

Rehabilitation of Persons, Properties and Industries Authority - 2017

The audit of financial statements of the Rehabilitation of Persons, Properties and Industries Authority 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 8 (2) of the Rehabilitation of Persons, Properties and Industries Act, No. 29 of 1987. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2)(c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7)(a) of the Finance Act had been issued to the Chairman of the Authority on 20 June 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 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 Authority'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 Authority'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.

1.4 Basis for Adverse Opinion

Had the matters describe in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial statements

2.1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, financial statements do not give a true and fair view of the financial position of the Rehabilitation of Persons, Properties and Industries Authority 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 – 02

- (i) Although when preparing the cash flow statement on cash basis, only the cash payments done for the employees should be adjusted under operational activities in accordance with the paragraph 22(g) of the standard, a non-monetary item of employees' salary deductions amounting to Rs.3,959,498 had been shown under operational activities.

(b) Sri Lanka Public Sector Accounting Standard – 03

The following observations are made.

- (i) Although the Authority had accounted an investment of Rs.26,650,000 and interest on investment of 11 years amounting to Rs.7,328,750 in the statement of Financial Position and the statement of Financial Performance which was transferred from Resettlement and Rehabilitation Authority of the North in year 2008, had not been corrected retrospectively in accordance with the paragraph 47(b) of the standard No 03 and had not been disclosed in accordance with the paragraph 54(a)(b)(c) of the standard.
- (ii) Current liabilities had been understated by Rs.177,806 in the financial statements of previous year and the said liabilities had been adjusted to the cumulated fund without correcting retrospectively in accordance with the paragraph 47(b) of the standard.

2.2.2 Accounting Policies

Though the bad debts provision had been identified as 20 per cent on debtors in the previous year, as the policy had been revised to write off debtors within 05 years in the year under review, it was observed that the debtors balance as at 31 December 2017 would be a zero balance as at 31 December 2018.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Though there was a balance of Rs.119,765,426 as at 31 December 2017 in the savings account at a state bank which is maintaining by the Authority since 2013, had not been shown in the prepared statement of Financial Position as at 31 December 2017.
- (b) Though a motor vehicle which received as a treasury grant in year 2011 had been revaluated for Rs.4,500,000, as amortized based on the cost of Rs. 4,950,000 since year 2014, surplus of the year under review and cumulated fund had been overstated by Rs.112,500 and Rs.225,000 respectively.
- (c) 03 vehicles amounting to Rs.6,835,384 which received as a capital grant from the treasury had been debited by Rs.3,021,483 of unidentified and incorrect amount through a journal entry under accounting of amortization.

2.2.4 Lack of Evidence for Audit

Since the physical verification reports for Property, Plant and Equipment comprising 5 classes costing Rs.4,354,910 and information related to it shown as disposed air conditioners amounting to Rs.1,378,725 in the financial statements had not been presented to the audit, owing to that vouching or acceptance could not be satisfactorily done in audit.

2.2.5 Unexplained Differences

The following observations are made.

- (a) As per the letter No TOD/REV/MI/2017/03 and dated 20 July 2017 of the Director, Treasury Operations, amount of Rs.871,603,586 received in the year under review to the Authority under the scheme of consolidated debt proposal had been shown as Rs.738,544,380 under non current liabilities in the financial statements, as a result it was observed an difference of Rs.133,059,206.
- (b) According to the information presented by the Authority, the total loans released by the Bank of Ceylon for housing, self-employment and industries loans amounted to Rs.737,140,000. However, according to the bank confirmations it had been Rs.610,390,000 and as such the difference was Rs.126,750,000. But reasons for that difference were not explained.

- (c) There was a difference of Rs.120,088,958 between the cash book bank balance shown in the financial statements and the amount shown as the bank balance as per the cash book in the bank reconciliation statement prepared as at that date related to a current account maintaining by the Authority in a state bank as at 31 December 2017.

2.3 Accounts Receivable

Action had not been taken to recover the receivables totaling Rs.558,546 as at 31 December of the year under review as insurance indemnities, insurance charges, security deposits and staff loans since the period from 01 to 10 years.

2.4 Transactions not supported by adequately Authority

Without obtaining the approval of the Treasury, a savings account in a state bank had been opened on 12 June 2013 and operated. A cash book for the transactions of this account had not been maintained. The Bank had been instructed that the balance money of the current account maintained to credit the funds received by the Authority to be credited to that bank savings account, leaving a balance of Rs.1,000,000 in that account as at the end of every day. The values of cheques issued from the current account but not presented for payments had been so transferred daily to this savings account. Accordingly, the balance of the savings account as at 31 December 2017 amounting to Rs.119,765,426, had not been reflected in the statement of financial position of the Authority as at that date. However, only the interest income received for this savings account had been brought to accounts as income of the Authority through the current account and the total interest income so earned during the period 12 June 2013 to 31 December 2017 amounted to Rs.15,652,460. That interest income had been spent for the operational activities of the Authority without any authority.

2.5 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

- (a) Establishment code of the Democratic Socialist Republic of Sri Lanka.

Chapter II – Paragraph 13.3

Non-compliance

Though an acting appointment should be done only as a temporary solution till a permanent appointment made, an assistant of rehabilitation had been appointed in the post of assistant director since 12 August 2014 and a payment of Rs.260,535 had been done for that.

(b) Government Procurement Guidelines
No 09 of 2006.

2.8.1(b),6.3(a),6.3.1,6.3.6

Though an amount of Rs.219,205 had been expended for the making of record room, a board approval had not been taken for that and all the functions related to the procurement, calling for prices, appointment of Technical Evaluation Committee, receiving of prices, awarding of contract and payment of advance had been done in a same day.

(c) Public Enterprises Circular No.3/2015
of 17 June 2015

Section 2.8

Though the approval from the minister of finance on the consent of relevant secretary of Ministry should have been taken to do other special payments for an officer who entitled for a monthly allowance as per the circular, holiday payment of Rs.232,000 had been paid only with the approval of the secretary of ministry from year 2015 to February 2018 for an officer who entitled for a monthly allowance.

(d) National Budget Circular No.01/2016
of 17 March 2016 and section 2.14.1
of Procurement Guideline

(i) When the procurement doing for an operational lease of Rs.12 million with a monthly rental of Rs.200,000 in 60 months, the decision should have been taken under Ministry Procurement Committee, but an agreement had been done by the Department Procurement Committee under their approved Authority levels of purchasing by reducing the number of rentals to 48 months and limiting the procurement value to Rs.9.6 million.

(ii) It was observed that the objectives in the 1.2 of the procurement guideline had not been fulfilled, due to an agreement had been done with an agent of an institute which submitted a bid and bidding documents had been issued for an institute which does not supply motor vehicles under operational lease on direct.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Authority for the year ended 31 December 2017 had been a surplus of Rs.4,384,048 as compared with the deficit of Rs.4,914,480 for the preceding year and as such the surplus for the year under review had increased by Rs.9,298,528 as compared with the preceding year. The inclusion of interest income of 11 years amounting to Rs.7,328,750 at the same time and the decrease of expenses on rehabilitation of villages by Rs.51,000,000 had mainly attributed to this.

In analyzing the financial result of the year under review and the preceding 4 years, the financial result had been a surplus of Rs.7,418,327 only in the year 2013 and the financial results for the years 2014, 2015 and 2016 had been the deficits and again a surplus in 2017. After adjusting the employees remuneration, taxes to the Government and depreciation on non-current assets the contributions in the years 2014 and 2015 had been the unfavourable values. However, a contribution of Rs.4,954,500 and Rs.59,436,326 had been achieved in the years of 2016 and 2017 respectively.

4. Operating Review

4.1 Performance

4.1.1 Activity and Review

A program for the improvement of infrastructure facilities in the villages which was already executed by the Line Ministry of Rehabilitation and Prisons Reforms, Resettlement, Hindu Religious and Cultural Affairs belonged to the Authority, which could not be recognized under the above key functions had been implemented during the year under review and a sum of Rs.59,150,000 had been spent thereon, without the approval of the Cabinet of Ministers.

4.2 Management Activities

Following observations are made.

- (a) Though a decision had been given by the board of directors to pay Rs.7,500 monthly for 02 permanent officers in the post of rehabilitation assistant for doing information and communication technology works till having the approval from Management Services Department for the post of system administrator, actions had not been taken to get approvals for posts and allowance of Rs.210,000 had been paid from October 2016 to December 2017.

- (b) Though a decision had been taken at the meeting of Board of Directors held on 24 October 2017 to auction the motor vehicle which revaluated for Rs.1,250,000 in 2017 lastly and purchased in 1993 by the Authority, only the assessment had been done by the date of audit, 25 April 2018.
- (c) Under the Memorandum of Understanding had between the Resettlement and Rehabilitation Authority of the North (RRAN) which established for giving loans to the small and medium scale industries, entrepreneurs and minor businessmen who affected by the ethnic crisis and its related activities and the state bank, according to the liquidation of that authority, after having the transfer to the Rehabilitation Authority in 2008, any amount had not been recovered to the Authority and the interest income of Rs.7,995,000 and primary amount of Rs.26,650,000 had not been recovered by the Authority.
- (d) A commercial loan of Rs,4,375,312 given by the Authority in 1983 failed to recover that loan since long period due to lack of sufficient information not belongs with the Authority.

4.3. Operating Activities

A training programme for trainers of self-employment had been held by expending Rs.850,245 and only 37 per cent of self-employment trainers had participated for the programme.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

Following observations are made.

- (a) According to the United Nations year 2030 on Sustainable Development, every Public entity should act in accordance with its agenda, and the Institute was not aware how it would perform its functions within the scope relating to the year under review.
- (b) Therefore , the Authority had not evolved relating to identifying of sustainable objectives and goals, index to measure the said objectives and goals, required human and physical resources, interested parties related to reaching of sustainable development objectives and goals, base data and storing of data for identified objectives and goals

6. Accountability and Good Governance

6.1 Internal Audit

Though an Internal audit should be carried out in terms of Financial Regulations 133 and 134 action had not been taken to carry out an internal audit for the year under review and even audit programmes had not been presented in accordance with the section 13(5)d) of the Finance Act.

6.2 Budgetary Control

Variations ranging from 100 per cent to 111 per cent were in comparing the budgeted expenditure with actual expenditure were observed and as such the Budget had not been made use of as an effective instrument of management control.

6.2 unresolved Audit Paragraphs

Following observations are made.

- (a) Main cash book balance amounting to Rs.44,097,766 as at 01 March 2016 had been reduced to Rs.13,758,661 which maintained by the Authority and the cash book balance as at 31 December 2016 had been shown by reducing Rs.30,339,105.
- (b) Though an amount of Rs.126,034,592 had been included as a subtraction from the cash book balance as at 31 December 2016 in the statement of bank reconciliation which was prepared for the current account relevant to the cash book for the month ended 31 December 2016 by the Authority, related information had not been presented to the audit.

7. Systems and Controls

Weaknesses in systems and controls were brought to the attention of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of control.

Area of System and Control	Observations
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(a) Accounting	Classification of expenditure and book keeping not appropriately carried out and cash flow statement and bank reconciliations had not been prepared correctly.
(b) Expenditure Management	Work had been done priority to welfare activities deviating from the primary objective.
(c) Operating Activities	The percentage of the trainees at the self-employment training centers which established by expending Rs.850,295 was a small amount as 37 per cent.