

## **Saumyamoorthi Thondaman Memorial Foundation – 2017**

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The audit of financial statements of the Saumyamoorthi Thondaman Memorial Foundation for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 11(2) of the Saumyamoorthi Thondaman Memorial Foundation Act, No. 19 of 2005. My comments and observations which I consider should be published with the Annual Report of the Foundation in terms of Section 14(2)(c) of the Finance Act appear in this report.

### **1.2 Responsibility of the Management for the Financial Statements**

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The 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 and fair presentation 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 judgements, 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 Foundation'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 Foundation'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. Subsections (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 the 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**

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My opinion is qualified based on the matters described in paragraphs 2.2 and 2.3 of this report.

### **2. Financial Statements**

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#### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 2:2 and 2.3 of this report, the financial statements give a true and fair view of the financial position of the Saumyamoorthi Thondaman Memorial Foundation 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 Emphasis on Matters**

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It had been decided to vest 04 Projects under the Foundation, the movable and immovable properties , and the functions therein including the permanent staff of the Saumyamoorthi Thondaman Memorial Foundation to the Ministry of Hill Country New Villages, Infrastructure and Community Development which was the relevant Line Ministry ,according to the Cabinet Decision No. අමුණ /16/1095/739/004 dated 21 June 2016 as mentioned in the letter No.CSA/1/31 dated 20 July 2016 of the Secretary to the President with immediate effect. Accordingly, as all expenditure of the Foundation are functioned by the relevant Line Ministry from 01 January 2017, the transactions of all the Current Accounts of the Foundation had been stopped. Similarly , a Board of Directors for the Foundation also had not been appointed from the year 2015. Due to the said reasons, the going concern of the Foundation was in an uncertain condition.

#### **2.3 Comments on Financial Statements**

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##### **2.3.1 Sri Lanka Public Sector Accounting Standards**

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The following observations are made.

##### **Sri Lanka Public Sector Accounting Standard 7**

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Although the property, plant and equipment should be revaluated once in 3 years or 5 years in terms of paragraph No.47 of Sri Lanka Public Sector Accounting Standard 7 , action had not been taken in respect of property, plant and equipment costing Rs.625,643,071 as at the end of the year under review. However, the movable and immovable properties of the Foundation should be vested to the relevant Ministry as mentioned above, it had been shown in the financial statements of the Foundation further more without being so done.

### **2.3.2 Accounting Policies**

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Even though the assets purchased by using Government grants amounted to Rs.360,962,513 shown in the financial statements are depreciated annually, the Foundation had not identified the policy for amortization of Capital grants and amortization had not been done.

### **2.3.3 Accounting Deficiencies**

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The following observations are made.

- (a) As the payment of salaries for the 4 projects of the Foundation and the staff of the Head Office is made by Line Ministry from January in the year under review, the festival advances amounted to Rs.1,415,800 and the staff loans amounted to Rs.122,396 paid by the Head Office of the Foundation and the other Projects had been deducted from the salaries of the staff by the Ministry. However, the relevant adjustments had not been made in the financial statements of the Foundation.
- (b) A sum of Rs.5,415,000 payable to the Internet Service Company for 96 instances out of 120 instances of V-SAT antenna maintenance service carried out from 16 December 2009 to 01 November 2013 in Prajashakthi Centres, had not been brought to accounts. According to the reply made relevant to this matter on 28 November 2018 by the Director (Finance) of the foundation to audit, it had been informed that, it was not included in the financial statements as the payment of this money is suspended by the Line Ministry.

### **2.4 Accounts Receivable and Payable**

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The following observations are made.

- (a) The two parties had entered into an agreement to recover the sum amounted to Rs.3,092,687 spent by the Foundation for the renovation of the building which the Lanka Labour Congress is functioned, by 60 monthly instalments each Rs.51,545 from December 2012. However, a sum amounting to Rs.2,457,239 receivable was remained by the end of the year.
- (b) An advance amounting to Rs.541,840 received on 23 April 2014 to a private institution for the establishment of a computer data system for the supervision of the activities of the Prajashakthi Development Project, had not been settled even by the end of the year under review.
- (c) Action had not been taken to recover or settle 08 advances and debtors balances amounting to Rs.13,698,356 and 37 creditors and balances payable amounting to Rs.16,731,700 brought forward from a period more than 04 years.

- (d) Action had not been taken to recover back the advances aggregating Rs.177,680 as a sum amounting to Rs.96,780 granted for the Prajashakthi Project shown under cash in hand in the financial statements and a sum amounting to Rs.80,900 granted for the sports complex at Norwood , even by 30 September 2018, the date of audit.
- (e) Even though according to the financial statements presented at the end of the year under review ,it had been informed that a sum of Rs.63,446,471 should be reimbursed to the Foundation from the Line Ministry existed then relating to the year 2015 and previous years , the accounts of the relevant Line Ministry had not been disclosed that so as to reimburse such amount to the Foundation.
- (f) Cement block machines , sports goods and Pooja goods ,computers and various instruments at a cost of Rs.72,726,994 had been purchased from a Government Company in the year 2014 based on the settlement of the amount within one month from the date of purchase. However, the Foundation had not paid the said money to the relevant Company even by the end of the year 2017. According to the letter dated 6 April 2015 of the relevant Company , the said value had been shown as Rs.73,709,130.

## 2.5 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with Laws, Rules, Regulations and Management Decisions are observed as follows.

<b>Reference to Laws, Rules and Regulations</b> -----	<b>Non-compliance</b> -----
(a) Financial Regulation 371(2)	Even though a Sub-imprest granted should be settled immediately after the completion of the purpose, an advance amounting to Rs.523,000 remaining prior to the year 2014 which had been granted to an officer of the Foundation, had not been settled even at the end of the year under review.
(b) Treasury Circular No.IAI/2002/02 dated 28 November 2002	A Register of Fixed Assets had not been maintained relating to computers ,accessories.
(c) Section 10(4) of the Saumya Moorthi Thondaman Memorial Foundation No.19 of 2005.	The Foundation should incurred the whole amount of money required for incurring such expenditure in the implementation of the respective powers and functions from the income earned by the Fund . However, the funds required for the expenditure up to the year 2016 had been received from the Ministry without being revised the said Sections.

- (d) Paragraphs 10(1) and (2) of the Paragraph 11 of the amended Act, No.26 of 1981 of the Employee Provident Fund. The employee and employer contribution amounting to Rs.4,205,283 to be remitted to the Provident Fund for the period from the year 2012 to 2013 had not been remitted to the Employee Provident Fund.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Foundation for the year under review had been a deficit of Rs.29,644,908 as compared with the deficit of Rs.32,380,913 for the preceding year thus showing an increase by Rs.2,736,005 in the financial result for the year under review as compared with the preceding year. Decrease of expenses by Rs.101,837,042 and the government grants by Rs.96,593,718 due to failure to carry out operating activities during the year under review had mainly attributed to the above increase.

### **4. Operating Review**

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#### **4.1 Performance**

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##### **4.1.1 Planning**

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The Saumyamoorthi Thondaman Foundation had not prepared an Action Plan for the year under review.

#### **4.2 Uneconomic Transactions**

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The following observations are made.

- (a) A Mitshubishi Double Cab vehicle valued at Rs.5,840,000 had been purchased from a private Company on 25 November 2014 on lease basis by paying an initial payment of Rs.1,000,000 and payment of 60 monthly instalments basis for the use of the Cultural Centre at Ramboda. Action had not been taken to obtain the approval from the Line Ministry and the Secretary to the General Treasury as per the provisions of Treasury Circular 150 dated 07 December 2010. The sum amounted to Rs.1,565,000 paid for that purpose had been an uneconomic transaction due to the vehicle had been vested to the leasing company by November 2015 on failure to pay the instalments properly.

- (b) The recruitment procedure prepared by an external consultant incurring an expense amounting to Rs.150,000 by the Foundation in the year 2013, had not been approved even by the end of the year 2017. However, the said expenditure had become an uneconomic transaction due to the staff of the Foundation handed over to the Ministry.

#### **4.3 Management Activities**

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The following observations are made.

- (a) Preparation of title deeds for lands and buildings which had been vested to the Foundation according to the Section 10(2) of the Act, No.19 of 2005 of the establishment of the Foundation, had not been carried out even by 31 December 2017.
- (b) Action had not been taken to vest the ownership of 44 Prajashakthi Centres operated by the Foundation and a sum of Rs.2,359,298 had been incurred for the surveys of lands in the year 2012 for the construction of 35 another Prajashakthi Centres. However, the aforesaid lands had not been acquired to the Foundation even by the end of the year under review.
- (c) The Ministry had granted a sum of Rs.20,484,000 for field coordination functions in the selected areas under the Prajashakthi Project from the year 2010 to April 2013. That money had been paid to 90 officers who had not been issued letters of appointments without assignment of specific duties and without ensuring the actual duties performed by them.

#### **4.4 Apparent Irregularities**

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As a result of management weaknesses in respect of the field coordinating activities, the project manager and the project coordinator of the Foundation, the coordinating allowances had been credited fraudulently to the project manager's private bank account for the period from April 2011 to April 2013 by producing spurious names. Subsequent to an investigation carried out in that regard, they had agreed to pay back the money amounted to Rs.4,252,500 but only a sum of Rs.1,050,000 had been recovered by 31 May 2013 and the balance of Rs.3,202,500 had not been recovered even by 31 December 2017. As a result of that, it had been failed to make provisions to the Ministry also. According to the reply made by the Director (Finance) of the Foundation dated 28 November 2018 to the audit, it is informed that cases has been filed for the recovery of those money.

## **4.5 Procurement and Contract Procedure**

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### **4.5.1 Delayed Projects**

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The constructions of the Thondaman Cultural Centre which had been agreed within the period from 2010 to 2012 the agreed cost amounted to Rs.72,818,294 ,had been stopped by the year under review after incurring of the value of work done amounting to Rs.25,675,995. In addition to that, a sum amounting to Rs.7,544,265 as unsettled advances and a sum amounting to Rs.1,985,942 as payable to the contractor had been shown in the financial statements relating to the said Project.

## **4.6 Idle or Underutilized Assets**

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The following observations are made.

- (a) It was observed that a stock of souvenir plates valued at Rs.398,989 shown under current assets in the financial statements presented for the year under review had been idle without being distributed for a long time.
- (b) Out of the 44 cement block machines purchased on 01 December 2014 for Rs.4,048,000 under the Self- Employment Loan Project to be given to the Prajashakthi Centres , only 10 block machines had been given for Prajashakthi Centres and self- employees by 05 September 2018 , the date of audit. Accordingly, 34 block machines valued at Rs.3,128,000 were remained idle.
- (c) Eight kovil bells out of 15 , 309 brass puja lamps out of 377, in part of the set of sports equipment out of 194 which had been purchased at Rs.2,794,368 in the year 2014 for the distribution of as donations had been stored in the Thondaman Sports Complex even by the end of the under review without being distributed.
- (d) As all expenses of the Foundation made by the Ministry, a sum of Rs.915,415 maintained in the Bank Current Accounts of the Head Office and the Projects of the Foundation was remained idle from February 2017 to September 2018, the date of audit.

## **5. Accountability and Good Governance**

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### **5.1 Presentation of Financial Statements**

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In terms of paragraph 6.5.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the financial statements should be presented to the Auditor General within 60 days after the closure of the financial year. Nevertheless, the Foundation had presented the financial statements for the year 2017 to the Auditor General on 25 September 2018.

## 5.2

### **Tabling the Annual Reports in Parliament**

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In terms of paragraph 6.5.3 of the Public Enterprises Circular No.PED/12 of 02 June 2003 ,the annual reports should be tabled in parliament. Nevertheless ,the annual reports had not been tabled from the year of establishment of the Foundation in 2005.