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கணக்காய்வாளர் தலைமை அபிப்பதி திணைக்களம்  
**AUDITOR GENERAL'S DEPARTMENT**



මගේ අංකය } AF/D/MA/2005  
எனது இல }  
My No. }

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திகதி }  
Date }

May 2006

Director General,  
Mahaweli Authority of Sri Lanka.

**Report of the Auditor General on the Accounts of the Mahaweli Authority of Sri Lanka for the year ended 31 December 2005 in terms of Section 14(2)(c) of the Finance Act No.38 of 1971**

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The audit of accounts of the Mahaweli Authority of Sri Lanka for the year ended 31 December 2005 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 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. A detailed report in terms of Section 13(7)(a) of the Finance Act will be submitted to the Director General of the Authority in due course.

**1.2 Scope of Audit**

Audit opinion, comments and findings in this report are based on a review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and the extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards, methods and practices to obtain reasonable assurance as to whether the financial statements are free of material

misstatements. The audit included examination of evidence supporting the amounts and disclosures in financial statements and assessment of accounting principles and significant estimates and judgements made in the preparation of financial statements, evaluation of their overall presentation and determining whether accounting policies adopted were appropriate, consistently applied and adequately disclosed. 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 extent of the audit.

## **2. Accounts**

### **2.1 Audit Opinion**

In view of my observations appearing in this report, I am unable to express an opinion on the accounts presented. Major deficiencies observed in this connection are given below.

	Deficiencies	Reference to paragraph in this report
(a)	Accounting policies	2:2:2
(b)	Overstatements in the Accounts	2:2:3
(c)	Accounts Receivable and Payable	2:2:4
(d)	Unidentified Transactions	2:2:5
(e)	Unexplained Differences	2:2:6
(f)	Lack of Evidence for Audit	2:2:7
(g)	Non-compliance with Laws, Rules Regulations and Management Decisions	2:2:8
(h)	Financial Performance	3:1

## **2.2 Comments on Accounts**

### **2.2.1 Accounting Procedures**

The accounting policies and formats for reporting and accounting for the transactions of the Authority in terms of Section 34 of the Mahaweli Authority of Sri Lanka Act, No. 23 of 1979 had not been formulated. The fixed assets relating to the Head Office had been shown in the balance sheet as fixed assets while the capital and maintenance expenditure of the Down Stream Development had been brought to account as capital expenditure thereon for which no authority had been obtained in terms of Section 12 of the Finance Act. No. 38 of 1971.

### **2.2.2 Accounting Policies**

The following observations are made.

- (a) Depreciation had not been provided in respect of fixed assets amounting to Rs.1,729,487,080 owned by the Authority and its Agencies.
- (b) Financial statements submitted for the year 2005 were not in accordance with Sri Lanka Accounting Standard No. 3.
- (c) It was observed in audit that there was no any connection between the Balance Sheet and Income and Expenditure Account. Operating results had not been carried forward and shown separately in the balance sheet. Therefore, the Income and Expenditure Account furnished could not be considered as a part of the financial statements, for the year under review.
- (d) Although the projects of the Mahaweli Scheme have been completed, the accounting system introduced had not been changed to suite the present context of the Mahaweli Authority of Sri Lanka.

### 2.2.3 Overstatements in the Accounts

The following overstatements had been observed in the amalgamation of the accounts of the Mahaweli Authority of Sri Lanka with the accounts of the Systems and Agencies of the Authority for the year under review.

<u>Account</u>	<u>Overstatements</u>
	Rs.
Fixed Assets	31,091,000
Current Liabilities	12,673,364
	<hr/>
Total	43,764,364
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### 2.2.4 Accounts Receivables and Payables

(a) Receivables  
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- (i) A sum of Rs.3,286,518 had been outstanding as at 31 December 2005 on lease rental receivable for the buildings of the Authority which was given for business and other purposes.
- (ii) Charges recoverable from land owners amounting to Rs.85,183,504 had been outstanding as at 30 June 2005 without taking action to recover it.
- (iii) It was observed that the recovery of rent income had not been made properly by the Authority. Rent from Unugaloya Tea Factory amounting to Rs.5,913,600 had remained outstanding as at 31 October 2005.
- (iv) Staff loans, one month salary advance and various advances aggregating Rs.61,894,921 had remained outstanding for the period ranging from one year to 22 years at the Head Office and Systems of the Authority.

(a) Payables

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- (i) Rates amounting to Rs. 4,486,020 had not been settled for a period of 01 to 06 years.
  - (ii) Retention money, tender deposits, creditors and legal fees amounting to Rs. 86,245,144 had not been settled.
  - (iii) Audit fees amounting to Rs. 7,120,063 had been outstanding for the period 1995 to 2004.

**2.2.5 Unidentified Transactions**

Unidentified transactions comprising debit balances aggregating Rs.3,000,266,446 and credit balances aggregating Rs.463,337,725 were observed in the final accounts of the Authority and the Systems, without any details furnished to audit..

**2.2.6 Unexplained Differences**

The balances of 17 accounts shown in the final accounts aggregating Rs. 502,986,397 whilst the balances appearing in the corresponding reports/schedules/sub-ledgers aggregating Rs. 185,002,597 thus, disclosing a difference of Rs. 317,983,800, Reasons for the differences were not explained.

**2.2.7 Lack of Evidence for Audit**

- (a) 5 audit queries relating to 2005 had not been replied by the Authority up to 31 December 2005.
- (b) Information requested by five letters were not furnished.
- (c) 140 Items of accounts aggregating Rs.6,894,116,923 could not be satisfactorily vouched or accepted in audit due to the non-availability of subsidiary records, reports, approvals of the Board of Directors, recommendations, journal vouchers, supporting documents, age analyses, etc.

## 2.2.8 Non-compliance with Laws, Rules, Regulations and Management Decisions

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Following instances of non-compliance were observed in audit.

<b><u>Reference to Laws, Rules &amp; Regulations etc.</u></b>	<b><u>Particulars</u></b>
(a) Establishment Code ----- Paragraph 4:2:3 and paragraph 3:17:3 of Chapter xxiv	Staff loans amounting to Rs.643,240 had been granted without adhering the regulations stipulated.
(b) Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 SLAS No. 3,9,18,26 and 27	The requirements in the SLASs had not been complied with.
(c) Public Enterprises Circular ----- No. 116 of 24 January 1997.	(i) Expenditure aggregating Rs. 2,742,870 relating to overtime, advertisements and staff loans etc. on behalf of the Ministry had been spent by the Authority.  (ii) Five floors of the Head Office building and 32 vehicles belonging to the Authority had been utilized by the Ministry.

(iii) In addition to above 9 drivers of the Authority had been released to the Ministry and payments aggregating Rs.2,494,115 on salaries, allowances and holiday payments etc. relating to those drivers had been paid by the Authority

(d) Public Administration Circulars  
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(i) No. 6/99 of 22 February 1999

The officers of the Authority had utilized fuel exceeding the limits stipulated in the Circular. Official vehicles had been provided to officers to travel between their residences and office without requisite approval.

(ii) No. 01./2002 Of 25 February  
2002

State emblem had not been stenciled on all vehicles belonging to the Authority.

(e) Treasury Circular No. 842 of  
19 December 1978

A fixed assets register had not been maintained properly.

### **3. Financial and Operating Review**

#### **3.1 Financial Performance**

No reliance can be placed on the financial results shown in the Income and Expenditure accounts as it did not show the the actual performance of the Authority. Also please refer paragraph 2.2.2.(c).

Further Substantial accounting deficiencies were observed during the course of audit of accounts for the year under review. Financial performance shown in the individual project accounts for the previous years had also been adjusted by Rs. 211,230,000. In view of this position, the possibility of effecting similar adjustments to the financial performance for the year under review, in the ensuing year cannot be ruled out.

### **3.2 Unauthorized Transactions**

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The following observations are made.

- (a) Monthly allowances and Director Board Allowances had been paid by a company which is functioning as an agency of the Authority, to four officers of the Authority who were released to that company without obtaining Treasury approval.
- (b) A sum of Rs. 212,400 had been paid as survey expenses to a person not confirmed as a surveyor.

### **3.3 Uneconomic Transactions**

The following observations are made.

- (a) A sum of Rs.357,450 had been incurred by the Authority for printing expenses, transport expenses and fuel etc. which were not directly related to the activities of the Authority.
- (b) A part of the ground floor of Head Office building had been rented out to a Bank for over 20 years without an agreement, for a monthly rent of Rs. 135,000. However, electricity bills, water bills, cleaning charges and other maintenance expenses of the building had been charged against the income of the Authority.

### **3.4 Identified Losses**

Particulars of identified losses observed in audit are given below.

- (a) Surcharges amounting to Rs. 703,946 had been paid on account of delays in settlement of various bills.
- (b) The Authority had not taken any action to recover rent in terms of provisions in the Establishments Code on 404 quarters occupied by the officers and outside parties.
- (c) Staff loans amounting to Rs.196,250 had not been recovered from the officers who were not in the service.
- (d) An officer who had resigned in 1994 in order to contest at the General Election and re-employed by the Authority in December 2001, as an Additional Residential Project Manager, at a higher salary scale. Salaries, EPF and ETF amounting to Rs. 1,926,888 had been paid to him for the vacated period.

- (e) Salaries, travelling allowances and holiday pay amounting to Rs. 1,880,897 relating to the period 2000 to 2005 had been paid to an officer who had been attached to a Subsidiary Company of the Authority.

### **3.5 Idle and Under Utilized Assets**

Summary of the idle and underutilized assets observed in audit are shown below. The value of those items were not made available for audit.

Item	Idle Period
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(a) 16 buildings	Not furnished
(b) 128 vehicles	1 to 5 years
(c) 121 Quarters	1 to 15 years
(d) 10 Heavy Vehicles	2 years
(e) 69 Sewing Machines	1 to 2 years
(f) 16 Typewriters	2 years

### **3.6 Utilization of Vehicles**

The following observations are made.

- (a) A tractor and two trailers given to the Central Engineering Consultancy Bureau in 1985 had not been returned to the Authority.
- (b) A lorry given to an outside party had not been returned to the Authority.
- (c) The Authority had released 69 motor vehicles to external parties without obtaining proper authority.

### **3.7 Political Victimization**

The following observations are made.

- (a) Fifteen names recommended by the Committee on Political Victimization had not been furnished for the approval of the Cabinet by the Authority.
- (b) The Committee on Political Victimization had recommended some of the names for the approval of the Cabinet without considering the existence of the vacancies in the cadre position and application of the recruitment procedures.
- (c) The necessary approval of the Director General of Establishments in terms of paragraph 1.10 of chapter II of the Establishments Code to backdate the promotions had not been obtained by the Authority.

### **3.8 Revenue Collection**

It was observed in audit that supervision over collection of revenue by the systems were not satisfactory. For instance, accumulated revenue amounting to Rs. 69,177,378 had not been remitted to the Authority by the respective systems to facilitate the remittance of the revenue collected to the Treasury.

### **3.9 Subsidiary Companies of the Authority**

- (a) No return had been received from the subsidiary companies of the Authority up to the end of the year under review in respect of investments amounting to Rs.21,148,000 as per final accounts of the Authority and financial assistance provided to 10 subsidiary companies. In addition to above, vehicles machinery, buildings and spare parts had been made available to those subsidiary companies by the Authority during the period 1982 to 2005. Further details were not available in the Authority relating to the value of investments, assets and other facilities handed over to the subsidiary companies by the Authority.

- (b) A subsidiary company of the Authority had not been prepared its annual accounts for the past three years. The assets of the Authority transferred to the subsidiary company had not been agreed by the both parties.
- (c) Loans amounting to Rs. 7,545,252 granted by a subsidiary company on behalf of the Authority had been outstanding for a period of 5 to 10 years.

### **3.10 Mahaweli Restructuring and Rehabilitation Project**

The following observations are made.

- (a) Necessary details regarding the Contracts and Assets of the Project, requested by audit had not been furnished by the Authority.
- (b) Even though the Project had been completed as at 31 December 2003, salaries amounting to Rs. 1,223,391 had been paid to officers, by the Authority who were attached to the Project, after the date of completion.

### **3.11 Mahaweli Regional Training Centre - Aralaganwila**

Following observations are made.

- (a) 19 Buildings and other facilities belonging to the Training Centre had been used by the Youth Force of Aralaganwila without recovering any rent.
- (b) Inventory books, assets registers and other relevant files had not been handed over to the Residential Project Manager Welikanda by the responsible officers. Assets belonging to the Training Centre had been transferred to the RPM Welikanda and remained idling.

- (c) 345 Items of assets had been issued to the officers for personal usage without proper authority and recording properly in the registers.
- (d) 5 computers given to outside parties, had not been returned to the Training Centre.

### **3.12 Budgetary Control**

Even though there were no budgetary provisions made for the year under review, a sum of Rs. 16,870,000 had been expended by the Authority out of its revenue.

## **4. Systems and Controls**

Deficiencies observed during the course of audit were brought to the notice of the Authority from time to time. Special attention is needed in respect of following areas of control.

- (a) Cash Management
- (b) Personnel Administration
- (c) Stock Control
- (d) Receivables from Commercial and other Lands
- (e) Contracts
- (f) Administration of Commercial Lands
- (g) Auctioned Items
- (h) Library Books
- (i) Stores Records



(S.C. MAYADUNNE)  
AUDITOR GENERAL