

Sri Lanka Udarata Development Authority - 2013

The audit of financial statements of the Sri Lanka Udarata Development Authority for the year ended 31 December 2013 comprising the balance sheet as at 31 December 2013 and the statement of income and expenditure, 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 25 of the Sri Lanka Udarata Development Authority Act, No. 26 of 2005. My comments and 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.

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 the 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 judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority'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.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Sri Lanka Udarata Development Authority as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

Depreciation for the year computed and brought to account had been understated by a sum of Rs.26,702 and as a result, the surplus of the year under review had been overstated by that amount.

2.2.2 Unreconciled Control Accounts

A difference of Rs.249,596 was observed between the Revolving Fund debtor balance and debtors balance of the General Ledger Control Account.

2.2.3 Accounts Receivable and Payable

The following observations are made.

- (a) A balance of Rs.154,400 included in the sundry receivables had remained without being recovered for 03 years and no action had been taken to recover them.
- (b) Out of the advance granted to Pradeshiya Sabhas for development projects during the period from 2009 to 2012, a sum of Rs.303,337 had not been recovered even by the end of the year under review.

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Non-compliance Management Decisions

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| <p>(a) Employees' Provident Fund (Amendment) Act No. 08 of 1971 and Employees' Trust Fund Act No. 40 of 1980.</p> | <p>No action had been taken by the Authority to pay the sums of Rs.355,398 and Rs.53,310 as the Employees' Provident Fund Contribution and Employees' Trust Fund Contribution for the years 2012 and 2013 respectively in respect of 04 casual employees of the Udarata Development Authority.</p> |
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- (b) Internal Circular No. ED/AP/E9/5/voi-ii dated 10 June 2010 A sum of Rs.3,004,784 had been paid as salaries for the years 2012 and 2013 for recruitments and promotions made contrary to the Circular.
- (c) Public Enterprises Circular No. 58(2) dated 15 September 2011. Despite the unavailability of provisions to participate in field inspections and development committee meetings, a sum of Rs.320,000 had been paid for 05 members of the Board of Management of the Authority based on the said circular.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Authority for the year under review had resulted in a surplus of Rs.2,090,819 as against the deficit of Rs.38,770,251 for the preceding year, thus indicating an increase of Rs.40,861,070 in the financial result. Increase of Government grants by 66 per cent and decrease of other expenditure and development expenditure by 40 per cent and 68 per cent respectively had mainly affected the increase.

3.2 Analytical Financial Review

The following observations are made.

- (a) Sundry income in the year 2013 in relation to the year 2012 had increased by 22 per cent. Retention money, recovery of salaries overpaid and money lost through breach of agreements from guarantors had mainly affected this increase.
- (b) Out of the other expenses, a total of Rs.1,356,262 or 38 per cent had been paid as allowances for meetings of Board of Directors and maintenance.
- (c) The development expenditure during the year under review as compared with the year 2012 had shown a decrease of 68 per cent and non-utilization of 50 per cent of the provisions received for the year under review had affected the decrease.

3.3 Legal Proceedings initiated against or by the Institution

Five cases had been filed against the Authority by 05 outside persons claiming a compensation of Rs.13.8 Million in respect of injustices caused to them.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) No activities whatsoever had been carried out in 60 projects valued at Rs.16,477,000 commenced by the Authority during the period from 2009 to 2012 and no action had been taken to recover Rs.303,337 out of the advance amounting to Rs.3,289,420 granted for the commencement of projects.
- (b) In calculating the profit of Divi Neguma Trade Stall, the salaries amounting to Rs.456,859 paid to the employees of the stall had not been deducted and overhead expenses such as electricity and water used for the stall had not been absorbed. After considering the said matters, it was observed that the Divi Neguma Stall would disclose a loss.

4.2 Management Inefficiencies

The following observations are made.

- (a) Even though an additional expenditure of Rs.82,861 had been incurred for collecting money for the Revolving Fund in the year under review, a further sum of Rs.5,014,206 had to be recovered by the end of the year under review.
- (b) Even though allowances had been paid for field inspections of 07 projects carried out by two members of the Management Committee, out of the 17 inspection reports to be presented for the said purpose, only 04 reports had been presented up to the end of the year under review.

4.3 Utilization of Funds

The following observations are made.

- (a) Provisions amounting to Rs.22 million had been made for implementation of development programmes of the Authority for the year under review and a sum of Rs.11 million had not been utilized even by the end of the year under review.
- (b) As a sum of Rs.35,871,021 had been deposited in 10 fixed deposits and 02 other bank accounts, it appears that action had not been taken for utilization of funds for the primary objectives of the Authority.

4.4 Commencement of Projects on Lands not formally Vested

Construction works costing Rs.26,693,482 had been done on lands not formally vested to implement 03 projects.

Particulars	Cost incurred	Ownership of Land
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	Rs.	
Head Office Building	11,569,879	University of Peradeniya
Kadugannawa Shopping Complex	14,924,043	Ministry of Transport
Divineguma Trade Centre	199,560	Peradeniya Botanical Gardens

5. Accountability and Good Governance

5.1 Corporate Plan

Even though a Corporate Plan had been prepared for the period from 2008 to 2012 in terms of Section 5 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, that plan had not been revised and updated on a timely basis. Further, a Corporate Plan had not been prepared for the period from 2013 to 2017.

5.2 Internal Audit

An Internal Audit Unit had not been established in the Authority.

5.3 Audit Committees

Even though at least 04 Audit Committee Meetings should be held in terms of Section 7.1.4 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, not a single Audit Committee Meeting had been held for the year under review.

5.4 Unsettled Audit Paragraphs

An officer who had not fulfilled the qualifications necessary for recruitment to the post of Deputy Director (Administration and Finance) of the Authority had been promoted to the said post from November 2012 and a sum of Rs.760,785 had been paid to her as salaries and allowances.

5. Systems and Controls

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

- (a) Implementation of Projects
- (b) Revolving Fund Programme
- (c) Objective based direction of the Livelihood Development Projects
- (d) Accounting