

Sri Lanka Accounting and Auditing Standards Monitoring Board – 2018

Opinion

The audit of the financial statements of the Sri Lanka Accounting and Auditing Standards Monitoring Board (“Board”) for the year ended 31 December 2018 comprising the statement of financial positions at 31 December 2018 and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Board as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.1 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my unqualified opinion.

1.2 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Board is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Board.

1.3 Auditors Responsibilities for the Audit of the Financial Statement

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a

basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Board, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board;
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.4 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Sri Lanka Accounting and Auditing Standard Act No 15 of 1995 - Section 12 (1) (b) (v)	Even though a representative to the Board should be selected from a panel from the names submitted by the Federation of Chamber of Commerce and Industry of Sri Lanka, the aforesaid representative was not yet appointed since the non-submission of names to the panel by the Federation.	The representative from the Federation of Chambers of Commerce and Industry of Sri Lanka was not appointed by the Ministry as the Ministry had not received their nominations.	The Board should comply with the provisions in Sri Lanka Accounting and Auditing Standard Act No 15 of 1995.
(b)	Sri Lanka Accounting and Auditing Standard Act No 15 of 1995 - Section 12 (1)	Even though a person should be selected to the Board from a panel of three persons nominated by the University Grants Commission (UGC)	The representative from the University Grants Commission (UGC) had not been appointed by the Ministry since the Ministry had not	The Board should comply with the provisions in Sri Lanka Accounting and Auditing Standard Act No

- (b) (vii) established by the received nominations 15 of 1995. Universities Act, No. 16 from the UGC during of 1978, to represent the 2015-2019. Departments Faculties and Postgraduate Institutes of Accounts or Business Management or Business Administration in Universities coming within its purview, the aforesaid representative has not been appointed.
- (c) Circular No. PED/12 - Public Enterprises Guidelines for good governance - Paragraph 9.6 The formal performance appraisal system had not been introduced. The Performance appraisal Form has been going through many revisions and changes accommodating the suggestions and amendments specified by the Board. The Board should comply with the relevant circular.
- (d) Circular No. PED/12 - Public Enterprises Guidelines for good governance - Paragraph 9.14 A manual of procedures had not been approved by the Board even up to the date of audit. The said Manual of Procedures is to be submitted to the next Board Meeting for approval of the Board prior to submitting to the Ministry. The Board should comply with the relevant circular.
- (e) Public Finance Circular No. 01/2014 - paragraph 4 An annual action plan for the year 2018 had not been prepared by the Board in accordance with The documents relating to Annual Action Plan for the year 2018 as per the terms of Paragraph 4 The Board should comply with the relevant circular.

the circular instructions. of Public Finance Circular No. 01/2014 are submitted on 30 May 2019.

2. **Financial Review**

2.1 **Financial Result**

According to the financial statements presented, the Government grants was the main income source of the Board and it had increased by Rs. 7,285,819 or 08 percent during the year under review as compared with the preceding year. However expenses on International Memberships and Training & Development in the year under review had significantly increased by 46 percent and 144 percent respectively as compared with previous year.

3. **Operational Review**

3.1 **Management Inefficiencies**

Audit Issue	Management Comment	Recommendation
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(a) The Board had entered into a rent agreement with the Ceylon Bible House to utilize the first floor as an office for the period of four years with effect from 01 July 2017 and paid Rs. 4,149,492 as the rent for the year under review. However, it was observed that the Board was unable to utilize that floor area for the intended purpose, and the commencement of construction of internal	As SLAASMB had the intention of recruiting additional staff to monitor compliance with Public Sector Accounting Standards, SLAASMB was searching for additional floor space in proximity to the existing office to accommodate additional staff. During the early months of the year 2017, the process leading	The expenditure should be incurred in economical and efficient manner.

partitioning was not yet started. to internal partitioning work of the 1st floor had been deferred due to some interruptions encountered with pile driving for construction of a high rise building in the adjoining land.

- (b) Though a Memorandum of Understanding was signed between Sri Lanka Accounting and Auditing Standards Monitoring Board and Information and Communication Technology Agency of Sri Lanka on 03 June 2016 for study, design, development and implementation of a Management Information System (MIS) for the Board, it was not yet implemented.
- When the project was about to be awarded, ICTA informed of their withdrawal from the service stating their inability to continue due to the budget constraints of the ICTA.
- A formal Management Information System should be implemented.

3.2 Operational Inefficiencies

According to Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the main function of the Board is to monitor the compliance with Sri Lanka Accounting Standard and Auditing Standards by the specified Business Enterprises (SBEs). The following observations are made in this regard.

Audit Issue	Management Comment	Recommendation
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(a) An appropriate mechanism had not been introduced or implemented by the Board for identifying SBEs.	After the new Companies Act No. 07 of 2007 coming into effect, the financial information relating to private entities could not be obtained from the Registrar of Companies since such private companies were not required to file their accounts. So obtaining information through the Registrar of Companies is not possible.	An appropriate mechanism should be introduced.
(b) The Board had entered into an agreement with a private party to provide information requested by us with related to the financial statement from 2014 to 2018 at an agreed fee of Rs. 75,000 + VAT and reimbursement of actual expenses. Even though the details were submitted on 09 May 2019, it was not up to the expected level. It was observed that the necessary information related to the main operations were not available in the Board for review purposes.	Since SLAASMB does not have the said information accessible through an automated system, such information is required to be obtained by manually going through the files.	The Board should maintain the information regarding the main operation for quick access.

- (c) Follow-up actions relating to some SBEs had not been taken by the Board on the findings which has already been communicated with those SBEs. The compliance to such observations is merely at their will and the feedback form was introduced to encourage the entities to respond as an indirect measure to induce them to improve compliance but the responding by SBE's to the said feedback form too is not mandatory. The follow up actions should be taken by the Board.

3.3 Human Resources Management

Audit Issue	Management Comment	Recommendation
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(a) There were 11 vacancies in the Board as at 31 March 2019 and out of which 08 vacancies were in senior level.	Department of Management Services, has recommended to obtain Cabinet approval to recruit a Director General at a higher salary. The Scheme of Recruitment is pending with the Department of Management Services for approval.	The vacancies should be filled or cadre should be revised.
(b) Further the post of Director General of Board has been vacant from 24 April 2019.	A suitable candidate could not be attached with the existing salary scale for that post because it is far below than the market salary for the technically competent senior Chartered Accountants.	The post of Director General should be filled as soon as possible.
(c) Recruitments had been made on contract basis for 04 senior positions	Due to the inability to attached technically competent senior Chartered Accountants with required years of	The approval should be taken for the recruitments on contract basis.

within the approved experience within the salary scale permanent cadre of the approved for these positions under the Board. permanent cadre.

- (d) The Board had paid higher remuneration and extra benefits to the two employees who were recruited on contract basis which is contrary to the approval given by the Department of Management Service. The positions of Director General and Deputy Director General were filled on contract basis purely due to the inability to attached technically competent senior Chartered Accountants with required years of experience within the salary scale approved for these positions under the permanent cadre. The approval should be taken for the payment of remuneration and other benefit.