

Superior Courts Complex Board of Management – 2015

The audit of financial statements of the Superior Courts Complex Board of Management for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the income and expenditure account, statement of changes in equity 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 and Section 11(2) of the Superior Courts Complex Board of Management Act, No. 50 of 1987. My comments and observations which I consider should be published with the Annual Report of the Board 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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board’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 Board’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 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 Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Superior Courts Complex Board of Management as at 31 December 2015 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

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) The income amounting to Rs.2,390,017 for the security services supplied to Sri Lanka Law College and to Sri Lanka Judges Institute had been credited to the Rent Income Account.
- (b) A sum of Rs.166,472 received in the year 2016 for security charges for November and December of the year under review had not been brought to account as income of the year under review.
- (c) In accordance with a decision that 40 per cent of the main electricity bill of the Superior Courts Complex should be recovered from the Ministry of Justice arrived at the meeting of the Board of Management held on 18 February 2015, a sum of Rs.11,333,322 had been brought to account in the year under review as income as the electricity bill receivable from the Ministry of Justice. In view of the decision taken by the Ministry of Justice to desist from the payment of that amount as the provisions for the electricity cost and Rs.3,995,339 for the salaries of the Security Officers of the Superior Courts Complex Board of Management are received from the Treasury, the income and the income receivable for the year under review had been brought to account in excess by a sum of Rs.15,328,661.

2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions

Non- compliance

-
- | | |
|--|---|
| (a) Section 8(1) of the Finance Act, No.38 of 1971 | Even though a Budget should be presented to the Board of Management and that budget should be approved not later than three months prior to the commencement of the financial year, the Budget for the year under review had been approved only on 21 January 2015. |
| (b) Financial Regulation 210(2) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka | Even though it is stated that any charges payable on account of delayed payments should be recovered from the officers responsible, action had not been taken in terms of the Financial Regulations for Surcharges on the outstanding contributions payable totalling Rs.5,730,313 comprising Rs.4,816,104 to the Employees' Provident Fund, Rs.656,742 to the Employees Trust Fund and Rs.257,467 to the Employee gratuity resulting from the failure to include the Cost of Living in the computation of the Contribution to the respective Funds and the gratuity for the period January 2006 to July 2013. The Board had paid the sum of Rs.5,073,571 to the respective Funds in the year 2016. |

2.4 Accounts Receivable and Payable

The following observations are made.

- (a) The total of 15 Debtors Balances according to the financial statements as at 31 December 2015 amounted to Rs.21,508,781. Out of this, 3 balances amounting to Rs.1,487,000 had been old between 1 year to 2 years, 3 balances amounting to Rs.258,000 had been old between 2 years to 3 years and a balance of Rs.78,000 had been older than 05 years. Action had not been taken to recover these balances.
- (b) Action had not been taken even by the end of the year under review to settle a sum of Rs.117,972 paid as Advances for repairing the air conditioning system in the year 2009.
- (c) The total of 20 creditors balances as at the end of the year under review amounted to Rs.396,924 and 7 balances amounting to Rs.333,558, 3 balances amounting to Rs.8,938 and 9 balances amounting to Rs.25,037 had remained without being settled over periods between 1 year to 3 years, between 3 years to 5 years and over 5 years respectively.

3. Financial Review

3.1 Financial Results

According to the financial Statements presented, the financial result of the Board for the year ended 31 December 2015 had been a surplus of Rs.32,184,705 as compared with the corresponding surplus of Rs.4,837,746 for the preceding year, thus indicating an improvement of Rs.27,346,959 in the financial result as compared with the preceding year. Even though the staff expenditure had increased by a sum of Rs.17,749,767, the increase of Government recurrent provisions by a sum of Rs.20,843,000 and the decrease of other operating expenditure by a sum of Rs.17,664,583 had been the main reason for this improvement.

An analysis of the financial results of the year under review and 04 preceding years indicated a deficit in the financial result from the year 2011 to the year 2013 and it had converted to a surplus in the years 2014 and 2015. In considering employees remuneration and taxes paid to the Government, despite the decrease of the contribution of the Board amounting to Rs.44,739,492 in the year 2011 to Rs.32,438,779 in the year 2013 that amounted to Rs.62,330,453 and Rs.107,389,805 in the years 2014 and 2015 respectively.

4. Operating Review

4.1 Performance

According to the Superior Courts Complex Board of Management Act, No.50 of 1987, the its objectives are to control, administer, manage and maintain the Superior Courts Complex, and its buildings and making the additions, alterations and improvements as may be necessary to enhance the amenities of the Complex. The observations on the performance according to the Action Plan prepared in that connection for the year under review are given below.

- (a) Even though provisions totalling Rs.20,672,000 comprising Rs.500,000 for buildings and 1 construction project of which the work should be completed as at 31 December 2015 and Rs.19,400,000 for 6 items of machines valued at to be acquired in the year, Rs.542,000 for 2 items of Office Equipment and Rs.230,000 for 2 items of Domestic Appliances that had been completely saved and action had not been taken to complete those activities even by 18 December 2016.
- (b) The percentage of the physical completion of 3 building construction projects with an estimated value totalling Rs.5,500,000 that should have been completed in the year under review had ranged from 29 per cent, 43 per cent and 40 per cent respectively and the total of savings amounted to Rs.3,928,000.

4.3 Management Activities

The following observations are made

- (a) The Employer and Employee Contribution payable amounting to Rs.9,932,211 and the outstanding contribution surcharge of Rs.4,116,104, totalling Rs.14,048,315 arising from the failure to include the Cost of Living Allowance in the computation of the contribution to the Employees Provident Fund for the period from January 2006 to July 2013 had been brought to account as Current Liabilities in the current year and this amount had been paid from the funds of the Board to the Employee's Provident Fund on 29 April 2016. Action had not been taken by the Board to recover a sum of Rs.3,364,042 out of the employees contribution of Rs.4,378,277 recoverable from the officers who are currently deployed in service. Further, the sum of Rs.1,014,236 paid represented payments made on behalf of 59 officers who had left the service from the year 2006 to the year 2015.
- (b) The buildings of the Superior Courts Complex valued at Rs.2,425,852,064 shown in the financial statements had been built on the lands belonging to the Urban Development Authority. Even though these 11 blocks of land had been valued at Rs.4,788,000,000 in the year 2013 and brought to account, action had not been taken to get the lands vested in the Superior Courts of Complex Board even by the end of the year under review.

4.4 Operating Activities

The following observations are made.

- (a) Even though a sum of Rs.1,044,000 had been brought to account as the receivable rent income, water electricity and the service charges from the Legal Aid Commission for the years 2014 and 2015, an agreement had not been entered into with the Legal Aid Commission.
- (b) Even though a sum of Rs.572,000 receivable from the National Centre for Protection of Victims of Crime from the year 2013 to the year 2015 had been brought to account as rent receivable, that service agreement had not been renewed since 28 February 2010.

5. Accountability and Good Governance

5.1 Internal Audit

An Internal Audit Unit had not been established for the Board in terms of Financial Regulation 133(1) (a). Even though the Audit Committee which should meet at least once in three months in terms of Section 7.4.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, should submit the Report of the Internal Auditor with the recommendation necessary for action, even the Internal Audit Unit of the Ministry of Justice had not carried out an internal audit since the year 2012.

5.2 Budgetary Control

Variances ranging from 21 per cent to 1211 per cent between the budgeted and the actual income and the expenditure in 14 Objects for the year under review were observed, thus indicating that the budget had not been made use of as an effective instrument of management control

6. Systems and Controls

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

Areas of Systems and Controls

Observations

(a) Cash Flow Statement	Not identifying the operations, investments and financial activities accurately.
(b) Assets Administration	Not rectifying the deficits and the surpluses surfaced in the Board of Survey.
(c) Income Administration	Not updating the rent agreements.