

Shrama Wasana Fund - 2014

The audit of financial statements of the Shrama Wasana Fund for the year ended 31 December 2014, comprising the statement of financial position as at 31 December 2014 and the statement of financial performance and cash flow statement and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 12(4) of the Shrama Wasana Fund Act, No 12 of 1998. My comments and observations on the above financial statements appear in this report.

1.2 Management's Responsibility for 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 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 misstatements of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the Fund'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 Fund'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.

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 Shrama Wasana Fund as at 31 December 2014 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 Policies

Although the rates of depreciation on machinery and equipment and the furniture and fittings relating to the fixed assets had been revised from 10 per cent to 20 per cent and 7.5 per cent to 10 per cent respectively, it had not been disclosed in the Financial Statements.

2.2.2 Accounting Deficiencies

The following observations are made

- (a) The computer and accessories valued at Rs.41,800 purchased during the year under review had been brought to account as recurrent expenditure under the stationary instead of accounting for as fixed assets. Therefore, the assets and the value of the surplus had been understated by that amount in the year under review.
- (b) Although the balance of the Accumulated Fund as at 31 December 2013 amounted to Rs.292,139,776, a sum of Rs.292,153,541 had been brought forward as opening balance of the year under review. Accordingly, a difference of Rs.13,765 was observed, but the reasons for the said difference had not been explained to audit.

2.2.3 Unexplained Differences

Even though the lottery income receivable as at 31 December 2014 amounted to Rs.289,368,951 according to the confirmations made by the Department of Treasury Operations and the National Lottery Board, it was Rs.289,347,951 according to the account and as such a difference of Rs.21,000 was observed. Nevertheless, action had not been taken to find the reasons for the difference and to rectify the account.

2.3 Non-compliance with Laws, Rules and Regulations

The following non-compliances with Laws, Rules and Regulations were observed.

Reference to Laws, Rules and Regulations	Non-compliance
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a) Shrama Wasana Fund Act No. 12 of 1998	
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(i) Section 6	
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	For the purpose of discharging the objectives of the Act, the two objectives viz; promoting welfare of the employees and presenting prizes to the persons who have rendered an outstanding service for the welfare of the employees had not been interpreted and the criteria had not been determined.
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- (ii) Section 21 Although this fund had been established solely for the welfare and promotion of the employees, provision of financial and other aids and award of prizes to them, contrary to that, a sum of Rs.4,532,846 had been spent for the welfare of the dependents and other related parties of the employees during the year under review and it represented 23.64 per cent of the expenditure required for the achievement of the entire objectives.
- (iii) Section 10 (d) Although the income earned from Shrama Wasana Lotteries drawn should be received by the Fund from the Department of Treasury Operations, that income had not been obtained after October 2008. Accordingly, the contribution receivable as at 31 December 2014 had been Rs.289,347,951.
- (iv) Section (7) (2) (h) Since the receivable contribution of the lotteries had not been received by the Fund, it was not possible to earn income through the investment of the annual surplus at the discretion of the Board and as a result of lack of money to incur expenditure of the Fund, the matured fixed deposits had not been re-invested as well.
- (v) Sections 13(1),(2),(3) A mutual agreement had not been reached between the Lotteries Board and the Srama Wasana Fund on the category and the number of lotteries to be printed each year, the manner in which the lotteries are to be drawn, prizes awarded and how the unclaimed prizes are dealt with, and the expenditure to be incurred for the conduct of a lottery including the value of the prizes awarded for each lottery.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Fund for the year under review amounted to a surplus of Rs.39,281,320 as compared with the corresponding surplus of Rs. 57,537,862 for the preceding year, thus indicating a deterioration of Rs.18,256,542 in the financial results. The decrease in the lottery sale income by Rs.3,648,670 and investments and other income by Rs.3,091,317 and increase in the Fund

maintenance expenditure by Rs.2,743,742 and the expenditure for the achievement the objectives by Rs. 8,772,813 had been the main reasons for this deterioration.

3.2 Analytical Financial Review

The following observations are made

- (a) Out of the total income, the expenditure incurred in the achievement of the objectives of the Fund during the year under review had been a nominal amount as 30 per cent. It was observed that introduction, planning and implementation of projects for the achievement of the objectives of the Fund had not been properly carried out and as a result this expenditure had taken a least amount.
- (b) Out of the total income, the surplus of the year under review had been a higher amount as 60 per cent. An adequate amount had not been invested for the achievement of the objectives of the Act and action had not been taken to invest the surplus and acquire the benefits.

4. Operating Review

4.1 Performance

The following matters were observed in the examination of the Action Plan and the Progress Reports of the year under review submitted to the audit by the Fund.

(a) Notwithstanding setting targets by the Action Plan, the programmes not implemented during the year

Out of the targets amounting to Rs.31.95 million expected to be achieved during the year under review, targets amounting to Rs.5.9 or 19 per cent as referred to below had not been completely achieved.

	<u>Objective</u>	<u>Targets pertaining to the year</u>	
		<u>Amount</u>	<u>Value</u> <u>(Rs. Million)</u>
(i)	Industrial Education Programmes on the provision of financial and other aid to the employees in case of closure of their working places without prior notice.	30	0.9
(ii)	Prize awarding programmes under the objective of awarding prizes to those who have rendered an eminent service towards the welfare of the employees.	50	1.5
(iii)	Medical programmes for the supply of medical and other facilities to the employees in case of emergency.	20	1.0
(iv)	Obtaining ISO international standard certificate for the Shrama Wasana Fund.	01	0.6

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| (v) Implementation of the first stage of the installation of computer data system for the Fund | 01 | 1.9 |
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(b) It is observed that the percentage of non-achievement of the following targets had ranged from 7 per cent to 68 per cent

<u>Objective</u>	<u>Programme</u>	<u>Non-achievement as a percentage</u>
(i) Providing provisional aid to the employees in case of commencement of inquiries against them.	Encouragement Programmes.	68
(ii) Supply of financial/ other aid to the employees/dependents in disasters.	Legal Assistance Programmes	40
(iii) Promotion of Employees welfare	Scholarship Programmes	25
(iv) Strengthening the Institute	Advertisements	10
(v) Promotion and the publicity of the Fund	Training Programmes	07

(c) With the intention of achieving the objectives of the Fund effectively, an Assistant Manager and three Management Assistants had been recruited to the Fund and they had been assigned relevant duties. Nevertheless, the failure to reach the targets stipulated in (a) and (b) above set for the year under review implies that the objective of recruiting the said staff had not been materialized. It was further observed that the staff expenditure of the year under review had increased by Rs.1,822,816 or 82 per cent as compared with the preceding year.

4.2 Uneconomic Transactions

The following observations are made.

- (a) For the purpose of giving publicity to the Legal Aid Programme, a sum of Rs.175,997 had been spent in respect of newspaper advertisements during the year under review and legal aid amounting to Rs.75,000 had been granted for 09 employees. Accordingly, 234 per cent exceeding the benefits granted by the project had been spent for the relevant advertisement.
- (b) Attention had not been drawn on printing posters, manuals, advertisements etc. prepared on the programmes such as Vocational Training Programme of the employees, Legal Aid Programme, Scholarship Programme, and Disaster Relief Programme introduced for the achievement of the objectives of the Act and distributing them among the relevant employees through the Labour Officers deployed at the Labour Offices island-wide. Further, action had not been taken to educate the employees on the objectives of the programmes of the Fund through the elaborate propaganda programmes.
- (c) In terms of the Management Services Circular No.05/2014 dated 21 November 2014, the Government institutions which had earned profits had been granted approval for

the payment of bonus. However, despite the availability of a surplus of the Srama Wasana Fund due to failure to spend the income received from the conduct of the Srama Wasana lottery, a sum of Rs.119,507 had been paid to the staff as the bonus for the year under review.

- (d) The Fund had spent a sum of Rs.3,371,119 as promotion and publicity expenses during the year under review and it was an increase by 261 per cent as compared with the preceding year. Even though promotion and publicity expenditure meant for the promotion of the prime objectives of the establishment of the Fund should be included herein, this expenditure had been made up with the money granted for the souvenirs.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

The following observations are made

- (a) The section indicating that the Board of Directors are responsible for the preparation and presentation of the financial statements in terms of the paragraph 3 of the Public Enterprises Circular No.PED/45 dated 02 October 2007 had not been included in the financial statements.
- (b) The financial statements for the year under review had been furnished to audit subject to the covering approval of the Board of Directors.

5.2 Failure to hold the Board of Directors Meetings

Although the period of appointment of the Board of Directors of the Fund was further valid for carrying out every things required or incidental for the implementation of the objectives of the Act in the name of the Fund, meetings had not been held since 12 November 2014 and necessary actions had not been taken. As such, every affairs of the Fund had been slowed down.

5.3 Internal Audit

Instructions had been issued in terms of the paragraph 09 of the Internal Audit Guidelines issued by the Management Audit Circular No.DMA/2009(1) dated 09 June 2009 that, the every internal audit unit should prepare and furnish the prescribed reports. Further, it had been pointed out that the audit observations issued according to the annual internal audit programme should be taken as the basis for this purpose. Nevertheless, it was observed that any audit observations or quarterly reports or summary report in relation to the Srama Wasana Fund had not been prepared and furnished.

5.4 Budgetary Control

Variances ranging from 14 per cent to 90 per cent were observed between the budgeted and actual expenditure during the year under review. As such 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 Chairman from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Budgetary Control
- (c) Management of Funds
- (d) Internal Audit
- (e) Performance