

## **Current Rehabilitation of Persons, Properties and Industries Authority – 2018**

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### **1.1 Adverse Opinion**

The audit of the financial statements of the Current Rehabilitation of Persons, Properties and Industries Authority (to be the successor as Office for Reparations) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity 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(3) 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. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, because of the significance of the matters discussed in the basis for adverse opinion section of my report, the financial statements do not give a true and fair view of the financial position of the Authority as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.2 Basis for Adverse Opinion**

In my opinion, because of the significance of the matters described in paragraph 1.5 of this report, the financial statements do not give a true and fair view.

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 adverse opinion.

### **1.3 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 determines 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 Authority'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 intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

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

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Authority 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 Authority.

#### **1.4 Scope of Audit**

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 audit 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 scepticism 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 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 Authority'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 Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit 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 audit report. However, future events or conditions may cause the Fund 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 Fund and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Authority;
- Whether the Authority has performed according to its powers, functions and duties; and
- Whether the resources of the Authority had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

### 1.5.1 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(i) Even though the value to be depreciated relating to 03 motor vehicles as at 31 December 2018 amounted to Rs.420,703 , it was shown as Rs.239,059 in the note on non-current assets presented by notes 1-12 of the financial statements. However, reasons for the said difference were not explained to Audit.	I inform that the relevant depreciations have been computed on the balances of assets brought forward from preceding years.	Correct values should be brought to account.
(b) Provision for doubtful debt of hundred percent had been made as at the end of the year under review in respect of a loan balance totalling Rs.4,375,312 recoverable from the year 2015 without introducing a formal accounting policy.	Provision for doubtful debt has been made due to any possible risk. However, action was being taken to recover these loans.	Formal accounting policy should be introduced and revised.

### 1.5.3 Unauthorized Transactions

<b>Description of Unauthorized Transactions</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
A Savings Account had been opened and maintained in a State bank from 12 June 2013 without obtaining the treasury approval. A sum of Rs.1,368,152,204 deposited in the said savings account during the year under review and a sum of Rs.1,258,743,823 withdrawn from the savings account had not been recorded in the Cash Book. Accordingly, the balance of Rs.239,021,499 in the savings account as at 31 December 2018 was not reflected in the statement of financial position of the Authority.	According to Section 2.8.2 on page 39 of the final account, the approval required to utilize the interest earned by the savings account for the operating activities of the institution has been obtained through the Secretary to the Ministry at the opening savings account. The balance of this savings account as at 31 December 2018 could not be disclosed in the set of accounts by mistake. I assure that such shortcomings will be rectified in due course.	Financial transactions should be entered into with formal authority and all assets should be shown in the financial statements in a transparent manner and in compliance with accounting principles.

### 1.5.4 Lack of Evidence for Audit

<b>Item</b>	<b>Amount Rs.</b>	<b>Evidence not made available</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Property and Equipment	20,987,891	Schedules of 05 categories of assets included in the statement of financial position.	Schedules are submitted.	Detailed schedules should be submitted so as to identify the assets separately.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(i) The Authority had not taken follow up action to recover a loan balance of Rs.4,375,312 not recovered since the year 2015 out of the loans granted at Rs.200,000 each under business loan scheme implemented by the Bank of	This loan scheme was planned to grant a sum of Rs.200,000 per business unit damaged while Rs.4.8 million had been released in respect of 24 damaged	Granting and recovery of loans should be done properly.

Ceylon. Further, loans totalling Rs.11,556,226 had been granted to 41 beneficiaries exceeding the limit of Rs.200,000 including a loan of Rs.4,800,000 granted to one beneficiary under this loan scheme.

stalls of one person. I inform that action is being taken to recover the said loan.

- (ii) Out of a sum of Rs.128,000,000 invested in 14 instances during the period 1990-1995 in a loan scheme implemented by the National Housing Development Authority, the value of investment recoverable to the Authority as at 01 January 2018 had been Rs.94,715,000. Out of that, a sum of Rs.12,000,000 had been received to the Authority in 12 instances during the year under review. Nevertheless, the interest on this investment at 1.5 per cent had not been received in terms of the Agreement. According to computations, the interest pertaining to the year under review amounting to Rs.1,337,259 approximately had not been brought to account as accrued income and it had not been disclosed in the financial statements as well.
- The Committee on Public Accounts has directed to write off the interest receivable at that time and to recover only the invested money. Subsequently, it has been agreed to grant a sum of Rs.1,000,000 per month on the possibility of repaying and the relevant amount is being recovered up to now.
- Balances receivable should be properly recovered and brought to account .
- (iii) Loan balances amounting to Rs.1,157,346 outstanding for a period of 3-10 years and recoverable from two officers who have vacated the post and interdicted had not been recovered even by 16 August 2019.
- As the payment of one loan balance recoverable had been defaulted continuously, I inform that the Attorney General will be consulted to auction the property placed as guarantee and final notice has been issued to recover the other loan balance and further, action will be taken to recover the loan balance from the guarantor until the land is sold by auction after having obtained a valuation report on the property.
- Recovery of loans from guarantors should be expedited.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review was a surplus of Rs. 13,133,159 as compared with the corresponding surplus of Rs. 4,384,048 for the preceding year, thus indicating an improvement of Rs. 8,749,111 in the financial result. The decrease in other expenditure by Rs.2,710,704 had been the main reason for the said improvement.

## 3. Operating Review

### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(i) Even though the Bank had been directed to pay a sum of Rs.13,045,339 as loans/compensation to 189 beneficiaries during the period from 28 February 2018 to 31 December 2018, the beneficiaries had not come to obtain such money even by 30 July 2019. The Authority had not looked into the reasons for the failure in obtaining compensation.	I inform that every possible action will be taken to obtain the information of beneficiaries through the Divisional Secretary and Reparation Assistant Officers for the prevention of such delays in future.	As the payment of compensation is made on a Government policy, action should be taken to make the payment of compensation for duly selected beneficiaries within the stipulated period in accordance with relevant regulations.
(ii) According to the Action Plan prepared by the Authority, it had been planned to pay a sum of Rs.1,990 million for 23,413 beneficiaries pertaining to 04 schemes of paying compensations. Nevertheless, compensations totalling Rs.1,246 million only had been paid to 15,334 beneficiaries as at 31 December of the year under review, thus the percentage of paying compensations was 63 per cent. The percentage of paying compensations of each scheme ranged from 48 per cent to 89 per cent.	The imprest received during the year under review amounted to Rs.1,466,700,000 and that entire amount has been paid as compensation. The number of beneficiaries paid during the year 2018 stood at 16,221 and the financial progress thereof was 73 per cent. The physical progress ranged from 48 per cent to 89 per cent and the reason therefor had been the payments made under 05 methods of compensation.	Payment of compensation should be well planned and streamlined.

- (iii) According to the Action Plan of the Authority, it had been planned to pay a sum of Rs.722 million as loans for 3,745 beneficiaries pertaining to 03 loan schemes. Nevertheless, loans totalling Rs.213 million only had been paid to 985 beneficiaries as at 31 December 2018, thus the progress of paying loans was 29 per cent. The percentage of paying loans of each loan scheme ranged from 13 per cent to 48 per cent.
- The main reasons for not releasing loans were the non-availability of secured guarantors, debtors being the debtors of various financial institutions etc. I inform that banks as well as the debtors were made aware of this situation continuously.
- Action should be taken to release money proposed to be granted by the loan scheme within the due period in accordance with the specifications of loan scheme.
- (iv) According to the Cabinet decision dated 15 March 2017, two out of 16 persons died in the incident happened in the premises of Welikada Prison on 09 November 2012 should be paid Rs.4,000,000 at Rs.2,000,000 each and 11 out of 21 persons injured due to the said incident should be paid Rs.5,500,000 at Rs.500,000 each. Nevertheless, those compensations had not been paid even by 30 August 2019. Further, according to the Cabinet decision dated 16 March 2018, compensations totalling Rs. 31,695,000 had been estimated as payables for 38 out of 508 instances of damages to properties sustained due to civil commotion occurred at Digana in Kandy. Nevertheless, those compensations had not been paid even by 30 August 2019.
- Compensations for 02 persons deceased and 11 persons injured were to be paid and the reasons therefor had been the absence of close relatives of the dependents of the deceased and inaccurate addresses given. I state that if the relevant individuals present themselves to claim compensation, relief could be provided in future.
- Cabinet decision should be implemented by making payments of compensation as per the Cabinet decision.

### 3.2 Operating Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>(i) The sum of Rs.6,000,000 granted to the Bank of Ceylon on 30 December 2001 for the implementation of Industry Loan Scheme, should be reimbursed to the Authority after the end of</p>	<p>Even though it was stated in the Agreement that the said amount should be granted us after 10 years, action has been taken to retain that amount in Bank for another 10 years after</p>	<p>Action should be taken to maintain the loan scheme continuously with relevant approvals and after having entered into formal agreements and reimbursed</p>

implementing period of loan scheme upon the maturity as at 31 December 2011. Nevertheless, the said amount had not been received to the Authority. However, the Authority had not taken action to obtain the said money or to re-implement the loan scheme on formal agreements.

(ii) Even though a sum of Rs.128 million invested in the National Housing Development Authority during the period 1990-1995 should be received to the Authority upon maturity during the period 2006-2019, only a sum of Rs.45 million had been received as at 31 December 2018.

(iii) A sum of Rs.55,842,722 comprising an investment interest of Rs.21,214,762 to be utilized for the achievement of objectives of the Authority and Rs.26,650,000 received upon the maturity of investments, had been retained in the bank account by the Authority without being utilized for any purpose over a period of one year as at 31 December 2018.

**4. Accountability and Good Governance**

**4.1 Presentation of Financial Statements**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>-----</p> <p>The Rehabilitation of Persons, Properties and Industries Authority Act, No. 29 of 1987 was repealed by the Office For Reparations Act, No. 34 Of 26 October 2018 and the Office For Reparations had been established. According to repeals, savings and transitional provisions stated in Section 26 of this Act, a statement on vesting the assets and liabilities owned by the Rehabilitation of Persons, Properties</p>	<p>-----</p> <p>The Office For Reparations was not established during the year 2018 while 05 committee members including a Chairman had been appointed therefor by the Constitutional Council of Parliament since 01 April 2019. As the Office For Reparations was not established, action could not be taken in terms of</p>	<p>-----</p> <p>Even though it has been structured, action should be taken to prepare financial statements after being reconciled and identified the relevant assets and liabilities properly.</p>



and Industries Authority to the Office for Section 26 of the Act. It is  
Reparations had not been prepared and noted to take action in due  
presented. Even though a separate set of course in terms of the said  
financial statements should be presented in Section.  
favour of the Office for Reparations for the  
months of November and December  
2018, it had not been so done and financial  
statements for the financial year ended 31  
December 2018 had been presented in  
favour of Rehabilitation of Persons,  
Properties and Industries Authority.