

Superior Courts Complex Board of Management – 2017

The audit of financial statements of the Superior Courts Complex Board of Management for the year ended 31 December 2017 comprising the balance sheet as at 31 December 2017 and the income and expenditure statement, 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 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. A detailed report in terms of 13(7) (a) of the Finance Act was issued to the Marshal of the Board on 12 October 2018.

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.

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 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 Accounting Deficiencies

The following observations are made.

- (a) Expenditure on maintenance of elevators relating to the preceding year amounting to Rs.851,443 had been brought to account as an expenditure of the year under review, thus understating the surplus of the year under review by that value.
- (b) A sum totalling Rs.2,220,000 had been brought to account as building rent relating to two institutions for buildings not rented out for the year under review.
- (c) The income from rent amounting to Rs.2,375,000 relating to the years 2015 and 2016 for the building rented out to the Children High Court had been brought to account as an income of the year under review, thus overstating the surplus by that amount.
- (d) Even though a sum of Rs.17.30 million had been received as capital grants in the year under review from the Treasury, it had been brought to account as Rs. 16.30 million in the financial statements of the Board.

2.2.2 Unexplained Differences

The balance of Rs.301,800 payable in the year under review had been confirmed as Rs.466,054 by the relevant creditor, thus observing a difference of Rs.164,254.

2.3 Accounts Receivable and Payable

Out of the sundry debtors balance totalling Rs.15,378,215 as at 31 December 2017, a sum of Rs.11,136,325 representing 72 per cent remained unrecoverable for over a period of one year.

2.4 Non-compliances with Laws, Rules, Regulations and Management Decisions

Non-compliances with the following Laws, Rules and Regulations were observed in Audit.

Reference to Laws, Rules, Regulations etc.	Non-compliance
-----	-----
(a) Paragraph 19 of Sri Lanka Public Sector Accounting Standard 01 and Public Enterprises Circular No. PED 45 of 02 October 2007	A statement that the responsibility of preparation and presentation of the financial statements will be taken by the Management had not been presented along with the financial statements.
(b) Financial Regulation 625 (1) (b) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Goods valued at Rs.7,970,000 imported by paying customs duty in the year 2016 by the Project on Maintenance of the Supreme Court Complex under aid of the Government of China, had not been posted in the Inventory.
(c) Finance and Planning Ministry Circular No. MOFP/ERD/2007/2 dated 01 August 2007 and State Accounts Circular No.30/94 of 20 April 1994	Even though duly certified annual accounts of all foreign funded projects implemented by institutions under the purview of the Ministry, should be submitted before 31 March of the ensuing financial year, the accounts of the Superior Courts Complex Maintenance Project funded by the Government of China by spending 22,180,000 Yuan, had not been submitted.

2.5 Transactions not supported by Adequate Authority

According to information presented to Audit, adjustments relating to the preceding year had been made through 14 Journal entries. However, obtaining proper approval of the Board of Management therefor, had not been confirmed in Audit.

3. Financial Review

3.1 Financial Result

The financial result of the Board for the year under review was a surplus of Rs.13,738,357 as compared with the corresponding surplus of Rs.17,667,347, thus indicating a decline of Rs.3,928,990 in the financial result of the year under review as compared with the preceding year. The increase in expenditure on staff, depreciation on fixed assets and amortization and other operations by Rs.1,728,259, Rs.1,043,995 and Rs.624,060 respectively had been the main reason for the above decline in the financial result.

In analyzing the financial results of the year under review and 04 preceding years, the deficit of Rs.18,392,274 in the year 2013 reflects a surplus since the year 2014 while it had been Rs.13,738,357 in the year 2017. In considering the employees remunerations and tax paid to Government, the contribution in the year 2013 had been Rs.32,429,080 and it had continuously taken a positive value with fluctuations and it had taken a positive value of Rs.91,318,242 even by the end of the year under review.

4. Operating Review

4.1 Performance

4.1.1 Function and Review

According to the Action Plan prepared for the year under review, observations on performance are as follows.

Annual provisions of Rs.13 million had been made for seven projects on purchase of machinery and equipment during the year under review and an expenditure of Rs.2.4 million had been incurred for two projects. No physical and financial performance whatsoever had been indicated in the remaining 05 projects while a sum of Rs.8.75 million had been spent extraneous to the projects planned in the year under review.

4.2 Staff Administration

The following observations are made.

- (a) The approved cadre of the Board as at 31 December 2017 stood at 177 while the actual cadre as at that date stood at 152. Accordingly, action had not been taken to fill the vacancies of 25 posts.
- (b) An outstanding sum of Rs.191,919 had been recoverable as at 31 December 2017 out of salaries overpaid and advances granted to an officer. However, it had been decided at the meeting of the Board of Management held on 16 November 2017 to pay the gratuity of Rs.90,425 and the surcharge of Rs.18,085 relating thereto without taking action to recover the said outstanding amount.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

Every Government institution should act in terms of “Year 2030 Agenda” of the United Nations on sustainable development and the Superior Courts Complex Board of Management had been aware of the manner in performing the functions that come under its scope relating to the year under review and as such, the Board had identified the goals to be achieved according to its scope.

6. Accountability and Good Governance

6.1 Presentation of Financial Statements

In terms of Section 6.5.1 of Public Enterprises Circular No. PED/12 dated 02 June 2003, the Draft Annual Report should be presented to the Auditor General along with the financial statements within 60 days after the closure of the year of accounts. However, the financial statements of the year under review had been presented on 12 June 2018.

6.2 Internal Audit

The Board had not established an Internal Audit Unit and an internal audit had not been carried out relating to the year under review even by the Internal Audit Unit of the Ministry of Justice.

6.3 Budgetary Control

Variances relating to 17 Objects ranging from 34 per cent to 120 per cent were observed for the year under review between the budgeted and the actual expenditure, thus observing that the budget had not been made use of as an effective instrument of management control.

7. Systems and Controls

Weaknesses 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

Revenue Administration

Observations

Renting out certain buildings of the Board without entering into written agreements, failure in updating the lease agreements, invoicing and accounting the building rents for the institutions which had removed from rented buildings and failure in taking action to recover outstanding rents.