

Saumyamoorthi Thondaman Memorial Foundation – 2015

The audit of the financial statements of the Saumyamoorthi Thondaman Memorial Foundation 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 (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 11(2) of the Saumyamoorthi Thondaman Memorial Foundation Act, No.19 of 2005. My comments and observations which I consider should be published with the Annual Report of the Foundation in terms of Section 14 (2)(c) of the Finance Act appear in this report.

1.2 Responsibility of the Management 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 and fair presentation 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 Auditing 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 risk assessments, the auditor considers internal control relevant to the Foundation'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 Foundation'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 the 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 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 Saumyamoorthi Thondaman Memorial Foundation 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 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard – 01

Instead of showing the capital works in progress as at the end of the year under review amounting to Rs.25,675,995 under non-current assets in the statement of financial position it was shown under current assets.

(b) Sri Lanka Public Sector Accounting Standard – 07

The following observations are made.

- (i) In terms of paragraph 47 of the standard, property, plant and equipment should be revalued every three or five years. Nevertheless, action had not been taken accordingly in respect of assets costing Rs.625,453,272 shown in the fixed assets account as at the end of the year under review.
- (ii) Without being separately identified land and buildings in terms of paragraph 72 of the standard, depreciation on buildings had been made at 50 per cent of the value of land and buildings amounting to Rs.272,000,000 transferred to the Foundation in the year 2005.

2.2.2 Accounting Deficiencies

A sum of Rs.7,008,000 payable for 96 V-SAT antenna maintenance service out of 120 service instances made during the period from 16 December 2009 to 01 November 2013 in the Prajashakthi Centres belonged to the Foundation by an Internet Service Company had not been brought accounts.

2.2.3 Unexplained Differences

Even though, a sum of Rs.4,356,341 had been shown as a reimbursable amount to the Foundation relating to the year under review and the prior years, according to the financial statements, it had not been disclosed as a reimbursable amount to the Foundation in the accounting records of the Line Ministry.

2.2.4 Lack of Evidence for Audit

An age analysis in respect of receivable balance to the Foundation amounting to Rs.9,124,815 and a payable balance of Rs.117,122,744 by the Foundation was not made available for audit.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) A sum of Rs.282,567 payable to a private entity for the construction of trade stalls for the 'Deyata Kirula' exhibition held in the year 2012 had not been settled even by the end of the year under review.
- (b) Action had not been taken to settle or to recover the advances and debtor balances totalling Rs.13,084,208 and the creditors balances of Rs.6,074,979 brought forward for a long period.
- (c) A sum of Rs.1,271,709 recoverable as at the end of the year under review in respect of the reconstruction works of a building belonging to the Lanka workers congress carried out by the Foundation for which attention of the Committee on Public Enterprises held on 07 November 2012 for the recovery, had not been recovered even by the end of the year under review.
- (d) An advance of Rs.541,840 had been paid to a Private Company on 23 April 2014 to prepare a Computer System for the maintenance of a data file in order to supervise the activities of the Prajashakthi Development Project. As this job had not been performed, action had not been taken to recover the advance.
- (e) A sum of Rs.6,813,624 brought forward from the year 2013 and prior years which had been shown in the accounts as receivable income on reimbursable basis from the relevant Line Ministry and a receivable amount of Rs.47,370,427 in the year 2014 had not been reimbursed even up to the end of the year 2016.

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

The following instances of non-compliance with Laws, Rules, Regulations and Management Decisions were observed in audit.

Reference to Laws, Rules, Regulations

Non-compliance

(a) **Saumayamoorthi Thondaman Memorial Foundation Act No.19 of 2005.**

- (i) Section 3(1)
- (ii) Paragraphs 2, 3 and 4 of Section 10

A Board of Directors had not been appointed to the Foundation after August 2015.

Even though all expenditure incurred in the implementation and performance of its duties and functions should be born from the Fund built up by the foundation, only a sum of Rs.3.4 million income had been earned during the year under review. Accordingly, money required for all expenditure of the Foundation had been obtained from the Line Ministry and performed the functions of the Foundation.

- (b) Paragraphs 10(1) and (2) of Part II of the Employees Provident Fund amendment Act dated 31 December 1998.

Contributions of the employer and the employee totalling Rs.4,205,282 relating to the period September 2012 to March 2013 had not been remitted to the Employees Provident Fund.

- (c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.
Financial Regulation 757.

An Annual Board of Survey had not been conducted for the year under review so as to cover all the divisions of the Foundation.

- (d) Paragraph 8.9.1 of the Procurement Guidelines of 2006.

A sum of Rs.51,099,464 had been paid to a Private Service Company without an agreement for obtaining V-SAT Antenna Maintenance Service and to purchase Computers during the period from September 2009 to March 2014.

- (e) Public Finance Circular No.03/2015 of 14 July 2015.

Even though advances obtained should be settled immediately after the completion of the relevant purpose, advances totalling Rs.318,867 and Rs.118,071 given to the Manager of Prajashakthi Project in the years 2011 and 2013 respectively had not been settled even by 31 December 2016.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Foundation for the year under review had resulted a deficit of Rs.45,027,660 as compared with the deficit of Rs.48,715,500 for the preceding year thus indicating an improvement of Rs.3,687,840 in the financial result as compared with the preceding year. Even though, the government grants had decreased by Rs.71,200,209, decrease in donations, publicity and promotion expenses by Rs.58,053,559 and the decrease in purchasing consumables, travelling expenses, fuel expenses and miscellaneous expenses by Rs.9,972,149 and decrease in meetings, training and other expenses by Rs.16,621,645 had mainly attributed to this improvement.

In analyzing the financial results for the year under review and the preceding 4 years the deficit of Rs.11,511,530 in the year 2010 had increased to Rs.45,027,660 by the year 2015. However, when employees remuneration and depreciation on non-current assets were readjusted to the financial results, the positive contribution of the Foundation for 5 years from 2011 to 2015 had been Rs.37,117,620, Rs.37,819,654, Rs.57,143,901, Rs.69,018,051 and Rs.85,973,434 respectively. The increase of salaries had mainly attributed to increase of the contribution in the years 2013, 2014 and 2015.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) Provisions of Rs.47 million and Rs.153 million had been made for capital and recurrent expenditure relating to the year under review respectively and no any provision had been utilized for capital expenditure during the year under review. A sum of Rs.74.8 million had been received from the Line Ministry for staff salaries and wages and other recurrent expenditure and another sum of Rs.20.96 million was due from the Line Ministry to settle the balance recurrent expenditure by the end of the year under review. Furthermore, the Foundation had paid the staff salaries of the first 3 months and from August to November of the year under review at the end of December 2015.
- (b) Performance reports for the functions of the Foundation in respect of the year under review had not been prepared by the Foundation. It was also observed in audit that any planned activity had not been performed by the Foundation after the first 3 months of the year under review.

4.2 Management Activities

The following observations are made.

- (a) Action had not been taken to acquire the ownership of 42 Prajashakthi Centres operated by the Foundation. Even though, a sum of Rs.2,359,298 had been spent to survey for the construction of another 35 Prajashakthi Centres in the year 2012, that land had not been acquired by the Foundation even by the end of the year 2016.
- (b) As the documents pertaining to land and buildings valued at Rs.272 million, entrusted to the Foundation under Section 10(2) of the Act No.19 of 2005 which the Foundation was established were not available, title deeds had not been prepared even by the end of December 2016.
- (c) A sum of Rs.20,484,000 given to the Foundation by the Line Ministry for the field co-ordinating activities of selected areas under the Prajashakthi Project, had been paid as salaries and allowances to 90 officers during the period 2010 to April 2013 without any letters of appointment or specific assignment of duties and without ensuring the duties actually performed.
- (d) Due to mismanagement of field co-ordinating activities as stated above, a sum of Rs.4,252,500 from the co-ordinating allowances had been credited to the Private Bank Accounts of the Project Manager and the Project Co-ordinator of the Foundation fraudulently during the period from April 2011 to April 2013 by producing spurious or dummy names. After conducting an inquiry, those officers had agreed to refund that money back but only a sum of Rs.1,050,000 had been paid as at 25 May 2014 and the balance of Rs.3,202,500 had not been recovered even by the end of the year 2016.

The Director (Finance) of the Prajashakthi operating unit had stated in this regard that the court case in this cash discrepancy is still pending and this amount of Rs.3,202,500 would be recovered on the Court decision.
- (e) An investigation in respect of the credit of fields co-ordinating allowance of Rs.5,265,000 to Private Bank Accounts during the period from 2010 in which field co-ordinating activities had been under taken by the Foundation to March 2011 had not been conducted by the Foundation up to now.

4.3 Procurements and Contract Process

The following observations are made.

- (a) Without following provisions in the Procurement guidelines, cement blocks, machines sports and sacred goods, computers and various equipment had been purchased from the Sri Lanka State Trading (miscellaneous) Corporation Ltd. in the year 2014 on the basis of cash settlement within a month from the date of purchase valued at Rs.72,726,994. However, the money for these goods had not been paid by the Foundation even by the end of the year under review.

- (b) The total value of 9 contracts, a sum of Rs.25,675,995 show as the value of works in progress as at 31 December of the year under review amounted to Rs.72,818,294. Those construction works had been commenced in the years 2010, 2011 and 2012 and halted half way. The Foundation had failed to restart those construction works even up to the end of the year 2016. A mobilization advance of Rs.7,544,265 had been paid to one of those contractors and a sum of Rs.1,985,942 payable to him had been brought forward in the accounts since 2012.

The Director (Finance) of the Prajashakthi had informed that, as provisions for capital expenditure had not been made in the years 2015, 2016 and 2017, works could not be commenced and it was planned to complete the balance work in the year 2018.

4.4 Idled Assets

The following observations are made.

- (a) Action had not been taken to sell or dispose of 57 motor cycles, costing Rs.5,396,901 which had been removed from use and fully depreciated by the end of the year under review and remained idle up to 30 November 2016, the date of audit.
- (b) Fourty four cement block machines purchased on 01 December 2014 for Rs.4,048,000 to be given to the Prajashakthi Centres under the Self Employment Loan Project had not been issued to the relevant Prajashakthi Centres on a court order dated 24 February 2015. Those 44 machines had been stored in the Norwood Thondaman Sports Complex being idled.
- (c) It was observed that 15 Kovil bells, 377 sets of brass pooja lamps, 07 sets of fitness equipment and 194 sets of sports goods purchased in the year 2014 and valued at Rs.2,794,368 on credit basis to be distributed as donations had been stored in the Thondaman Sports Complex and remained idle.
- (d) Even though a sum of Rs.131,404,288 had been spent for the supply of internet services for 42 Prajashakthi Centres in the years 2007, 2008 and 2009 under the Prajashakthi Project, payment of consultancy fees therefor, purchase of 42 sets of V-SAT Antenna Equipment and maintenance and repair of such equipment, 42 sets of this equipment had been idle up to the end of the year 2016 the date of audit as obtaining this service had been terminated since 01 March 2014. Furthermore, the decision of the Board of Directors taken to terminate this service was not made available for audit.
- (e) A stock of souvenir dishes costing Rs.398,999 shown under current assets in the financial statements had remained idle for a long time without being issued to the relevant parties.

4.5 Identified Losses

Contrary to the National Budget Circular No.150 of 07 December 2010 and without the approval of the relevant Line Ministry and the Ministry of Finance, a Mitsubishi Double Cab had been purchased on 26 November 2014 with an initial payment of Rs.1,000,000 on the finance leasing basis from a Private Company for a total sum of Rs.5,840,000, repayable at 60 monthly installments for the use of Ramboda Cultural Centre. As a result, of non-payment of monthly lease installments, the lessor had taken back the vehicle and the ownership by the end of the year under review. The total sum of Rs.1,565,504 consisting of the initial payment and the accumulated installments had been observed as a non-recoverable loss to the Foundation.

4.6 Personnel Administration

The following observations are made.

- (a) According to the information made available, the approved cadre of the Head Office and 3 approved projects as at 31 December 2015 amounted to 218 whereas the actual cadre was only 130 and the number of vacancies was 88.
- (b) Even though, salaries and the cadre for the Thondaman Vocational Training Centre had not get the approval, the actual cadre as at 31 December 2015 was 30.
- (c) Six posts, including the Post of Accountant in the Head Office had been vacant for a long period. Without being recruited a permanent person for the Post of Deputy Director General (Finance) since the year 2005, an officer over 60 years of age had been employed on contract basis.
- (d) Even though, 21 posts for the Norwood Sport Complex Project had been approved, only one officer had been employed in the Sports Complex as it was not functioned.
- (e) The scheme of recruitment prepared by an external consultant by incurring an expenditure of Rs.150,000 in the year 2013 had not get the approval even up to the end of the year 2016.
- (f) Any officer had not been appointed for the Post of Cultural Officer approved by the Department of Management Services for the Thondaman Cultural Centre, since the year 2005 to the end of the year under review and officers for 4 posts, not included in the approved cadre had been recruited and a sum of Rs.1,190,732 had been paid to them as salaries during the year under review.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

The following observations are made.

- (a) Even though, the financial statements should be presented to the Auditor General within 60 days after the close of the financial year in terms of Paragraph 6.5.1 of the Department of Public Enterprises Circular No.PED/12 of 02 June 2003, the financial statements for the years 2014 and 2015 had been presented only on 14 September 2016.
- (b) The certificate of responsibility of the manager who presents accounts had not been attached to the financial statements in terms of Paragraph 3 of the Public Enterprises Circular No.PED/15 of 02 October 2007.

5.2 Internal Audit

In terms of Circular No.DMA/2009 (1) and DMA/ADM/2011/1/26 dated 09 June 2009 and 23 December 2011 respectively, staff of the internal audit should be deployed in order to formulate a sound and efficient internal audit structure. However, the Internal Auditor had performed the duties of the Accountant's post which fell vacant and as such an internal audit had not been carried out during the year under review.

5.3 Budgetary Control

The approval of the Board of Directors had not been obtained for the budget prepared for the year under review.

5.4 Procurement Plan

A Procurement Plan for the year under review had not been prepared by the Foundation.

5.5 Tabling the Annual Reports

In terms of Paragraph 6.5.3 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the annual reports should be tabled in parliament. Nevertheless, it had not been complied with from the year 2005, the year in which the Foundation was established up to the end of the year under review.

6. Systems and Control

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

Area of Systems and Control

Observations

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(a)	Contract Administration	Contracts not completed as specified.
(b)	Personnel Administration	Non-recruitment of staff and the scheme of recruitment had not get approval.
(c)	Financial Control	“PAID” seal had not been placed on the face of the payment voucher and on the other documents attached thereto to ensure the correct payment of net amount shown in the voucher.
(d)	Asset Management	Assets being idled.
(e)	Internal Audit	An Internal Audit not carried out.