Rehabilitation of Persons, Properties and Industries Authority - 2015

The audit of financial statements of the Rehabilitation of Persons, Properties and Industries 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 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 8(2) of the Rehabilitation of Persons, Properties and Industries Authority 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 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 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 misstatement 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.

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, the financial statements do not give a true and fair view of the financial position of the Rehabilitation of Persons, Properties and Industries 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

2.2.1 Sri Lanka Public Sector Accounting Standards

Sri Lanka Public Sector Accounting Standard 07

The following observations are made.

(a) Even though a sum of Rs.2,838,000 paid for the installation of a computer data system with an estimated value of Rs.3,360,000 should be brought to account as Work-in-Progress, it had been capitalized and adjusted in the financial statements as depreciation of Rs.684,271 for the year under review.

(b) Even though only a selected part relevant to 05 classes of assets included in property, plant and equipment in the year under review had been revalued, the cost and the accumulated depreciation relating to the entire assets had been eliminated from accounts. As such, the assets purchased in recent years had been omitted from the accounts and as those assets are not entered in the registers, their safety would be problematic.

(c) Even though it was mentioned in the Accounting Policies of the Authority that property, plant and equipment are measured by the Authority according to the cost structure, 1,118 units of assets of 05 classes of property, plant and equipment costing Rs.18,409,588 had been brought to account at the revaluation amount of Rs.6,186,610.

(d) A sum of Rs.446,155 spent for vehicle spare parts of non- capital nature had been capitalized and depreciations had been computed thereon and adjustments made in the financial statements.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) The value of 03 motor vehicles costing Rs.17,135,000 provided by the Treasury in the years 2011 and 2015 had been credited to the Accumulated Fund instead of accounting as a grant. Even though the amount of accumulated depreciation of these assets had been Rs.6,835,374, as at the end of the year under review, amortization had not been brought to account thereon.

(b) Even though a grant amounting to Rs.63,000,000 received from the Treasury for normalizing damaged property had been brought to account as an expenditure in releasing it to the relevant parties, amortization had not been made in respect of money so paid.

2.2.3 Lack of Evidence for Audit

Evidence for confirmation in respect of the sum of Rs.738,544,380 received from the Treasury which should be settled to the Treasury, for providing loan facilities under the Integrated Loan Scheme under non-current liabilities in the statement of financial position as at 31 December of the year under review, had not been made available to audit.

2.2.4 Unexplained Differences

Even though a balance of Rs.1,637,949 had been shown as cash and cash equivalents in the statement of financial position as at 31 December of the year under review, a difference of Rs.133,427,376 was observed between cash and cash equivalents due to existence of a balance of Rs.38,095,925 according to the Cash Book as at that date and a sum of Rs.96,969,400 in the savings account. Moreover, action had not been taken to reveal a sum of Rs.133,839,840 as well shown as transfer to Account Number 74757297 during the last month in the Bank Reconciliation Statement prepared as at that date.

2.2.5 Accounts Receivable

The progress of recovery of commercial loans provided by the Bank of Ceylon due to the July riots of 1983 had been at a sluggish level of 2.21 per cent for the year under review and its balance as at 31 December of the year under review amounted to Rs.4,375,312.

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

Non-compliances with the following laws, rules and regulations were observed.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulation 381(1)	The approval of the Treasury should be obtained to open bank accounts. However, a savings account had been opened without such approval, That account opened on the approval of the Board of Directors. The balance of that account had been Rs.96,969,400 as at 31 December of the year under review.

(b) Public Administration Circular No. 15/2007(I) of 18 November 2009	Even though interest should be charged based on the amount of the housing loan, the Board of Directors had decided on 11 December 2015 to charge an interest rate of 4.2 per cent. Moreover, housing loans amounting to Rs.12,467,950 had been granted without the approval of the Treasury to 17 members of the staff using funds of the Authority.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Authority for the year ended 31 December 2015 had been a deficit of Rs.71,663,242 as compared with the corresponding deficit of Rs.119,261,814 for the preceding year thus indicating a decrease in the deficit by Rs.47,598,572 in the year under review as compared with the preceding year. The increase in Government grants by Rs.86,653,000 had been the main reason for the above decrease in the deficit.

In the analysis of financial results for the year under review and 04 preceding years, there had been a surplus in operations in the years 2011 and 2013. Nevertheless, there had been a deficit in the years 2012, 2014 and 2015. Even though Government Recurrent Grants had increased by Rs.86,653,000 as compared with the preceding year, there had been a considerable deficit in the year 2015. Even after adjustment of employees' remuneration, Government Tax and depreciation for non-current assets, the negative value of contributions in the years 2014 and 2015 amounted to Rs.80,600,892 and Rs.20,433,541 respectively. As such, the Authority had shown a financial deterioration. However, the Management had failed to take necessary steps to avoid that situation.

4. Operating Review

4.1 Performance

(a) According to the provisions of Rehabilitation of Persons, Property and Industries Authority Act, No.29 of 1987, the key functions of the Authority are as follows.

- (i) To assist in rehabilitation of affected persons.
- (ii) To assist the owner or tenant of any affected property to repair and restore such property.
- (iii) To order the demolition and removal of any affected property which consists of a building or structure.
- (iv) To assist the proprietors of any affected industry or business, to rehabilitate such industry or business, subject to such reasonable conditions as may be agreed upon by Rehabilitation Authority and such proprietor for securing the repayment of any expenditure incurred for such rehabilitation.

(b) According to the Cabinet Memorandums on 19 August 2010 and 15 March 2012, the following functions are relevant.

(i) Providing self-employment loan facilities for socialized trainees

(ii) Implementation of a subsidy loan scheme for families in distress due to terrorist violence.

(c) The interest amounting to Rs.162,224,943 earned from investment in banks and financial institutions, out of the funds received from the Treasury for providing loans to the distressed persons, had been transferred to the savings account and out of that, a sum of Rs.11,683,192 had been used for the operations of the Authority.

4.2 Management Activities

The following observations are made.

(a) Even though 2 years 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.

(b) Even though an agreement had been entered into with the Sri Lanka Institute of Information Technology on 24 December 2014 for a sum of Rs.3,360,000 to install a computer data system for the Authority, that system had not been in operation even by the end of the year under review.

(c) In Labour Tribunal Case No. 13/40/2009, the Authority had not presented facts in a manner favourable to the Authority and important evidence as well had not been made available.

(d) A sum of Rs.5,000,000 had been approved on 10 December 2014 and paid in the year under review for an industry affected by “Floods” in the year 2008 contrary to provisions in the Circular No. REP/1/LOAN/2/96 of 23 June 1996 of the Authority in respect of granting loans for rehabilitation of industries registered under the Government which were badly affected by acts of terrorism /ethnic conflicts.

4.3 Transactions of Contentious Nature

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The Treasury had granted the Authority with provisions necessary for loan facilities through various institutions on concessionary rates for persons who died and owners of damaged properties on the basis of repayment. Despite exceeding the loan period granted to the Housing Development Authority on this basis, a sum of Rs.119,715,000 had been receivable as at the end of the year under review. Even though the interest receivable to the Authority for the sum so provided amounted to Rs.39,996,461, it had been brought to account as an income receivable and provisions had been made as doubtful debts for the entire interest without basis, considering as non- receivable. As such, the Authority had not paid attention in the recovery of long outstanding amounts.

5. Accountability and Good Governance

5.1 Internal Audit

Even though an internal audit should be carried out in terms of provisions in Financial Regulations 133 and 134 and Circulars of the Management Audit Department, action had not been taken to carry out an internal audit for the year under review and not even audit programmes had been presented in terms of 13(5) (d) of the Finance Act.

5.2 Budgetary Control

The following observations are made.

(i) Variances ranging from 37 per cent to 100 per cent relating to 15 Items were observed between the budgeted and the actual expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

(ii) Provisions of Rs.500,000 had been made by the budget for welfare expenditure for the year under review. However, the actual expenditure amounted to Rs.1,116,152 and as such, the over expenditure had been 123.23 per cent and it had been a decrease of 42.36 per cent as compared with the preceding year.

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.

Areas of Systems and Controls	Observations
(a) Fixed Assets	Failure in maintaining registers in respect of assets and determining the values of assets accurately.
(b) Budgetary Control	An existence of high variances between the budgeted expenditure and the actual expenditure.
(c) Payment of Compensation and Loans	Failure in paying compensation and loans without delay according to instructions of existing Circulars.
(d) Accounting	Non-preparation of classification of expenditure, valuation of stocks and Bank Reconciliation Statements.