

Divineguma Micro Finance Stationary Revolving Fund - 2014

The audit of financial statements of the Divineguma Micro Finance Stationary Revolving 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, 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(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 45 of the Divineguma Act, No. 1 of 2013 . My comments and observations on the above financial statements appear in this report.

1.2 Management's Responsibility for the Financial Statements

The 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 judgements, 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 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.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 2.2 of this report.

2. Financial statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in Paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Divineguma Micro Finance Stationary Revolving 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 Sri Lanka Public Sector Accounting Standards

The following observations are made.

- (a) Income and expenditure items should be disclosed separately without setting off each in accordance with Standards No. 01 . The Withholding Tax which was deducted from interest income totalled to Rs. 153,106 as mature investments amounting Rs. 125,174 and a sum of Rs. 27,932 as immature investment as well had been disclosed as the net interest income after tax without disclosing under expenditure for the year under review.
- (b) The cash flow statement had not been prepared in accordance with Standard No. 02. Further, although the cash and cash equivalents of the year under review was Rs. 23,151,414 , it had been stated as Rs. 22,693,987 . The following matters had affected in that regard.
 - (i) Even though the opening and closing balances including cash in transit in the year under review were Rs. 9,617,742 and Rs. 32,769,156 respectively, those values had been shown as Rs. 11,850,507 and Rs. 34,544,490 respectively.
 - (ii) Since the total revenue received in cash amounted to Rs. 24,432,793 and the total of the expenditure was Rs. 6,266,258 in the year under review, though the value of cash inflow under operating activities was Rs. 18,166,535, the net cash inflow had been shown as Rs. 4,285,574 .
 - (iii) Even though net cash inflow under investment activities for the year under review was Rs. 4,984,878 since the increase of stationery stock amounted to Rs. 4,301,952 had been adjusted as a cash outflow, the value of cash inflow under investment activities had been state as Rs. 682,926 .
 - (iv) Although, it is not observed that cash flows under the financial performance of the year under review, the increase of debtors and creditors amounted to Rs. 17,725,487 had been shown in as a cash inflow.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) The purchases and issuances of stationery had not been properly documented in the inventory and the value of the stationery stock ledger as at the end of the year under review was Rs. 20,305,951 and the physical stock balance was Rs. 20,837,578 as well. The difference in these two stock balances amounted to Rs. 531,627 had been considered as income in the financial performance statement.
- (b) Since the unrealized profit was calculated for the amount receivable at the end of the year valued at Rs. 10,333,675 for stationery sold to banking societies and due at the end of the year as well, the unrealized profit is Rs. 939,425 had been overstated in the statement of financial position. Similarly, as a result of the unrealized profit was over adjusted at the beginning of the year amounted to Rs. 554,578, profit of selling of stationery amounting Rs. 384,847 had been understated in the statement of financial performance.
- (c) Instead of adjusting the value of the returned cheques amounted to Rs. 80,500 to the debtor's account in the year under review, the stationery cost value of Rs. 73,182 from stationery stock account and the profit of Rs. 7,318 from stationery profit sale had been reduced and shown in the accounts.
- (d) Due to the office equipment amounted to Rs. 119,962 were totally depreciated in the previous year financial statements, it had been set to zero. Nevertheless, actions had been taken to remove those instruments from the financial statements without making arrangements to revalue and enter in to accounts or legally remove during 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 and Regulations	Non-compliance
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(a) Financial Regulation of the Democratic Socialist Republic of Sri Lanka Financial Regulations 763	A Stores Rules had not been formulated for efficiently manage inventory control by guiding officers and minimizing wastage.
(b) Guideline 5.4.12 of the Government Procurement Guidelines 2006	Even though reports had to be submitted by the 15th of the following month after the Value Added Tax is paid actions had not been so taken and the value of the Value Added Tax paid during the year under review was Rs. 533,088.

(c) Paragraph 3.3 (b) of the Public Finance Circular No. PF / 423 of 22 December 2006

Actions had not been taken to introduce regulations to maintain the Fund and to legalize the Fund.

2.4 Accounts Receivable

Even though, the stock of stationery stored in the warehouse belonging to Lanka Salusala had been removed in the year 2010, actions had not been taken to recover the warehouse deposit amounted to Rs. 1,454,112 paid for it.

3. Financial Review

3.1 Financial results

As per the financial statements presented the financial results of the Fund for the year ended 31 December of the year under review was a surplus of Rs. 4,285,574 and thus the corresponding surplus in the preceding year was Rs. 3,499,143 as compared to the previous year, a growth in financial results for the year under review amounted to Rs. 786,431 was shown. Lack of making any expenditure had mainly attributed to this growth.

4. Operating Review

4.1 Management Activities

Even though the salaries of the staff who have been employed full time for the activities of the Fund, the cost of maintaining the warehouses and other overheads are borne by the Government, a mechanism to reimburse those expenses to the government had not been prepared.

5. Accountability and Good Governance

5.1 Submission of Financial Statements

As per Public Accounts Circular No: PF / 423 of 22 December 2006, the financial statements of the Fund should be submitted to the Auditor General with a copy to the Department of Public Finance in the General Treasury within two months of the end of the financial year. Nevertheless, even though the actions had been taken to submit the financial statements for the year under review on 22 February 2017, due to deficiencies remained the corrected financial statements had been resubmitted on 04 April 2019. Accordingly, the delay period had elapsed over 04 years.

5.2 Internal Audit

The Internal Audit Division of the Department had not carried out an audit regarding the activities of the Fund in terms of Financial Regulation 133 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

5.3 Budgetary Control

A Budget and an Action Plan for the activities of the Fund had not been prepared in terms of Paragraph 4.1 of the Public Finance Circular No. PF / 423 of 22 December 2006.

6. Systems and Controls

The deficiencies in systems and controls observed during the course of audit were brought to the notice of the Director General from time to time and special attention is needed in respect of establishing internal control systems and maintaining books and records systematically.