

Rehabilitation of Persons, Properties and Industries Authority - 2014

The audit of financial statements of the Rehabilitation of Persons, Properties and Industries Authority 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(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with the Section 13(1) of the Finance Act, No. 38 of 1971 and Section 8(2) of the Rehabilitation of Persons, Properties and Industries Act, No. 29 of 1987. 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 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 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 Rehabilitation of Persons, Properties and Industries Authority 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

Action had not been taken to revalue the fully depreciated fixed assets in terms of Sri Lanka Public Sector Accounting Standard -7.

2.2.2 Accounting Deficiencies

Audit fees amounting to Rs.300,000 payable for the year under review had been shown as non-current liabilities in the statement of financial position instead of being shown as current liabilities.

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

The following non-compliances with laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules, Regulations and Management Decisions

Non-compliance

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| (a) Public Enterprises Circular No. 95 of 14 June 1994 Paragraph 2 | Special allowances amounting to Rs.156,787 had been paid for duties of different grades of the staff without the approval of the Treasury. |
| (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka | |
| (i) Financial Regulation 136 | Even though formal authority should be obtained before incurring an expenditure, contrary to it, payments ranging from Rs.850 to Rs.8,596 had been made from petty cash imprest in 10 instances. |
| (ii) Financial Regulation 371(2)(b),(c) | (i) Even though ad hoc sub imprest not less than Rs.20,000 could be granted to a Staff Grade officer, advances ranging between Rs.25,000 and Rs.225,200 had been granted exceeding those limits to six officers in 76 instances.

(ii) Even though ad hoc sub imprest should be settled immediately after the completion of the purpose for which it is granted, advances ranging from Rs.5,000 to Rs.125,000 had been granted again to four officers in 40 instances before the settlement of the |

previous advances granted. Further, ad hoc sub imprests had been granted to two officers for the same reason.

(iii) Financial Regulation 385 Even though payments over Rs.500 should not be made in cash, contrary to it, payments ranging from Rs.7,000 to Rs.59,620 had been made in 12 instances.

(iv) Financial Regulation 396(d) Action in terms of Financial Regulations had not been taken with regard to 18 cheques valued at Rs.629,265 which were issued but not presented to the bank despite an elapse of six months.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Authority for the year ended 31 December 2014 had resulted in a deficit of Rs.119,261,813 as against the surplus of Rs.7,418,327 for the preceding year. A deterioration of Rs.126,680,140 in the financial result was observed as compared with the year under review.

4. Operating Review

4.1 Performance

According to the Action Plan of the Authority, targets had been set for the grant of loan amounting to Rs.735,000,000 to 4,919 beneficiaries under four loan projects for the rehabilitation of the persons displaced due to terrorist activities. Nevertheless, loans amounting to Rs.79,649,000 had been granted to only 516 beneficiaries. A comparison between the grant of loans and expected targets revealed that a slow progress i.e. 36 per cent in self-employment, 44 per cent in housing, 25 per cent in

industries and 2 per cent in loans for self-employment of socialized trainees had been made. As such, the overall progress of granting loans had been 11 per cent.

4.2 Management Inefficiencies

The following observations are made.

- (a) Out of the money given by the Authority to the National Housing Development Authority for the grant of loan facilities under the Integrated Subsidy Scheme, invested money amounting to Rs.120.2 million had not been recovered despite the expiry of the agreement period.
- (b) Loans amounting to Rs.76,631,093 granted for beneficiaries in the year 1983 for the rehabilitation of properties affected by the internal conflicts in the country and for self-employment had not been recovered up to date. Even though an approval of the cabinet of ministers had received on 09 November 2010 to write off the above loans, action had not been taken accordingly.
- (c) Even though the recoverable period pertaining to the commercial loans totalling Rs.4,472,151 granted by the Bank of Ceylon to the beneficiaries affected by the riots broke out in July 1983 had elapsed as at the end of the year under review, progress of the recovery of loans were at a weak level.
- (d) The Authority had not taken action to recover a compensation of Rs.44,300 receivable in respect of a motor vehicle met with an accident in the year 2009.
- (e) A sum of Rs.74,056 spent on repairs to the electric circuit of the office building of the Authority and other expenses in the year 2014 had not been recovered from the lessor.
- (f) Even though one year had elapsed since shifting the office of the Authority from the building occupied previously, action had not been taken to recover the deposit of Rs.475,000 paid as lease rent from the lessor.

- (g) Even though a payment of Rs.2,688,000 had been made in the year under review for the installation of a computer data system in the Authority, that computer data system had not been operated as yet.

4.3 Transactions of Contentious Nature

A provision of Rs.396,347,000 had been received from the Treasury for the payment of compensation for beneficiaries in the year under review and out of that, a sum of Rs.312,109,169 had been utilized for the payment of compensation for deaths, injuries and properties. Expenditure of Rs.4,080,889 incurred on the function held for awarding cheques to the beneficiaries and food and a sum of Rs.828,844 incurred on transport including fuel had been brought to account under the payment of compensation. An expenditure of Rs.3,082,589 had been incurred on such expenses during the preceding year as well.

4.4 Underutilized Assets

Even though a software of computer programme had been purchased in the year 2009 only for the accounting of fixed assets of the Authority, it had not been used for the relevant purpose in an updated manner.

4.5 Uneconomic Transactions

The following observations are made.

- (a) Even though the monthly rental (excluding the VAT) for the office building rented by the Authority had been Rs.750,000 , monthly rental for the building previously occupied was Rs.425,000. Thus, an increase of 75 per cent in the rental over that of previous building was observed.

(b) An expenditure totalling Rs.1,220,608 had been incurred in the year under review for the “ Deyata Kirula “ Programme not included in the approved Action Plan of the Authority.

5. Accountability and Good Governance

5.1 Internal Audit

An internal Audit Unit had not been established in the Authority while all the transactions of the Authority had not been covered in the audit carried out by the Internal Audit Unit of the Ministry.

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 Authority from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Fixed Assets
- (c) Budgetary Control
- (d) Housing Loans and Compensation Aid Projects
- (e) Payment of Compensation