

Sri Lanka Samurdhi Authority

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Samurdhi Authority as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Comments on Financial Statements

1.2.1 Accounting Deficiencies

The following deficiencies were observed.

- (a) A sum of Rs.200 million given for the Samurdhi Bank Development Programmes of the Banking and Financial Activities Division out of the capital contributions received from the General Treasury had been included under research and development expenditure in the Income and Expenditure Account for the year under review. Nevertheless, the receipt of funds relating to that had not been included in the income and expenditure account.

- (b) A sum of Rs.571,093 received from the Nillamba Training Centre during the year under review had been credited to the prior year adjustment account and as such the accounts receivable account from the Nillamba training centre had been overstated by that amount.

- (c) The value of buildings constructed by using the funds amounting to Rs.241 million in the Banking and Financial Activities Division was not shown under non-current assets.
- (d) Eventhough a sum of Rs.80,579,226 had been paid for the acquisition of 5,557,188 shares at Rs.14.50 per share in a private bank it was posted to the relevant investment account as Rs.55,571,880 and as such the value of investment had been understated by Rs.25,007,346.
- (e) The estimated value of Rs.1,251,404 for the modification of the building constructed to store stationery had been brought to account as fixed assets and as such the fixed assets had been overstated by that amount in the year under review.
- (f) A sum of Rs.23,300,000 given to 932 bank societies in respect of primary activities of the computerization of Samurdhi Bank Societies had been brought to account as a purchase of computer software under fixed assets and an annual depreciation of Rs.5,825,000 had made thereon. As a result the fixed asset and the deficit for the year under review had been overstated by Rs.23,300,000 and Rs.5,825,000 respectively.
- (g) The stock difference of Rs.3,289,139 observed at the year end closing stock verification of the Stationery Revolving Fund had been brought to account as an income and as such the balance of the fund as at the end of the year had been overstated by that amount.
- (h) As a result of accounting the interest on employees' housing loans amounting to Rs.13,008,268 received in the year under review as Housing Loans, the interest income and the balance of Housing Loans Account for the year under review had been understated by that amount.

- (i) The interest receivable from the banking and financial Activities Division granted staff loan balance of Rs.1,236,097,118 as at the end of the year under review had not been computed and brought to accounts.

1.2.2 Unreconciled Control accounts

Balances of the following accounts had not been reconciled with the relevant schedule balances even by December 2012.

Item	Balance as per Accounts	Balance as per Schedule	Difference
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	Rs.	Rs.	Rs.
Staff cycle loans	99,739,615	99,698,832	40,783
Staff housing loans	612,096,738	610,909,336	1,187,402
Jana Pubudu Loans	221,930	82,117	139,813

1.2.3 Accounts receivable and payable

The following matters were observed.

- (a) Action had not been taken to settle 4 suspense debtor balances totalling Rs.1,899,981 brought forward from more than 5 years even during the year under review and the Authority had failed to get these balances confirmed to audit.
- (b) Although the Credit Animators Programme had been inactive since 2006, out of the securities deposited in 2 state banks on that, a sum of Rs.558,771 had not been recovered even by the end of the year under review.

- (c) As the VAT on payments made in respect of printing of looseleaf ledger sheets in the banking and financial activities division had been paid twice, the balance of Rs.517,304 shown in the accounts of the Banking and Financial Activities division as receivable since 2007, which had been given to the Accounts Division as advances had not been recovered from the Ministry of Finance even during the year under review.
- (d) The Authority had failed to recover the concessionary interest of Rs.156,433,387 on Janapubudu loan granted to Samurdhi Bank Societies by utilizing the funds of the banking and financial activities division until the Treasury reimbursement was received, from the Treasury even by September 2012.
- (e) A balance of Rs.45,364 included in the receivable account was outstanding since 2009 and action had not been taken to recover same even during the year under review.
- (f) A sum of Rs.379,064 receivable from the Bhagya newspaper to the Samurdhi Fund had remained unrecovered for more than 05 years and was shown as a receivable balance in the account.

1.2.4 Lack of Evidence for Audit

Evidence stated against the following items of accounts was not made available for audit.

Item	Value	Evidence not made available
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	Rs.	
(a) Government capital contribution	554,419,261	Detailed registers to show how it is used for the purchase of assets
(b) Employees consumable loans	524,260,761	- Detailed schedules - Correctly prepared statement of accounts

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|-----|--|---------------|--|
| (c) | Provisions given to 2 infrastructure facility projects | 400,000 | Information to ensure that it had been spent on the relevant projects |
| (d) | Development expenditure | 2,044,850,294 | Details on how the sum of Rs.21,734,555 was supplied in addition to the contributions received from the General Treasury, detailed reports relating to 4 programmes totalling Rs.22,424,054. |

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

The following non-compliances were observed.

Reference to Laws, Rules Regulations etc	Non-compliance
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(a) Sri Lanka Samurdhi Authority Act, No. 30 of 1995 Sections 5(f) and 20(1)	Although action should be taken to conduct lotteries to supply money for the implementation of Samurdhi Programme with the assistance of the National Lotteries Board, lotteries had not been held for several years by the Lottery Fund established for that purpose.
(b) Section 2.3.2 of Chapter	An officer who is willing to contest as a

XXXII of the Establishments Code candidate at an election, he/she should take no pay leave for the period from one week before the nomination date up to the date of election. Nevertheless, action in respect of 23 officers of the Authority who contested at the local Authorities election – 2011 had not been taken in accordance with those provisions.

(c) Financial Regulations

(i) F.R. 715

Although the maintenance of distribution lists with proper acknowledgements for stores assigned under authority to particular officers, branches or units for their official use or temporary custody should be carried out by indicating the identification numbers of stores receipts and issues, these requirement had not been complied with in respect of 20 Digital type cameras and 20 laptop computers.

(ii) F.R. 1646

Although daily running charts and monthly summaries of all vehicles should be presented before the 15th day of the month following daily running charts for 04 months of 33 vehicles of the Authority in the year 2011 were not presented.

(d) Procurement Guidelines –
2006

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- (i) Paragraph 4.2.1
- Although the procurement entity of an institution should prepare a main procurement plan including the expected procurements at least for a period of 3 years the Authority had not prepared such a procurement plan.
- (ii) Paragraph 4.2.2 (b)
- A procurement time table in detailing each procurement process steps periodically from the beginning of the procurement process to the end should be prepared, but such a time table had not been prepared in respect of printing of Samurdhi flags day forms and banners.
- (e) Treasury Circulars
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- (i) Circular No. 842 of 19
December 1978
- An updated Register of fixed assets had not been maintained.
- (ii) Circular No.
IAI/2002/02 of 28
November 2002
- A register for computers of the Authority had not been maintained as per Circular instructions.
- (f) Paragraph 7.4.5 of the Public
Enterprises Circular No.
PED/12 dated 02 June 2003
& F.R. 756
- Annual Board of Survey had not been conducted in respect of motor vehicles.
- (g) Paragraph 03 and 05 of the
Department of Public
- Motor vehicles which become repairable condition should be repaired or disposed

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| Finance Circular No. PF/FS/A-Vehicles/2009 and dated 14 July 2010 | within 03 months by taking required action. Nevertheless, 10 vehicles of the Authority incurred technical defects had remained for the periods of 3 ½ months to 02 years but action in terms of circular instructions had not been taken. |
| (h) Paragraphs a.1(v), (vi) of the Sri Lanka Samurdhi Authority Circular No. 2009/05 dated 06 December 2008 | Eventhough all documents pertaining to each contract performed should be maintained by the Samurdhi Societies / Samurdhi Brigade, 14 Samurdhi Brigades / Samurdhi Societies in the 02 Divisional Secretariats had not taken action in terms of circular instructions. |
| (i) Decision No. 177 of the Board of Directors dated 03 March 2009 | Even though the balances of compulsory savings accounts of unidentified Samurdhi beneficiaries should be remitted to the Treasury to be credited to Government revenue, the unidentified compulsory savings balances totalling Rs.12,467,468 had not been sent to the Treasury from February 2011 to August 2012 and it had been utilized for the expenditure of the Authority without a proper approval. |
| (j) Constitution of the Social Development Foundation | |
| (i) Utilisation of Funds | Although a report on the activities of the Fund should be sent to the Authority once in 06 |

months, Social Development Foundations in 2 Divisional Secretariats subjected to test examination had not complied with this instructions.

At least 80 per cent of the income of every year should be spent during the same year in conformity with the objectives and functions of the Fund certain Social Development Foundation in 7 Districts had not taken action as per these regulations.

(ii) Meetings

Social Development Foundation should meet at least once a month, but test check observed that one Social Development Foundation had not held meetings and another foundation had held only one meeting during the year under review.

(iii) Collection of Funds and Accounting

The District Secretary should collect Rs.2,500 from each Divisional Secretariat for the printing material supplied to Divisional Secretariats in respect of anti-alcohol and smoking flag week and this money should be remitted to the Authority. However, such money for the year 2011 had not been sent by 24 Divisional Secretariats up to December 2012.

(iv) Audit

Accounts of foundations should be annually audited and the income, expenditure, monthly statement of accounts should be sent to the

Authority. Although the Authority was made aware of this matter continuously, accounts of even a single social development foundation for the year 2011 had not been audited.

2. Financial Review

2.1 Financial Results

According to the financial statements presented the operation of the Sri Lanka Samurdhi Authority had resulted in a deficit of Rs.959,996,736 for the year ended 31 December 2011 as compared with the deficit of Rs.2,605,557,616 for the preceding year, thus showing an improvement of Rs.1,645,560,880 in the financial results. Increase in the income of the year under review by 21 per cent had been the reason for it. Accounting the government capital contribution of Rs.2,023 million received for development projects as income of the year under review had been mainly affected to increase these income. However, the government recurrent contributions in the year under review had been decreased by Rs.328 million or 4 per cent. Although the overall expenditure of the year under review had increased by 1 per cent as compare with the preceding year, decrease in research and development expenditure by 18 per cent and increase by 10 per cent in personnel cost had been noticeable. The cost of personnel in the year under review represented 74 per cent of the operating expenditure and 82 per cent of the total income.

3. Operating Review

3.1 Performance

3.1.1 Deficiencies in Operating Fund Accounts

The following observations are made.

(a) Social Development Fund

The Authority had failed to obtain the particulars of balances in the Social Development Funds operated by 05 Divisional Secretariats located Island wide as at the end of the year under review even by December 2012.

(b) Samurdhi Housing Development Lottery Fund

The following matters were observed.

- (i) The value of 380 lottery winnings which had not been awarded to the relevant beneficiaries even by November 2012 who had won the Housing Development Lottery Draws held in the years 2007, 2008, 2009, 2010 and 2011 amounted to Rs.57 million.
- (ii) It was observed that due to non-updating the data system and the particulars of beneficiaries properly, 12 to 18 per cent of the winnings to be awarded annually relating to the period from 2007 to 2010 had not been distributed among the beneficiaries.

3.1.2 Funds not Utilized for the Intended Objectives

The following matters were observed.

- (i) The balance of the Samurdhi Lottery Fund existed since 2001 amounted to Rs.55,173,447 as at the end of the year under review and any objected functions whatsoever had not been achieved even during the year under review.
- (ii) The balance of the Samurdhi Bank Societies Promotion and Publicity Fund established with the objective of giving publicity for promotion programmes of Samurdhi Bank Societies, as at the end of the year under review amounted to Rs.20,487,000 and it had not been utilized for the intended purposes. Except by incurring expenditure amounting to Rs.208,000 and Rs.55,000 in the year under review and the preceding year respectively against the objectives from this fund which was operated since 2009, no other activity whatsoever had been performed.
- (iii) Although the funds collected by way of sale of Samurdhi flags, financial assistance from donors and other creative programmes for the Social Development Fund established with the objective of assisting the destitute persons before various unfavourable conditions of the society should be spent within the division itself for intended purposes, a sum of Rs.91,120,903 had remained idle in the 200 Divisional Secretariat Divisions as at the end of the year under review.

3.1.3 Although the provision made for the planed programmes to be implemented under 12 Divisions of the Authority during the year under review amounted to Rs.3,284.1 million, the expenditure incurred was only Rs.2,257 million and as such 31 per cent of the provisions had been saved.

3.1.4 Out of 136,547 project units relating to 37 Programmes planned for the year 2011 by 8 development divisions of the Authority in performing their functions, only 73,364 project units or 54 per cent had been performed.

3.1.5 The Authority had failed to implement the 4,762 programmes for which a provision of Rs.119.46 million had been made expected to be performed by 5 divisions of the Authority during the year under review.

3.2 Management Inefficiencies

The following observations are made.

(a) Construction of a Secretariat Building

A land belonging to the Urban Development Authority had been taken on lease by incurring a sum of Rs.37,560,000 in the year 2003 for the construction of a secretariat building for the Authority and a sum of Rs.346,383 had been spent for the renewal of lease agreement in the year 2010.

(i) Although two opportunities had been given to develop the land as per conditions of the agreement by the Urban Development Authority, the Authority had failed to commence development activities and as such the lease agreement had been cancelled.

(ii) A building had been constructed in this land in the year 2010 by incurring an expenditure of Rs.1,888,210 to store the stationery of the Authority and the Authority had not taken any action upto September 2012 to come to an agreement with the relevant party with regard to that construction works under the invalidity of agreement.

(iii) However, the Authority operates its Head Office at “Sethsiripaya” building and a sum of Rs.61,925,132 had been paid as rent for the year 2011.

(b) Any return on investment of Rs.5,250,000 made in 02 institutions had not been received up to 31 December 2011 since the date of investment. The Authority had not taken any satisfactory measures in that regard.

- (c) The Authority had failed to recover any money from the outstanding bad debts totalling Rs.181,155,092 for a number of years in the Banking and Financial Division even during the year under review.
- (d) The loss of stationery stock as at the end of the year under review due to improper storage facilities amounted to Rs.3,688,824 and this amount in the previous year was Rs.228,033. Accordingly the loss of stock as compared with that of the previous year had increased by 1518 per cent and any proper procedure had not been formulated to minimize situation.
- (e) Action had not been taken to get the value 1153 cash stamps amounting to Rs.242,130 of the Samurdhi beneficiaries belonging to 02 Samurdhi bank societies in the Kiriella Divisional Secretariat's Division, reimbursed on behalf of relevant beneficiaries.
- (f) The value of cash stamps totaling Rs.1,669,762 reimbursed on behalf of Samurdhi beneficiaries of 3 Samurdhi bank societies in the Dehiovita Divisional Secretariat Division had not been credited to their bank accounts.
- (g) At an audit test check carried out in Samurdhi bank societies, it was observed that action had not been taken to credit a sum of Rs.4,759,050 to the Samurdhi beneficiaries compulsory savings accounts relating to 3 bank societies.
- (h) Action had not been taken to release Rs.9 million during the year under review out of Rs.149 million planned to be constructed 87 Samurdhi Bank Branches.
- (i) Action had not been taken to recover the Insurance indemnities of Rs.310,899 recoverable for 12 motor vehicle accidents occurred during the period 2001 to 2009 even by August 2012.

- (j) A sum of Rs.1,548,856 had been paid during the year under review for giving basic computer training to Samurdhi officers and action had not been taken to select a more favourable training institution by applying the procurement process.

3.3 Operating Inefficiencies

The following matters were observed.

- (a) Without taking over a digital type camera costing Rs.30,050 which had been issued to an officer who had retired from the Authority's service he had been released from service.
- (b) The balance of the cash in transit account of the Stationery Revolving Fund as at the end of the year under review amounted to Rs.2,804,904. The period of 5 to 30 days had been taken to receive the cheques valued at Rs.1,139,757 by the Authority and more than 01 month had been taken to obtain the cheques valued at Rs.246,313 by the Authority.
- (c) Although the staff officers and field officers of the Authority should maintain monthly advance programmes and work done forms with the approval of their respective heads action had not been taken to get the monthly advance programmes and work done forms from certain officers in the Head office as specified.
- (d) An overpayment of Rs.672,834 had been made in excess of the estimated amount for 53 items in the 13 infrastructure facilities projects carried out in the two Divisional Secretariat Divisions.
- (e) Due to non-maintenance of constructions properly it was observed in audit that a sum of Rs.530,240 incurred on 3 projects carried out in 2 Divisional Secretariat Divisions had become a fruitless expenditure.

3.4 Transactions of Contentious Nature

The following matters were observed.

- (a) Although a Technical Engineer of a public corporation had certified that only 13 items of equipment returned out of 32 units of media equipment belonging to the Authority given to the use of Presidents Media Unit since 2007 could be used again, irrespective of that, a sum of Rs.2,874,258 receivable in respect of this stock of equipment had not been recovered from that Institute and the total value of equipment had been brought to accounts as depreciation of equipment during the year under review.
- (b) Action had not been taken to recover a sum of Rs.2 million which had to be paid to a private bank on behalf of a furniture manufacturing company on a private guarantee of a former Director General of the Authority, from the relevant company and to take disciplinary action against the officers who had acted to incur losses to the Authority even by August 2012.
- (c) Even though the entire stock of stationery had been removed from the stores which had been taken on rent to store bank stationery by 31 August 2010, action had not been taken to get back the rent deposit of Rs.1,500,000 even by August 2012. The Authority had failed to make available a confirmation of this balance from the house owner to audit.
- (d) An officer who had not fulfilled the required qualifications as per the scheme of recruitment had been recruited to a post of Deputy Director of the Authority on 15 September 2010 and he had been promoted as a Director on 25 March 2011 without an interview and without fulfilling the qualifications required for the post. A sum of Rs.935,620 had been paid as salaries and wages up to November 2011 from the date of recruitment and a vehicle had also been released with a full time driver. Although this had been brought to the notice of the Authority from time to time by the audit, no action whatsoever had been taken by the Authority in this issue. The reply of the Director General on this matter was that “the date of

promotion to the Director post had been revised as 01 January 2012 on which the officer had fulfilled his qualifications and action had been taken to recover the overpayment salaries and allowances made for the period from 25 March 2011 to 01 January 2012.”

(e) Payment of Salaries and Allowances without ensuring whether they Served in the Authority

(i) Salaries and allowances of Rs.205,078 had been paid to an officer during the year under review who had reported for duties in the Authority only for 03 days and he had been allowed to use a vehicle of the Authority as well. Fuel valued at Rs.238,975 had been used for that vehicle during the year under review.

(ii) Salaries and allowances of Rs.130,041 had been paid to a Samurdhi Development Officer who was the Chairman of a Pradeshiya Sabha for the period from June to November 2011 without being ensured that he had done his duties in the Authority.

3.5 Deficiencies in Contract Administration

The following matters were observed.

(a) Even though a sum of Rs.823,404 had been paid upto November 2011 out of the estimated amount of Rs.1,143,618 for the repair of Dehiovita Samurdhi Sangam building, the building could not be satisfactorily utilized for the relevant activities as new constructions and repair works had not been carried out up to the standard.

- (b) The total expenditure incurred on the construction work of the upper floor of the Dehiovita Bomaluwa Samurdhi Bank Society building, the construction works of which was commenced in August 2008 amounted to Rs.1,339,881. However, construction works thereon had not been completed even by the end of the year under review and any improvement thereon had not been done after the year 2008.

3.6 Personnel Administration

Implementation of the Disciplinary Procedure

At a test check carried in respect of steps taken with regard to disciplinary action of the employees of the Authority who draw salaries from the Authority, the following matters were observed.

- (i) Although a long time had elapsed after 2 employees being interdicted on disciplinary grounds, the Authority had failed to frame charge sheets against them.
- (ii) Action had not been taken to frame charge sheets against 12 employees who had been subjected to disciplinary charges even by September 2012.
- (iii) Action had not been taken to appoint a board of enquiry, although a long time had elapsed after being issued a charge sheet against an employee.
- (iv) The Authority had failed to take the reports of the formal disciplinary enquiry board relating to 18 employees even by the end of the year under review although a long time had elapsed after being appointed a board of enquiry.
- (v) Action had not been taken to issue disciplinary orders to 5 employees, although a long period had lapsed after getting the formal disciplinary board reports.

4. Accountability and Good Governance

4.1 Corporate Plan

The Corporate plan had not been prepared enabling to identify the capacity of resources of the Authority, organization chart and to clear identification of officers responsible for its activities in accordance with paragraph 5.1.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

4.2 Internal Audit

The following matters were observed.

- (a) According to the approved cadre of the Internal Audit Division 138 posts including 3 executive grade posts had been vacant as at 31 December 2011.
- (b) Internal audit queries / reports issued during the year under review, planning implementation and reporting of the internal audit Division in the year 2008 and previous year were not in an appropriate level. The Director General's reply was that "vacancies of Audit Officers and dearth of Computer Operators had been the reasons for it and audit queries and financial statements from 2006 to 2011 had been completed and issued by the year 2012."

5. Systems and Control

Weaknesses in systems and control observed in audit were brought to the attention of the Director General from time to time special attention is needed in respect of the following areas of control.

- (a) Accounting
 - (i) Government contribution
 - (ii) Samurdhi training centers accounts
 - (iii) Staff loan accounts

- (b) Budgetary control
- (c) Stationary stock control
- (d) Debts management
 - (i) Staff distress loans and festival advances
 - (ii) Livelihood development loans
- (e) Fixed assets
- (f) Fund accounts