Sri Lanka Accounting and Auditing Standards Monitoring Board – 2012

1. Financial statements

1.1 Opinion

In my opinion, that the financial statements give a true and fair view of the financial position of the Sri Lanka Accounting and Auditing Standards Monitoring Board as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Non –compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations etc	Non-compliance
(a) Financial Regulation	
Financial Regulation 1645	Vehicles log books in respect of 4 motor vehicles belonging to the Board had not been maintained.
(b) Paragraph 7.4.5 of the Public Enterprises Circular No. PED/12 of 02 June 2003	A proper stock verification had not been carried out relating to the year under review.
(c) National Budget Circular No. 128 of 24 March 2006	A procurement plan had not been prepared by the Board.

1.2.2 Transactions not Supported by Adequate Authority

The following observations are made.

(a) Assignment of Review of Financial Statements to External Parties

According to the objective of the establishment of the Board, the function of the review of financial statements should be directly done by the officers of the Board but it had been assigned to external parties without proper authority and payments of Rs.2,130,000 and Rs.2,490,000 had been made in the years 2011 and 2012 respectively thereon.

(b) Increase of Salaries of Officers who Worked on Contract Basis

According to the Public Enterprises Circular No. 95 dated 14 June 1994 and the Public Finance Circular No. PF/PE 5 dated 11 January 2000, the Statutory Boards are authorized to pay only the allowances specifically approved by the Treasury to their employees, with the approval of the Board of Directors. However, the salaries of 3 officers who had been recruited on contract basis had been increased by Rs.30,000 , Rs.9,800 and Rs.1,100 respectively per month , contrary to the conditions of the letters of appointment, only on the approval of the Board of Directors. Action had not been taken to obtain the proper approval, though it was mentioned in the Auditor General's report for the preceding year.

2. Financial Review

2.1 Financial Performance

According to the financial statements presented, particulars of government grants (Adjusted) and recurrent expenditure in the year under review and the preceding year are given below.

Item	Year under review	Previous Year	Favourable / (adverse) Percentage as Compared with the Preceding year
	Rs.	Rs.	%
Government grants (adjusted)	43,178,222	36,800,894	17.32
Total recurrent expenditure	41,914,896	35,833,155	(16.97)

3. Operating Review

3.1 Performance

Even though the Sri Lanka Accounting and Auditing Standards Monitoring Board had been established for the review of financial statements of the Specific Business Enterprises, it was observed at a test check carried out in respect of the performance of the preceding few years that the progress of achievement of targets had not been adequate.

(a) Progress of performance from 2009 to 2012 is given below.

	2012	2011	2010	2009
Number of annual reports received during the year	1,443	1,716	1,250	1,391
Number of annual reports reviewed	302	213	211	156
Number of annual reports reviewed as a percentage of number of annual reports to be reviewed	21%	12%	17%	11%
Technical staff participated for the review	6	6	5	4
Number of financial statements reviewed by one technical officer during the year	50	35.5	42	39

The following observations are made in this connection.

Assistance of the external parties (Reviewers) for the purpose of reviewing the financial statements in the year 2011 and 2012 had been obtained. The number of financial statements reviewed in these years amounted to 213 and 302 respectively. Of them, 175 and 216 or 82% and 72% financial statements respectively had been initially reviewed by outside persons. 61 instances of non-compliance with Sri Lanka Accounting Standards had been identified in the year 2012 out of which 59 or 97 per cent had been identified at the initial review stage carried out by external persons. A sum of Rs.2,490,000 had been paid by the Board for this initial review functions.

(b) The following observations are made in respect of enterprises which do not submit their financial statements to the Board.

(i) Except for reviewing the financial statements received by the Board, a proper system had not been introduced to bring down the relevant statements by identifying the enterprises by which financial statements are not sent.

(ii) Even though the Committee on Public Enterprises met on 21 September 2010 had directed to make the required amendments to the Act to impose a fine on the enterprises which do not submit their annual financial statements to the Board, relevant amendments had not been made even by 12 May 2013.

3.2 Management Inefficiencies

Even though it was instructed that the Treasury grants given for capital and recurrent expenditure should be utilised for each expenditure segment, that Board had spent a sum of Rs.1,232,662 for capital expenditure out of the funds given for recurrent expenditure amounting to Rs.37,240,000. However out of the provision of Rs.169,000 made for capital expenditure only a sum of Rs.30,664 had been utilised.

3.3 Operating Inefficiencies

Although an agreement had been entered into with a private firm for scanning all financial statements received by the Board from the year 1999 to 2011 within a period of 6 months at a monthly fee of Rs.42,000 , it could not be completed within the agreed period and as such another agreement had been entered into. However the relevant purpose could not be finished even by 31 December 2012.

The Board had paid a sum of Rs.191,626 and Rs.388,188 in the years 2011 and 2012 respectively for this purpose for the above firm and as such the Board had to pay an additional expenditure of Rs.291,928 than expected.

3.4 Apparent Discrepancies

(a) The following observations are made in respect of incentives paid by the Board.

(i) According to the Paragraph (v) of the Letter No. MF2/4/SLAASMB/GEN dated 17 January 2009 of the Department of Management Services instead of the system of examination of accounting records by the officers of the Board at a sample basis, it was informed that a system to be introduced to examine the financial statements of all the private companies and to formulate an incentive scheme accordingly. Contrary to that, incentives amounting to Rs.1, 950,000 had been paid for 6 months in the year 2012 by using an incentive scheme based on the Public Enterprises Circular No. 95 dated 14 June 1994 only on the approval of the Board of Directors without ascertaining the Treasury approval.

(ii) Although the objective of any incentive scheme should be to performe more work than the work done during the normal duties, only 50 audit files had been reviewed during the year 2012 although it was planned to review 302 financial statements. Evidence regarding the achievement of targets by paying incentives was not made available for audit.

(iii) When an incentive scheme is formulated it should be done in a manner that efficiency of the officers should be evaluated and they should be motivated. However, the following matters established that the incentive scheme of the Board had been formulated, contrary to that requirement.

- Payment of a fixed amount for all persons as incentive
- Personal performance indicators had not been prepared for granting incentives.
- Non-identification of targets to be achieved for the entitlement of incentives.

(b) The fuel allowance at Rs.12,500 per month had been paid to a female Technical Officer of the Board who was entitled for an official vehicle for the period from 07 December 2011 to 11 April 2012 during which she had gone on maternity leave. Similarly, a sum of Rs.210,100 comprising the monthly vehicle rental of Rs.44,800 and the monthly fuel allowance of Rs.12,500 had been paid to a female Technical Officer for the period from 30 July to 20 November 2012 during which she had gone on maternity leave to whom a hired vehicle had been given.

3.5 Uneconomic Transactions

An information system to ascertain the information about all professionally fully qualified members of the Institute of Chartered Accountants of Sri Lanka is available in the Board and it can provide all such information at any time. As such communication of information of all Chartered Accountants is facilitated by way of e-mail or leaflets. Accordingly, 2500 printed leaflets had been sent to the Chartered Accountants who registered in the Institute of Chartered Accountants of Sri Lanka relating to applications to fill the vacant posts of the Board. In addition to this information could be communicated via e-mail as well but without doing so, the Board had published advertisements calling for applications for vacancies in 7 English newspapers by incurring a cost as large as Rs.1,669,555. However, attention had not been drawn to advertise in newspapers in 3 languages.

3.6 Personnel Administration

The following observations are made.

(a) The Director General, who is the Chief Executive Officer of the Board and the Director Technical post had been recruited since 01 September 2009 on contract basis and their contract periods were completed on 31 August 2012. Salaries and allowances had been paid since then up to 12 May 2013 without being formally recruited.

The Chairman of the Board has informed me that "It is our opinion that the appointment had been extended by the Board of Directors at the meeting held on 09 August 2012".

(b) Even though a post of the Deputy Director General had been created for the review and supervisory administration of financial statements it had been in vacant position for 15 years from 1998 but action had not been taken to fill that vacancy up to now. Similarly, the Department of Management Services had approved 2 posts, of Deputy Director General for the supervision of financial statements review and the audit supervision by its letter dated 21 April 2011, such posts had also not been filled up to 12 May 2013. The existence of vacancies in key posts had been directly affected adverse to by achieve the primary objective of the Board.

(c) The Ministry of Finance had given instructions that a special allowance of 25 per cent and additional benefits to be given to officers in top management permanent posts to encourage them in addition to their salaries and if such recruitments cannot be done, recruitments would be done on contract basis. However, 5 posts out of the approved cadre of 14 had been vacant up to 31 May 2013.

(d) According to the letter No. DMS/E1/4/6/11 dated 21 April 2011, issued by the Department of Management Services by approving the cadre an Assistant Technical Manager post had been approved. However, 6 officers had been recruited for this post by the Board in the year 2013.

(e) Granting annual increments to officers who hold the permanent posts of the Board such as Assistant Finance and Administrative Manager, Administrator of specific Business Enterprises, Secretary, Management Assistant and Office Assistant had not been at a systematic manner.

(f) In terms of paragraph 88 of the Gazette extraordinary No. 1589/30 dated 20 February 2009. Personal files in respect of all public officers should be maintained and the contents of documents in those files are stated in paragraphs 87 and 88 in that gazette. However, the personal files of the staff of the Board did not contain all required information.

3.7 Build up a Fund for Gratuity Provisions

Although a provision of Rs.3,979,293 had been made by the Board by 31 December 2012 action had not been taken to build up a fund thereon.

4. Accountability and Good Governance

4.1 Corporate Plan

(a) In terms of paragraph 5.1.3 of the public Enterprises Circular No. PED/12 dated 02 June 2003, a copy of the Corporate Plan approved by the Board of Directors and updated should be submitted to the Auditor General at least before 15 days of the beginning of the ensuing year. However, it had been presented on 12 March 2013, after a delay of 3 months.

(b) It is expected to prepare a better updated corporate plan for the ensuing year and action to be taken accordingly by identifying the functions which had not been carried out in the preceding year and making relevant revisions. Nevertheless, it was revealed that the Corporate Plan presented by the Board for the year 2012 had been the same copy of the Corporate Plan presented for the year 2011. The preparation of the Corporate Plan had not been prepared with a proper management, a manner to improve the performance of the Board.

(c) The following information in terms of paragraph 5.1.2 of the above circular had not been disclosed in the corporate plan.

(i) Information on human resources and management skills under the current resources of the Board.

(ii) Information relating the year 2011 under accompanying 3 years operating results.

4.2 Action Plan

(a) The action plan should be prepared by the Board to include all the functions to be performed during the year and it should clearly state that during which periods those functions are performed and the officers who are responsible for achieving those functions. However, the action plan presented by the Board had not been prepared accordingly. Further, the functions planned for the year 2012 in the Corporate Plan (from No.2 to 9) had not been appeared in the action plan. In comparing the action plan it was observed that it was a copy of the action plan prepared for the previous year and submitted by revising only the year.

(b) It is the duty of the Board to examine whether the Audit firms carry out their audit works in accordance with the Sri Lanka Auditing Standards. Even though the expected activities to be performed as per the action plan for the year 2012 amounted to 50, as per the corporate plan it was 30.

4.3 Internal Audit

(a) Internal audit programs had not been prepared and presented by the private audit firm to the Board in terms of F.R. 134(2).

(b) Similarly, internal audit reports for the year 2012 had not been presented to the Auditor General as per F.R. 134(3).

(c) Even though the draft report for the first half year of 2012 had been presented to the management of the Board on 26 November 2012 by the relevant audit firm, explanations on the observations stated in that report had not been given by the Board.

(d) Although 6 months had elapsed after the end of the year 2012 internal audit work of the second half year had not been commenced.

4.4 Audit Committee

In terms of paragraph 7.4.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, Audit Committee meetings should be held at least once a quarter, but the audit committee had not met in the first and the second quarters of the year 2012. Similarly, meetings of the 3rd and the 4th quarters had not been held with the participation of the internal auditor and an officer in the Auditor General's Department had not been invited to participate as an observer.

4.5 Budgetary Control

(a) The updated annual budget should be approved by the Board of Directors and presented to the Auditor General before 15 days at the beginning of the ensuing financial year in terms of paragraph 5.1.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003. However, it had been presented after a delay of 3 months on 12 March 2013.

(b) Paragraph 5.2.1 of the above Circular stated the contents of the annual budget but the following information was not included in the budget presented to audit.

(i) Budgeted income for the year
(ii) Budgeted balance sheet as at the end of the year
(iii) Cash flow statement for the year

(c) Significant variations were observed between the budgeted expenditure and the actual expenditure, thus indicating that the budget had not been made use as effective instrument of management control.

5. Systems and Control

Weaknesses in systems and control were brought to the attention of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.

(a) Accounting
(b) Internal Audit
(c) Personnel Administration
(d) Budgetary Control
(e) Petty Cash Management