

## **Sri Lanka Accounting and Auditing Standards Monitoring Board - 2010**

### **1. Financial Statements**

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#### **1.1 Opinion**

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So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Sri Lanka Accounting and Auditing Standards Monitoring Board had maintained proper accounting records for the year ended 31 December 2010 and the financial statements have been prepared in accordance with Sri Lanka Accounting Standards and give a true and fair view of the state of affairs of the Sri Lanka Accounting and Auditing Standards Monitoring Board as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

#### **1.2 Comments on Financial Statements**

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##### **1.2.1 Accounting Deficiencies**

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The provisions of gratuity had been understated by Rs.90,045 in the financial statements as at 31 December 2010.

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

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Instances of non-compliance with rules and regulations observed in audit are given below.

Reference

Non-compliance

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(a) Financial Regulation 261(3)

The cheques valued at Rs.338,341 had been issued exceeding the cash book balance in the month of February 2010.

(b) Manuel of the Public Enterprises Guidelines for Good Governance introduced by the Public Enterprises Circular No. 12 of 02 June 2003

(i) Paragraphs 5.1 and 5.12 of Chapter 5

A Corporate plan had been prepared without indicating the period covered and it had not been shown the present resources held by the institute organisation chart, operational review for previous three years, Managers' responsibility to achieve the objectives and targets within the planned period and performance indicators.

(ii) Sub-paragraph 7.4.5 of Chapter 07

A Boards of Survey had not been appointed by the Board to verify and report in respect of fixed assets and stores owned by the Board for the year 2010 as well as previous years.

## **2. Financial and Operating Review**

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### **2.1 Financial Performance**

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According to the information presented, a summary of financial results for the year under review and the previous year is given below.

Item	The year under review	Previous year	Favourable / (Adverse) percentage as compared with the previous year
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	Rs.	Rs.	%
Government grants	31,508,960	22,727,524	38.64
Total Recurrent Expenditure excluding taxes	29,756,776	24,051,645	(23.72)

## 2.2 Operating Review

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### 2.2.1 Performance

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- (a) The following observations are made in respect of the review of financial statements of Specified Business Enterprises (SBE).
- (i) Even though the main activity of the Board is the review of financial statements, the Board had not taken action to develop a data base in an updated manner to identify the number of existing Specified Business Enterprises and their particulars up to date.
  - (ii) The average number of financial statements of identified Specified Business Enterprises subjected to review annually were at a level of less than 20 per cent.
  - (iii) Out of the financial statements reviewed, only two financial statements with significant observations had been identified in the year under review.

- (b) The position of the review of financial statements for the year 2010 as compared with the year 2009 is given below.

	Year	
	----- 2010 -----	2009 -----
Number of Annual Reports available to be reviewed / completed as at 01 January	802	775
Number of Annual Reports received during the year (excluding the reports received in previous years)	1,109	937
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Number of Annual Reports of Non-specified Business Enterprises	1,911 (27)	1,712 (6)
Number of Annual Reports of time lapsed	(735)	(738)
The Same Annual Report received twice	(13)	(10)
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Number of Annual Reports completed the review	1,136 (211)	958 (156)
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Number of Annual Reports to be reviewed / completed as at 31 December	925 =====	802 =====

The Director General informed me as "**In any case, this statement is no longer relevant as financial statements are selected for review, based on a risk based sample and not on the basis implied in this statement**".

- (c) The officers with specialized qualifications had been recruited with high salary for the posts of Technical Managers to review the financial statements whereas the financial and administrative responsibility had been assigned to one officer among these officers.

The Director General informed me " **As the revenue of the Board is only from the Government Grant and the recurrent expenses of the Board is only around Rs.30 million, recruitment of a separate Finance and Administration Manager as a full time employee cannot be justified**".

### 2.2.2 Management Inefficiencies

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Four officers in 07 instances had participated for foreign travels and a sum of Rs.1,893,393 had been spent by the Board thereon. Following matters were observed in this regard.

- (a) Only Director General and the technical officers of the Board had participated for the foreign travels. The proper invitations or details of the travel had not been furnished other than the information obtained by electronic mail in respect of these foreign travels. The evidence had not been furnished to audit in respect of the expenditure incurred or reimbursed by the sponsored party concerned.

Even though the Director General stated that "**International Organisations have now advanced to the level of conducting almost all communications electronically and therefore it is inappropriate to expect documents which are used in pre electronic age**", no evidence had been produced to confirm the matters mentioned.

- (b) The two officers recruited on contract basis from 01 September 2009, had participated in foreign travels in the years 2009 and 2010, contrary to Section 3.2 of Chapter XV of the Establishments Code of the Sri Lanka Democratic Socialist Republic of Sri Lanka.

### 2.2.3 Uneconomic Transactions

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The Board had been maintained in a building owned by a external party with a monthly payment of rental amounting to Rs.372,375 (Sq.f 4965 x Rs.75) and a service charge subjected to a maximum of Rs.15,000. Sums totalling Rs.5,154,862 and Rs.137,169 had been spent in the year under review as rental and service charge (including value added tax and nation building tax) respectively for staff consisting of 10 personnel. As such the Board had incurred a sum of Rs.529,202 for a person per year as rental and service charge. However, the Board had not paid attention to select an alternative place economically advantagous

### 2.2.4 Cost of Personnel - Gratuity Payments

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The Director General and the Senior Technical Manager had been recruited to the Board on contract basis and the provision for gratuity had been made from the date of their recruitment. Even though the provision for gratuity amounting to Rs.1,583,333 and Rs.735,000 had been provided on behalf of the Director General and the Senior Technical Manager respectively, no legal provisions had been made for provisions for gratuity to the relevant officers.

Even though the Director General informed me that “**there are judgements of the Court of Appeal in relation to provisions of gratuity for employees appointed on contractual basis**”, the evidence in respect of the capability of creating contract basis posts and making provision for gratuity was not made available for audit.

**3. Systems and Controls**

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Special attention is needed in respect of the following areas of control.

- (a) Cash and Finance
- (b) Boards of Survey
- (c) Internal Audit
- (d) Corporate Plan and Action Plan