

Sri Lanka Accounting and Auditing Standards Monitoring Board - 2015

The audit of financial statements of the Sri Lanka Accounting and Auditing Standards Monitoring Board for the year ended 31 December 2015 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 33(2) of the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995. My comments and observations which I consider should be published with the Annual Report of the Board 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 Board'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 Board'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 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 Sri Lanka Accounting and Auditing Standards Monitoring Board as at 31st 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 Non –compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance with laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules and Regulations

Non- compliance

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| (a) Section 25 and 27 of the Sri Lanka Accounting and Auditing Standards Act, No.15 of 1995 | Copies of the annual accounts of specified business enterprises should have been submitted to the Board in terms of Section 25(1) of the Act and as persons who fail to comply with or contravene those provisions, shall be guilty of an offence under the Act, relevant steps should be taken in terms of Section 27(1) (a) and (c). Action had not been taken in respect of non- rendition of reports on accounts to the Board by 17 specified business enterprises relating to the financial year 2014 even by 30 June 2016. |
| (b) Section 9.14 of the Public Enterprises Circular No. PED/12 of 02 June 2003 | Even though the Board should prepare a Manual of Procedures providing rules and regulations relating to Management of Human Resources and thereafter obtain the approval of the Secretary to the Treasury thereto, the preparation of that Manual had not been completed even by 30 June 2016, the date of audit. |

3. Financial Review

3.1 Financial Performance

According to the financial statements presented, the Government grants, which are the main income of the Board, had increased by Rs. 8,229,302 or 13 per cent as compared with the preceding year and the recurrent expenditure incurred therefrom had equally increased as well. Grants utilized for capital expenditure had increased by Rs. 790,812 as compared with the preceding year.

4. Operating Review

4.1 Performance

The main objective of the Board shall be to monitor the compliance with Sri Lanka Accounting and Auditing Standards, by specified business enterprises in terms of Section 23 of the Sri Lanka Accounting and Auditing Standards Act, No.15 of 1995.

According to the progress reports furnished to audit, particulars on the review of the financial statements during the 5 preceding years are as follows.

Details	Years ended 31 December				
	2015	2014	2013	2012	2011
Number of financial statements received during the year	1,430	1,371	1,322	1,443	1,716
Number of financial statements reviewed	1,122	1,200	751	302	213
Number of financial statements reviewed as a percentage of number of financial statements received	78	87	57	21	12
Technical staff participated in the review	13	14	13	06	06
Number of financial statements reviewed by one technical officer during each year	86	86	58	50	35

The following observations are made.

- Even though the progress reviewed in the year 2011 out of the financial statements received for review to the Board had been 12 per cent, thereafter that progress had regularly improved annually. However, out of the financial statements received during the year 2014, 87 per cent had been reviewed, but it had decreased up to 78 per cent in the year 2015. Even though the number of financial statements submitted for review annually had improved, a considerable number had not been reviewed every year. Moreover, attention had not been paid in respect of a proper methodology to follow thereon in future.
- According to the particulars presented to audit, the external reviewers carry out a preliminary review and internal reviewers carry out an extensive and final review on accounting reports. Accordingly, the total cost (staff wages and incentives and payments made for external reviewers) and the unit cost incurred directly in respect of those reviews in the year 2015 had increased by Rs. 4,474 as compared with the year 2014. It represented 20 per cent.
- Even though it was expected to obtain observations within 14 days after submitting the report to reviewers, rendition of observations in 12 instances had been made with a delay of a period from 17 to 86 days. The relevant institutions had not made any response whatsoever for observations submitted in respect of 13 out of 17 files examined. The Board had informed the audit thereon that the observations submitted are not statutory guidance and are submitted for the preparation and improvement of submission of financial statements in future.

5. Accountability and Good Governance

5.1 Unresolved Audit Paragraphs

The Board had been directed at the Committee on Public Enterprises held on 19 September 2012 to implement Public Awareness Programmes and the relevant programmes had been included in the Corporate Plan for the years 2015- 2019. However, action in this regard had not been taken up to now.

5.2 Effectiveness of the Management Information System

Even though the main function of the Board is the review of the financial statements, the Board had failed to operate and maintain a proper computerized data base system including the functions such as receipt of financial statements, forward for review, rendition of reports/observations and rectifications thereon and matters such as selection of reviewers, relevant payments and incentives.

5.3 Internal Audit

Even though half yearly reports for the year 2015 should be presented according to the concurrence with the internal auditors, the internal auditor had not presented the final half yearly reports even by 30 June 2016.

5.4 Human Resource Management

The following observations are made.

- (a) According to Letter No. DMS/E1/4/6/11 of 21 April 2011 of the Director General of the Department of Management Services, 20 permanent posts of the Board had been approved. Officers had been recruited on contract basis with the approval of the Board of Directors to 05 posts belonging to the Top Management including the Deputy Director General of the Board without obtaining the approval of the Department of Management Services.
- (b) Even though the scheme of recruitment for the entire staff of the Board should be prepared and get it approved in terms of the above Letter, the schemes of recruitment for 04 posts had not been approved even up to 31 March 2015, the date of audit.

5.5 Budgetary Control

Significant variances ranging from 22 per cent to 100 per cent were observed between the budgeted and actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.