

Prisoners' Welfare Fund - 2017

The audit of financial statements of the Prisoners' Welfare Fund of the Department of Prisons for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of financial performance and the 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(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 7(1) of the Prisoners' Welfare Fund of the Department of Prisons Act, No.18 of 1973. The management audit report relevant to the fund was issued to the Commissioner General of Prison of the Department of prisons on 17 September 2018. My comments and observations which I consider should be published with the Annual Report of the Department of Prisons in terms of Section 7(2) of the Prisoners' Welfare Fund of the Department of Pensions Act, No.18 of 1973 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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund'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 Fund'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.

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 Audit Opinion

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

2. Financial Statements

2.2 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 Prisoners' Welfare Fund as at 31 December 2017 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

The following observations are made.

(a) **Sri Lanka Public Sector Accounting Standard 07**

- (i) When an asset is acquired on a non – exchange transaction, the fair value of that asset should be revealed as on the acquired date. However, cost of 43 donated assets items in three prisons had not been disclosed in the financial statements.
- (ii) When determining the useful lifetime of asset, the expected usage of the assets and expected capacity of asset should be considered. The expected usage had not been taken in to account for donated assets valued for Rs.1,424,252.

2.2.2 Accounting Policies

An Accounting policy had not been identified on an annual systematic basis of identification of the value of assets received as denotions, as income. As such, the carrying as denoted assets as at 31 December 2017 amounted to Rs.9,016,241. However, the balance in the Donations Assets Reserve Account had been a Rs.22,721,280.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Consumable goods costing Rs.64,650 received as donations to three prisons and consumable goods costing Rs.77,950 purchased by six prisons in the year under review had been brought to account as non – current assets. so such, non – current assets had over stated by Rs.142,600.

- (b) A sum of Rs.91,175 received during the year under review for previous year prisoners' labour income in five prisons had been consider as income of the year under review. Also, receivable prisoners labour income amounting to Rs.58,647 for the year under review had not been adjusted in the financial statements.
- (c) Donated assets received to the Magazine prison valued for Rs.70,000 had been accounted as Rs.7,000 during the year under reviewed. So such, donated assets were understated by Rs.63,000 in the financial statements.
- (d) Even though, the restated value of receivable for supply of prisoners labour in 2016 was Rs.1,028,800 and the carried forward balance for 2017 of the relevant ledger account was shown as Rs.1,036,800. So such, current assets were over stated by Rs.8,000.

2.2.4 Un-reconciled Control Accounts

The following observations are made.

- (a) Four prisons had confirmed that their income as Rs.599,560 for the year under review. But as per the financial statements, it shown as Rs.655,568 and a difference of Rs.56,008 was observed.
- (b) As per the financial statements, receipt for the year under review was Rs.1,516,647 but as per the account summary, the receipt was Rs.1,602,381 and a difference of Rs.85,734 is observed. In addition to that, expenses as per the financial statements was Rs.2,921,448 but as per the account summary, the expenses was Rs.2,987,839 and a difference of Rs. 66,391 was observed.

2.2.5 Lack of Documents for Audit

The evidence indicated against each item of accounts shown below had not been made available for audit.

| Details | Value | Evidence not made available |
|---|-----------|--------------------------------------|
| ----- | ----- | ----- |
| | Rs. | |
| (i) Accrued prisoners' labour income and advances | 9,340 | Balance confirmations of 02 prisons. |
| (ii) Donated assets | 2,220,016 | Verification reports of 16 prisons |

2.3 Non-compliances with Laws, Rules and Regulations

Action had not be taken in terms of Financial Regulation 104 of Democratic Socialist Republic of Sri Lanka relevant for damaged donated assets from internal riots of three prisons and destroyed donated assets from Tsunami disaster in Galle prison in 2004.

3. Financial Review

3.1 Financial Results

According to the Financial Statement Presented, the financial result of the Fund for the year under review had been a deficit of Rs.2,705,398 as compared with the corresponding deficit of Rs.3,238,425 for the preceding year, thus indicating an improvement in the financial result by Rs.533,027 in the year under review as compared with the preceding year. Increase in the income of the Fund by Rs.276,953 and the decrease in prisoners' welfare expenditure by Rs.214,937 as compared with the preceding year had mainly attributed to the above improvement.

4. Operating Review

4.1 Management Activities

The following observations are made.

- (a) Not in use, idle and fully depreciated sixty donated assets items in 11 prisons, cost for Rs.1,104,391 action had not been taken to remove from the books.
- (b) Action had not been taken in terms of financial regulation 104 (1) with regard to fifteen donated assets items valued for Rs.189,315 which had misplaced after relocating the Bogambara Prison in Dumbara Prison, Further, action had not been taken in terms of Finance Regulation 752 (4) regarding 05 donated assets items in Colombo prison valued Rs.46,500.

4.2 Operation Inefficiencies

Income of the Fund during the year under review was Rs.1,524,250 and attention had not been paid in using provision in terms of the Act to increase the income. Specially, no proper methodologies had been identified to increase the portion to be received to the fund from the net income from selling of entertainment items, increase the share of the fund from prisoner's wages, increasing the amount from supply of prisoners' labour to external entities, increasing public donations and maintaining canteen within the prisons. Also, action had not been taken to amend the prisoners' welfare fund of the Department of prisons Act, No.18 of 1973.

5. Accountability and Good Governance

5.1 Internal Audit

An internal audit had not been carried out on the functions and transactions of the Prisoners' Welfare Fund in terms of Financial Regulation 133 and 134 and attention had not been paid in to the internal audit plan to audit the functions and transaction of the prisoners' Welfare Fund.

5.2 Budgetary Control

Variances between the estimated expenditure and the actual expenditure relating to 09 prison institutions ranging from 26 per cent to 100 per cent and variances between the estimated receipts and actual receipts relating to 14 prison institutions ranging from 32 per cent to 100 per cent were observed, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

The deficiencies in systems and controls observed during the course of audit were brought to the notice of the Commissioner General of Prisons from time to time. Special attention is needed in respect of the following areas of control.

| Areas of Systems and Controls ----- | Observations ----- |
|---|---|
| (a) Accounting | Failure in adhering to Public Sector Accounting Standards and proper maintenance of accounts, books and registers. |
| (b) Fixed Assets | Failure in maintaining a Register of Fixed Assets, donated assets, differences in between verification reports and board of survey reports, valuing and accounting the fixed assets received as donations and failure in physical verification of assets. |