

## **Ranaviru Seva Authority – 2015**

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The audit of financial statements of the Ranaviru Seva Authority 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 net assets 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 9(3) of the Ranaviru Seva Authority Act, No. 54 of 1999. 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 the Financial Statements**

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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**

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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 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 the extent of the audit.

### **1.4 Basis for Qualified Opinion**

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

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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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 Ranaviru Seva Authority 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**

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#### **2.2.1 Accounting Deficiencies**

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The following observations are made.

- (a) Over provision for depreciation amounting to Rs.23,295 had been made for furniture and machinery purchased at a cost of Rs.3,322,994 in the year under review.
- (b) Legal fees of Rs.90,000 payable and income from sale of Vesak Cards amounting to Rs.71,000 recoverable as at 31 December 2015, had not been brought to account.
- (c) Receipt of insurance claim of Rs.15,550 received in the year under review had been credited to the Motor Vehicles Repair and Maintenance Expenditure Account.

#### **2.2.2 Lack of Evidence for Audit**

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Documents for confirmation of distribution of 4 sets of uniforms valued at Rs.44,495 out of 38 sets purchased at a cost of Rs.281,800 for the female staff of the Authority for Ranaviru Day Commemorative Ceremony in the year 2015, had not been made available to Audit.

#### **2.2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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The following observations are made.

<b>Reference to Laws, Rules, etc.</b>	<b>Non-compliance</b>
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(a) Finance Act, No. 38 of 1971 Section 8(1)	Every Public Corporation should prepare a budget in respect of every financial year and such budget should be approved by the Governing Body not later than three months prior to the commencement of the relevant year. Nevertheless, the budget for the year 2015 of the Authority had been approved only on 09 April 2015.

(b) Guideline 8.9.1 of the Government Procurement Guidelines

Even though the Authority should enter into a proper agreement for Goods and Services contracts exceeding Rs.500,000, action had not been so taken in purchasing loudspeakers, chairs and shelters for public valued at Rs.1,949,589 for the Ranaviru Day Commemoration.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Authority for the year ended 31 December of the year under review, had been a deficit of Rs.44,621,195 as compared with the corresponding deficit of Rs.12,853,444 for the preceding year, thus indicating a deterioration of Rs.31,767,751 in the financial results of the year under review as compared with the preceding year. Increase in the personal emoluments by Rs.6,832,819 and expenditure on project operations by Rs.28,355,737 as compared with the increase in the Government Contribution by Rs.10,536,581 from the year 2014 to the year 2015, had been the main reasons for this deterioration.

An analysis of financial results of the year under review and 04 preceding years revealed that the surplus of the Authority amounting to Rs.11,402, 524 in the year 2011 had decreased to Rs.2,294,684 by the year 2012. There had been a deficit of Rs.12,301,555 in the financial result by the year 2013 and that deficit had increased to Rs.44,621,195 by the year 2015.

Taking into consideration the employees' remuneration and depreciation for the non-current assets, the contribution of the Authority of Rs.35,677,966 in the year 2011 had continuously decreased in the years 2012 and 2013. The contribution which amounted to Rs.14,882,174 by the year 2013, had increased to Rs.21,601,523 by the year 2014 and that had deteriorated by Rs.23,353,068 again and become a negative value of Rs.1,751,545 by the end of the year under review.

### **4. Operating Review**

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#### **4.1 Management Activities**

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The Authority had purchased an electric lift at a cost of Rs.7,004,309 contrary to the Procurement Procedure and its installation had been assigned to the Sri Lanka Army. A sum of Rs.5,461,555 had been paid to the Army Welfare Fund on 31 December 2015 without considering the progress of those activities. However, the Authority had failed to make arrangements so as to make use of this lift even by 21 September 2016, the date of audit.

## **4.2 Operating Activities**

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The following observations are made.

- (a) The Programme on Granting Spectacles for war heroes with low income and their dependents had been implemented from the year 2011 and the Letter dated 24 February 2015 submitted by the Psychosocial Project for Welfare of the War Heroes revealed that further update of the above Programme would be suitable. However, this Programme had been discontinued during the year 2015 without paying attention to the welfare of the war heroes.
- (b) Even though a period of 21 months had elapsed by 21 September 2016, action had not been taken to settle advances totalling Rs.1,830,450 granted to the officers of the Authority in 5 instances in the year 2014.
- (c) Out of the amount of Rs.159,360,000 allocated for the year under review for granting loans to the war heroes at the concessionary interest rate as an initial project for the improvement of welfare of war heroes, only a sum of Rs.106,190,000 had been granted. Accordingly, about 33 per cent out of the provision made, had not been utilized. Even though a sum of Rs.130,680,000 had been spent for the loans of societies, self-employment, medical and three wheelers of 552 persons in the year 2014, it was observed that only a sum of Rs.84,060,000 had been paid as loans for 342 persons in the year 2015. According to the explanation of the Acting Chairman of the Authority, the Project on Granting Loans for Three Wheelers had been discontinued in the year 2015 and the amount granted for other loans had decreased relatively due to the lesser number of qualified beneficiaries.

## **4.3 Transactions not supported by Adequate Authority**

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The following observations are made.

- (a) Even though permission had been given to obtain motor vehicles on hire subject to the monthly rental limit of Rs.40,000 excluding Value Added Tax according to Section 2 of the Public Finance Circular No.353(5) of 31 August 2004, contrary to that, the Vice-Chairperson of the Authority had obtained a motor vehicle on rental basis from 15 October 2015 to 15 January 2016 and paid a sum of Rs.210,000 at a rate of Rs.70,000 per month by stating that the motor vehicle owned by the Authority, which was used by her is not suitable for long distance travel.
- (b) According to the Statement of Delegation of Financial Authorities for the year 2015 of the Authority, the maximum approved limit for inviting quotations for Goods and Services for not less than 03 sealed Bids, was Rs.250,000. Contrary to that, a sum of Rs.434,780 had been paid for the purchase of uniforms to the Male Staff of the Authority for the Ranaviru Day Commemoration Ceremony. A loss of Rs.231,760 had been sustained by the Authority due to awarding the contract to the supplier who had submitted maximum quotation instead of the supplier who had submitted the minimum quotation on the equal specifications in this connection.

#### **4.4 Idle and Underutilized Assets**

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The following observations are made.

- (a) According to the Letter No. PCMD/PR/2013 and dated 05 June 2013 of the Secretary to the President, the old motor vehicles and machinery which are left decaying in Public Institutions without being utilized, should be disposed of or auctioned or handed over to the Oruwala Steel Corporation in compliance with the disposal process in terms of the Financial Regulations. Nevertheless, 03 vans, a motor bicycle and 02 cab motor vehicles had remained idle in the premises of the Authority over periods from 03 years to 14 years. According to the reply of the Acting Chairman, even though the approval had been received by the Letter No. PFD/ASD/VEH/353(5) vii dated 04 November 2014 of the Department of Public Finance for the disposal of motor vehicles, it had been stated that those assets were not disposed of as that letter indicated that the relevant disposals should be done after obtaining new motor vehicles.
- (b) The printing machine and other equipment purchased at a cost of Rs.651,739 on 25 August 2014 for the printing of Ranaviru Priority Identity Cards for the war heroes and their dependents had not been utilized for that purpose even up to 10 August 2016, the date of audit and it had been used only for the printing of internal identity cards.
- (c) The Ranaviru Seva Authority had purchased 27 computers and a multimedia machine at a cost of Rs.3,171,460 on 26 February 2015 from a State Corporation which had submitted the highest quotation and it was revealed in audit that 24 usable computers including 12 of those computers valued at Rs.1,301,760 had remained in the stores of the Authority by 31 December 2015. As such, it was observed in audit that purchases had been made without identifying the requirement of those goods properly.

#### **4.5 Staff Administration**

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The following observations are made.

- (a) Even though the powers for employing the officers had been delegated to the Board of Management in terms of Section 5(d) of the Ranaviru Seva Authority Act, No.54 of 1999, it was observed that the Chairperson had appointed 11 unqualified persons to posts and placed them on 06 steps above the salary scale of MM-1-1-2006.
- (b) Contrary to the Public Administration Circular No.09/2007(i) of 24 August 2007, two retired persons had been recruited on contract basis to the posts of Administrative Officer and the Consultant and a sum of Rs.566,250 had been paid as annual allowances.

- (c) Vacancies in 39 posts in the cadre of the Ranaviru Seva Authority for the year 2015 comprising 3 posts in the Executive Grade, that is, the Director, Deputy Director (Finance) and Internal Auditor, 30 posts in the non-Executive Grade and 6 posts in other staff existed. Instead of recruiting the approved cadre, five officers had been recruited to the unapproved post of Project Assistant. The financial statements could not be presented on time and action could not be taken according to the budget and the Action Plan due to existence of the above vacancies.

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

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### **5.1 Presentation of Financial Statements**

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In terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the financial statements should be furnished to the Auditor General within 60 days from the close of the financial year. Nevertheless, the financial statements relating to the year under review had been furnished to audit only on 14 June 2016.

### **5.2 Action Plan**

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Even though budgetary provision should be made for the achievement of the targets set for the current year and an Action Plan should be prepared for the efficient utilization of such funds during the year by determining the responsibilities for the financial and physical targets and operate to reach the targets by making necessary revisions based on timely comparison with the actual balances, the Authority had not carried out such a budgetary control and performed the activities according to the Action Plan during the year under review.

### **5.3 Internal Audit**

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Even though a post had been approved as the Internal Auditor of the Ranaviru Seva Authority, action had not been taken to recruit a person to that post even by 03 August 2016, the date of audit. The internal audit of the Authority had been carried out by the Internal Audit Unit of the Sri Lanka Air Force and it was revealed in audit that replies for 4 audit queries issued during the year under review had not been furnished.

### **5.4 Procurement Plan**

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Even though it had been planned to purchase goods valued at Rs.21.91 million according to the approved Procurement Plan of the Ranaviru Seva Authority for the year 2015, no estimate whatsoever had been included in the Procurement Plan for supply of wheelchairs, supporting sticks and crutches for the welfare of the disabled war heroes which is one of the main objectives of the Authority.

## 5.5 Procurement and Contract Process

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The Authority had purchased the electric lift at a cost of Rs.7,004,309 and its installation activities had been assigned to the Sri Lanka Army without following the National Competitive Bidding Procedure as stated in the Procurement Plan. Contrary to the Financial Regulation 237(b), a sum of Rs.5,461,555 had been paid therefor on 31 December 2015 to the Army Welfare Fund which is not subjected to audit of the Auditor General. This is a Private Fund of the Army and it was observed that the identity of the payee as well had not been established according to the Financial Regulation 139(5).

## 6. Systems and Controls

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

<b>Areas of Systems and Controls</b>	<b>Observations</b>
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(a) Accounting	In the performance of the activities of the Accounts Division of the Authority, proper segregation of duties had not been made in respect of recording of transactions in the Ledger and Cash Book, preparation and examination of Bank Reconciliations and the internal control in respect of those activities had not been carried out properly.
(b) Financial Control	Lack of a proper supervision on issuing, settling and utilization of advances.
(c) Staff Administration	Failure to take action to fill vacancies.
(d) Internal Control	Non-establishment of proper internal control methodologies so as to enable the performance of activities in the Divisions of the Authority.
(e) Procurement Process	Attention had not been paid to follow the relevant laws, rules in purchasing goods.