

## **Sri Lanka Accounting and Auditing Standards Monitoring Board – 2016**

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The audit of financial statements of the Sri Lanka Accounting and Auditing Standards Monitoring Board for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016, 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 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**

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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 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 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**

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### **2.1 Opinion**

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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 31 December 2016 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 Non –compliance with Laws, Rules, Regulations and Management Decisions**

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The approval of the Board of Directors had not been obtained even as at 31 July 2017 by the Board for the Manual of Procedures prepared in terms of Paragraph 9.14 of Public Enterprises Circulars No. PED/12 dated 02 June 2003.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the Government grants, which are the main income of the Board had been increased by Rs. 24,891,648 or 35 per cent and the recurrent expenditure by Rs. 24,891,648 or 36 per cent as compared with the preceding year. The provision received for the special capacity building programmes amounting Rs. 21,679,041 and the recurrent expenditure incurred had caused to these increases.

In analyzing the financial results in the year under review with the 04 preceding years, even though a surplus or a deficit of the Board for the every year when taking into the consideration of employees' remuneration and the depreciation for the non-current assets, a contribution of Rs. 18,926,728 had been occurred in the year 2012. The contribution had increased continuously in the years later on and it had been Rs.48,869,249 in the year 2016.

## **4. Operating Review**

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### **4.1 Performance**

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In accordance with the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995 the function of the Board shall be to monitor the compliance with Sri Lanka Accounting and Auditing Standards, by specified business enterprises.

The following observations were made in respect of the progress of the investigation of the financial statements of the specified business enterprises according to the information furnished to audit.

- (a) It was revealed in audit that the number of specified business enterprises in the country had not been identified by the Board even as at 30 June 2017 and a suitable mechanism for that also had not been identified and implemented .
- (b) Even though 1,527 and 1,681 financial statements received in the years 2015 and 2016 respectively the number of financial reports investigated in those years were only 1,122 and 731 respectively. So that it was observed that an investigation had not been carried out by the Board in respect of the all financial statements received during the year. Due to the received duplicates , the institutions which were not the specified business enterprises and the number of financial statements relating to the preceding years were 66, 79, and 124 respectively within the 1,681 financial statements received to the Board during the year 2016 , the number of financial statements received were only 1,412 in the year under review for the year 2015. Accordingly, it could not be observed in audit that the activities of investigation of financial statements are being carried out efficiently by the Board.
- (c) Instead of the checking of accounts by random method existed earlier, by creating a method for checking the financial statements of every institutions by the Board, a sum of Rs. 65,000 had been paid as a monthly incentive for that amounting Rs. 11,921,000 during the year under review up to the officers of Technical Manager of the Board. However, the Board had functioned to investigate about 65 per cent from the financial statements received once in a 3 years and once in a 5 years by selecting by the random method .
- (d) It was observed that the regular Manuals / Guidelines , Check Lists/ Advice Notes had not been introduced to the internal and external investigators by the Board at the investigations to confirm the financial statements whether those were prepared in accordance with Sri Lanka Accounting and Auditing Standards. Therefore, as a result of non-revealing of any manner for showing whether complying or not-complying of the certain financial statements with Sri Lanka Accounting and Auditing Standards , it was complicated in audit in respect of the compliances of preparation of financial statements and audit .
- (e) Although 30 days time period had been offered to the external investigators for the investigation of financial statements, delays from 03 days to 32 days beyond that period were observed . Similarly, it was shown the instances of the handed over financial statements handing over again to the Board without investigating. However, the Board had informed the audit as it was proposed to charge certain percentage from the fee as a fine for these delays in future.
- (f) Accordingly , as it was revealed in the checking of files included the financial statements for the examination of the progress (including the follow up actions) of the investigation of financial statements, due to the instances of responses not received for the disclosures of investigation thereon furnished by the Board , the instances of equal disclosures sent to the related institutions in several years and non-receiving of the responses as those were corrected and the technical problems and delays in obtaining information ,the instances of not finalizing the investigation activities were shown.

- (g) The financial statements relating to prior several years had been in the financial statements received in the year 2016 and future measures had not been taken against the institutions which had not functioned on time or carried out follow up actions in terms of the Act, thus spending several years in respect of the submission of financial statements.
- (h) A sum of Rs. 100 million had been provided by the Budget Proposals for the year under review to strengthen the Sri Lanka Accounting and Auditing Standards Monitoring Board by technical and financial resources, to broaden the activities of the Institution and the scope, to review the relevant Act and to introduce an information system. However, even though more than 20 years of period was lapsed by this after the existing Act established, recommended revisions relating to that were furnished to the Ministry; the revised Act had not been forwarded for the approval of the Cabinet even as at 31 July 2017 and introducing of a new information system for reporting of which identified information while reviewing had not been carried out.
- (i) According to the Directive 11 of the Committee on Public Enterprises held on 19 September 2012, since the lack of sufficient awareness of the society regarding the Board even though a direction had been given as action should be taken for the social awareness, adequate steps had not been taken for that even by 30 June 2017.

#### **4.2 Management Activities**

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The requirement of obtaining human resources for the monitoring of the government sector and also office space should be obtained for that purpose had been identified according to the revision of Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995. Nevertheless, even though the act had not been revised, as an implementation of the matters mentioned there, according to the building agreement No. 1079 of 16 December 2016 the Board and the external parties entered into; a sum of Rs. 1,740,960 or a value equal to the amount of 06 month rent had been paid as a refundable security deposit on 20 December 2016, that floor had not been occupied for the above mentioned activities up to 30 June 2017.

#### **4.3 Staff Administration**

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The following observations are made.

- (a) Recruitments had been made on contract basis for the 03 posts of higher management level, a Senior Level post and 02 posts of Tertiary Level belonging to the approved cadre of the Board from the year 2009 and it was observed that the payments are being made more than the approved remunerations with higher benefits for the permanent posts of those 03 higher management level posts.
- (b) Two Deputy Director General posts had been maintained by extending the contract time period by a year and once in a three months respectively even by 30 June 2017.
- (c) Even though a succession plan should be available in every institutions in the event of filling vacancies of specially in management levels in terms of Paragraph 9.3 of Public Enterprises Circular No. PED/12 dated 02 June 2003, the Board had not performed so planned.

(d) Similarly in accordance with the Paragraph 9.7 of the “d” of above mentioned Circular , even though the payment of salaries and allowances should be based on an approved Scheme of Recruitments and Promotions the Board had not so performed in respect of 03 posts.

**5. Accountability and Good Governance**  
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**5.1 Budgetary Control**  
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Being variances in budgeted and actual income and expenditure items ranging from 11 per cent to 117 per cent in the year under review, it was observed that a weakness shown in carrying out the budget estimate as a financial control mechanism.

**6. Systems and Controls**  
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Deficiencies in the systems and controls observed during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.

<b>Area of Systems and Controls</b> -----	<b>Observations</b> -----
(a) Investigation on financial statements	Non-investigation of financial statements timely with proper Guidelines .
(b) Staff Administration	Impropersness in Schemes of Recruitment and filling of vacancies.