

## **Legal Aid Commission of Sri Lanka - 2014**

---

The audit of financial statements of the Legal Aid Commission of Sri Lanka for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of comprehensive income, statement of changes in equity and the 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 23(3) of the Legal Aid Law, No. 27 of 1978. My comments and observations which I consider should be published with the Annual Report of the Commission 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 Auditors' 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission'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 Commission'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 the 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 adverse audit opinion.

### **1.4 Basis for Adverse Opinion**

Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

## **2 Financial Statements**

-----

### **2.1 Adverse Opinion**

-----

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial statements do not give a true and fair view of the financial position of the Legal Aid Commission of Sri Lanka 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 (SLPSAS)**

-----

The following observations are made

- (a) **SLPSAS 1, Presentation of Financial Statements** - According to the provisions in the Standard, an entity should be prepared its financial statements except for cash flow statement using the accrual basis of accounting. However, the honorarium payments amounting to Rs.5,083,073 had been accounted as cash basis instead of accrual basis. Further, this policy had not been disclosed in the financial statements.
- (b) **SLPSAS 02, Cash Flow Statements** – According to the Sub-section 22 and 30 of the Standard, the gratuity provision and payments thereon should be shown separately in the cash flow statement. However, the difference between the provision and the payment had been only shown in the cash flow statement.
- (c) **SLPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors** - The prior period errors of gratuity provision amounting to Rs. 7,233,575 had been adjusted in the financial statements of year under review in contrary to the provisions in the Standard.
- (d) **SLPSAS 7, Property, Plant and Equipment** - Even though the depreciation of a fixed asset should begin when it is available for use, in contrary to this requirement the Commission had charged a full depreciation in the year of purchase of assets and non in the year of disposal.

#### **2.2.2 Accounting Deficiencies**

-----

The following observations are made.

- (a) An agreement had been entered in to between the Chairman of the Commission and the European Union in 2012 with regard to a grant without any representation of the General Treasury and a grant of Rs.42,818,922 had been received under this agreement during the year under review. However, this had not been brought to the financial statements of the Commission.

- (b) Provisions for gratuity amounting to Rs.22,331,361 had been accounted under current liabilities, even though the entire amount should not be payable within one year.
- (c) Contribution to the Employees Provident Fund and Employees Trust Fund amounting to Rs. 690,422 recoverable from 237 employees had been omitted in the accounts.
- (d) Registration fee income amounting to Rs.1,497,364 in respect of previous years had been accounted as income for the year under review. As a result the deficit for the year under review had been understated by similar amount.
- (e) According to the votes ledger of the Ministry, a sum of Rs.24,000,000 had been shown as expenditure incurred on behalf of the Commission. Whereas, only a sum of Rs.20,847,077 had been shown in the financial statements of the Commission as expenditure and the difference of Rs.3,152,923 paid to the contractor for the construction of a building had not been accounted for.

### **2.3 Non- Compliances with Laws, Rules, Regulations and Management Decisions**

---

The following non – compliance with Laws, Rules, Regulations etc. were observed in audit.

<u>Reference to Laws, Rules and Regulations etc.</u>	<u>Non- compliance</u>
(a) Section 8(1) of the Financial Act, No. 38 of 1971	Even though a draft budget should be presented to the Commission and obtained the approval thereto three months before the commencement of the financial year, the budget for the year 2014 had not been approved by the Commission even up to the end of the year under review.
(b) Financial Regulations of the Government of Democratic Socialist Republic of Sri Lanka	
-----	
(i) Financial Regulation -168	Although an official receipt should be issued on receipt of money, cheques, money orders etc, such receipts had not been issued by the Commission in respect of receipt of money and cheques amounting to Rs.21,107,217 during the year under review.
(ii) Financial Regulation -756	An annual verification of assets had not been carried out for the year under review.
(iii) Financial Regulation -1646	Monthly performance summaries of vehicles of the Commission had not been furnished to the Auditor General for the year under review.

- |   |   |
|---|---|
| (c) Section 9.2(d) of the Public Enterprises Circular No.PED/12 of 02 June 2003 | The approval for the carder of the Commission had not been obtained from the Department of the management services even up to the 31 December 2014. |
|---|---|

## **2.4 Transactions not Supported by Adequate Authority**

---

The following observations are made.

- (a) According to the Management Services Circulars No.28 of 10 April 2006 and No.28 (ii) of 01 August 2006, all staff recruitments on permanent, casual or any other basis should be suspended and should be done only with the prior approval of the Department of Management Services. Nevertheless, the Commission had recruited 06 employees on casual basis during the year under review without having prior approval of the Department of Management Services. Further a sum of Rs.1,118,247, Rs. 134,189 and Rs. 33,547 had also been paid as salaries, contribution for Employees Provident Fund and Employees Trust Fund respectively on behalf of these employees.
- (b) According to the Public Administration Circular No 31/2008 of 31 December 2008 a sum of Rs. 5,000 only can be paid for an employee as festival advance for a year. However, the Commission had paid totalling Rs. 1,716,000 at the rate of Rs. 12,000 per employee in contrary to the provision in the Circular. Further, required approval in this regard had also not been obtained in terms of Finance Circular No.PF/PE/5 of 11 January 2000.

## **3. Financial Review**

---

### **3.1 Financial Results**

---

According to the financial statements presented, the operations of the Commission for the year ended 31 December 2014 had resulted a deficit of Rs. 10,779,342 as compared with the corresponding deficit of Rs.2,222,372 for the preceding year, thus indicating a further deterioration of Rs.8,556,970 in the financial results. The increase of expenditure by Rs.44,997,370 as against the increase of income by Rs. 36,440,401 was the main reason attributed for this deterioration.

## **4 Operating Review**

---

### **Performance**

---

The following matters were observed.

- (a) Although the Performance Report for the year under review was furnished to audit, an Action Plan for the year under review had not been prepared and as such the performance of the Commission could not be ascertained in the audit.
- (b) According to the information made available for audit, the Commission and its Regional Centres had settled 20,746 court cases during the year under review and

number of court cases not settled up to 31 December 2014 stood at 20,625. Further, the performance of regional Centres which settle the cases less than 50 per cent.

## **5 . Accountability and Good Governance**

---

### **5.1 Corporate Plan**

---

A Corporate Plan for the Commission had not been prepared in terms of Section 05 of the Public Enterprises Circular No. PED 12 dated 02 June 2003.

### **5.2 Internal Audit**

---

An Internal Audit Unit had not been established in the Commission and internal audit functions were carried out by the line Ministry.

### **5.3 Audit and Management Committee**

---

An Audit and Management Committee had not been appointed for the Commission.

### **5.4 Budgetary Control**

---

Significant variances were observed between the budgeted and actual income and expenditure of the Commission for the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control.

### **5.5 Tabling of Annual Reports in Parliament**

---

In terms of Section 2.2.1 (a) of the Public Enterprises Circular No.PED/12 of 02 June 2003, the Annual Report of the Commission for the year 2012 had not been tabled in Parliament even up to August 2015.

## **6. Systems and Controls**

---

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

- (a) Accounting
- (b) Budgeting