

Superior Courts Complex Management Board – 2016

The audit of financial statements of the Superior Courts Complex Board of Management for the year ended 31 December 2016 comprising the balance sheet as at 31 December 2016 and the statement of income and expenditure, statement of changes in net assets and Funds 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 Superior Courts Complex Board of Management Act, No. 50 of 1987. 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 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 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 Superior Courts Complex Board of Management 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

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) Approximately a sum of Rs.510 million of 22,180,000 Yuan spent for the modernization of the buildings by the Project of maintenance of the Superior Courts Complex which had been implemented under the aid of the Republic of China and completed by 31 December in the year under review had not been capitalized.
- (b) Since the Treasury deposit of Rs.1,000,000 which had been revealed as a current asset as at 31 December 2016 was remained idle from a long period, it had been credited to the Government Revenue in December 2016 by the Department of State Accounts . Actions had not been taken to remove that asset from books .

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

The following non-compliance with Laws, Rules and Regulations were observed.

Reference to Laws, Rules, Regulations and Management Decisions

Non- compliance

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| (a) Employee Provident Fund Act, No.15 of 1958 and Payment of Gratuity Act, No.12 of 1983. | Surcharges on the outstanding contributions payable totalling Rs.5,730,313 had to be paid to the Employees' Provident Fund, the Employees Trust Fund and to the Employee gratuity resulting from the failure to include the Cost of Living in the computation of the Contribution for the period January 2006 to July 2013. |
| (b) Financial Regulation 625(1) (b) of the Democratic Socialist Republic of Sri Lanka | The items of goods imported by paying customs charges amounting to Rs.7,970,000 in the year 2016 under the Maintenance of Superior Courts Complex Project by the aid of Republic of China had not been inventoried. |

- (c) Circular No.MOFP/ERD/2007/2 dated 01 August 2007 of the Ministry of Finance and Planning. Even though the Annual Accounts which was certified properly in all Foreign Aids Projects implemented under the Ministry and the Institutions there under should be furnished before 31 March of the ensuring Financial Year, the accounts of the Maintenance of the Superior Courts Complex Project which had been spent 22,180,000 Yuan under the aid of the Republic of China had not been furnished.

2.4 Accounts Receivable and Payable

The following observations are made.

- (a) Even though it had been revealed that the total debtors balance as at 31 December 2016 amounting to Rs.24,252,697 , it had been confirmed that a sum of Rs.15,328,661 receivable from the Ministry of Justice included in it had not received definitely. Further, the buildings belonging to the Board had been rented out to the 06 Institutions such as the Juvenile Courts, Labour Tribunal, Community based Emendation Project ,Sri Lanka Legal Aid Commission, National Centre for Protection of Victims of Crime and the Traffic Court and the outstanding rental income recoverable from those 06 Institutions was amounted to Rs.8,639,000. Failure to recovery of those arrears from the period from 01 year to 06 years due to it had not been entered into with formal written Agreements and formal action had not been taken to recover the rental income in each year.
- (b) The total of creditors balances as at 31 December 2016 amounted to Rs.478,308 and 9 balances amounting to Rs.45,854 had remained without being settled over period of 1 year .
- (c) Even though 26 creditors balances amounting to Rs.354,870 unsettled in the period from the year 2008 to the year 2014 had been credited to the Sundry Income Account in the year under review without a prior approval ,evidences had not been presented as inquiries made from the relevant creditors before so done.

3. Financial Review

3.1 Financial Results

According to the financial Statements presented, the financial result of the Board for the year ended 31 December 2016 had been a surplus of Rs.17,667,347 as compared with the corresponding surplus of Rs.32,184,705 for the preceding year, thus indicating an deterioration of Rs.14,517,358 in the financial result as compared with the preceding year. Even though the Government provisions had increased by a sum of Rs.3,600,917 the decrease of repairing and maintenance expenses by a sum of Rs.1,315,906 and the

decrease of other operating expenditure by a sum of Rs.5,955,668 and increase of electricity expenses by Rs.13,587,095 had been the main reason for this deterioration.

An Analysis of the financial results of the year under review and 04 preceding years revealed that the deficit of the financial results amounting to Rs.11,497,626 in the year 2012 had become a surplus of Rs.17,667,347 with a fluctuation in the year under review. However, when taking into consideration the employees' remunerations and the taxes paid to the Government, although the contribution of the Board amounting to Rs.36,278,273 in the year 2012 had increased up to Rs.93,518,973 by the year under review.

4. Operating Review

4.1 Performance

According to Section 6 of the Superior Courts Complex Board of Management Act, No.50 of 1987, the its objectives are to control, administer, manage and maintain the Superior Courts Complex, and its buildings and making the additions, alterations and improvements as may be necessary to enhance the amenities of the Complex. The observations on the performance according to the Action Plan prepared in that connection for the year under review are given below.

- (a) Even though provisions totalling Rs.12,005,000 comprising Rs.9,781,000 for 16 projects of rehabilitation and improvement of capital assets of which the work should be completed as at 31 December 2016 and Rs.2,224,000 for 9 items such as machineries, furniture, electrical and Domestic Appliances to be acquired in the year, that had been completely saved and action had not been taken to complete those activities even by 31 December 2016.
- (b) Even though provisions amounting to Rs.3,622,000 had been made for 03 Projects of rehabilitation and improvement of capital assets of which the work should be completed in the year under review , the savings out of that amounting to Rs.2,825,000 or ranged between 18 per cent to 64 per cent as at 31 December 2016. As such ,provisions amounting to Rs.2,160,000 had been provided for 04 fixed assets which to be acquired in the year under review ,out of that a savings amounting to Rs.1,853,000 as at 31 December 2016 or ranged between 12 per cent to 90 per cent. The Institution informed that the increase of the percentage of savings caused the delay of implementation of the Projects due to the delays caused to non- conduction of Senior Tender Board meetings in due time.

5. Accountability and Good Governance

5.1 Budgetary Control

Variances ranging from 30 per cent to 384 per cent between the budgeted and the actual income and the expenditure in 16 Objects for the year under review were observed, thus indicating that the budget had not been made use of as an effective instrument of management control .

6. Systems and Controls

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

Areas of Systems and Controls

Observations

(a) Accounting

The Ledger Account number and the remark had not been mentioned in the adjusting journal entries and the journal entries had not been approved.

(b) Revenue Control

Certain buildings of the Board had been rented out without entering a written Agreement, the rental Agreements entered into had not been updated, building rent had been invoiced and brought to account for the institutions which existed from rental buildings, action had not been taken to recover the arrears of rentals.