of the year under review amounted to profit of Rs.328,929 and the corresponding profit in the preceding year amounting to Rs.990,740. Therefore an deterioration amounting to Rs.661,811 of the financial result was observed the reasons for the deterioration is stop business activities of the Company.

## **3. Operating Review**

### **3.1 Management inefficiencies**

<b>Audit Issues</b>	<b>Response Of the Management</b>	<b>Recommendation</b>
----- In terms of recommendations of the Parliamentary on Public Enterprises held on 13 August 2012, the Board of Directors of the Mahaweli Authority of Sri Lanka had decided at the meeting held on 28 September 2012 to wind up the company voluntarily by the end of December of the same year and accordingly a liquidator had been appointed to wind up the company as per the special decision of the Board of Directors taken on 20 November 2014 and it had been agreed to make a payment of Rs.125,000 on 21 October 2014 for winding up activities and preparing of accounts moreover out of the said amount, which is Rs.62,500 had been paid on 10 January 2015. Even though it had been decided at first to wind up the company voluntary, it had been confirmed according to the	----- Reply not forwarded.	----- Immediate steps should be taken to complete the liquidation process of the company.

letter No. PD/9854/dated 25 July 2016 of the Department of Registrar of Companies that subsequently it had become a winding up by setting of creditors. It had been in for med as per the said letter to hold a meeting for creditors and to proceed further. However, no evidence had been made available that such a meeting had been held and the winding up activities of the company had not been completed even by 31 August 2019.