

Divi Neguma Fund - 2015

The audit of financial statements of the Divi Neguma Fund for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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 Divi Neguma 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 Divi Neguma Fund as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

- (a) Transactions, other events and situations should be identified and included in the financial statements within the relevant period when they occur in accordance with Paragraph 07 of Standard No. 03. However, instead of showing the rent income of Rs. 15,120,000 in the financial statements of the 1260 buildings run by the Samurdhi Community Based Banks and Banking Societies, the actual income earned amounting to Rs. 10,387,460 had been stated in the financial statements.

- (b) The investment interest receivable included in the surplus of the year under review had been stated under Rs. 34,588,038 had been shown as cash inflows under operational activities excluding the instruction in Standard No. 02. Further, although there was no cash inflow under the financial activities, a cash inflow amounting to Rs. 742,621,040 had been indicated.

2.2.2 Accounting Deficiencies

A sum of Rs. 16,048,183 received during the year under review by maturing investments in the Banking Association Promotion and Promotion Fund had been stated as current assets and current liabilities in the statement of financial position of the Fund.

2.2.3 Unreconciled Control Accounts

Even though the , the net interest receivable for the investment for the year under review was Rs. 34,588,038 as per the schedule submitted with the financial statements, it had been shown in the financial statements as Rs. 33,525,463 by understating Rs. 1,062,575 .

2.2.4 Lack of Evidence for Audit

The following observations are made.

- (a) Schedules and balance confirmations were not submitted regarding Rs. 10,350,042 and Rs. 7,480,400 receivables for fisheries and animal husbandry and outstanding agricultural cash balances respectively.
- (b) Even though the balance as per the cash book as at 31 December 2015 was Rs.1,255,708, it had been entered into bank reconciliation statement as Rs. 1,330,622 by overstating Rs. 74,914 . Further, the accuracy of the balance of the cash book was not ascertained because of indicating Rs. 10,800 adding to the balance in the cashbook without stating the facts in the bank reconciliation statement, direct receipts, entering in to cash book twice and entering a total of Rs. 72,738 as returned cheques without taking actions to adjust to the accounts.

2.3 Accounts Receivable and Payable

Actions had not been taken get reimbursed a sum of Rs. 212,000,000 provided by the General Treasury on the basis of reimbursement of the development activities of 03 Districts in parallel to the Deyata Kirula programme in the year 2014 and a sum of Rs. 15,928,127 provided to Employee Loans Revolving Fund even by the date of audit.

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

Reference to Laws, Rules /and Provisions	Description
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(a) Paragraph 3.3 (b) of the Public Finance Circular No. PF / 423 dated 22 December 2006	Actions had not been taken to regularize the Fund and the requirement of maintaining the Fund furthermore under the Divineguma (Samurdhi) Development Department had not been reviewed.
(b) Financial Regulation 133 of Financial Regulation of the Democratic Socialist Republic of Sri Lanka	An audit had not been conducted by the Internal Audit Division of the Department regarding the activities of the Fund.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Fund for the year under review was a surplus of Rs. 87,064,477 and the correspondent surplus of the preceding year was Rs. 104,701,961 thus indicated a deterioration of Rs. 17,637,484 in the financial results in the year under review as compared to the preceding year. The decrease in total income including investment interest income by Rs. 20,284,130 had mainly attributed to this deterioration.

3.2 Unauthorized Transactions

Although all movable and immovable property of the authorities affiliated to the Department of Divineguma (Samurdhi) Development should be transferred to the Government in terms of Section 44 (b) of the Divineguma (Samurdhi) Act No. 1 of 2013, a sum of Rs.16,130,842 received from the Kandyan Development Authority had been invested under the Fund without taking action to credit to the Government Consolidated Fund.

4. Operational Review

4.1 Performance

Even though the formulating of financial facilities excluding Treasury provisions for income generating projects and building community based banks / banking societies had been disclosed in the financial statements for the year under review as the purposes of this Fund, no action whatsoever had been taken in order to achieve those objectives.

5. Accountability and Good Governance

5.1 Submission of Financial Statements

The financial statements for the year under review had been furnished on 04 April 2019 after a delay of 04 years period although it should be submitted to the Auditor General within 02 months from the end of the financial year in terms of State Accounts Circular No. PF / 423 of 22 December 2006 .

5.2 Budgetary Control

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

6. Systems and controls

A special attention should be drawn in maintaining of books and records in a systematic manner through establishing internal control systems by legislating the Fund and the presentation of financial statements in a proper manner.