

Samurdhi Micro Finance Stationary Revolving Fund - 2018

1.1 Qualified Opinion

The audit of the financial statements of the Samurdhi Micro Finance Stationery Revolving Fund 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 including a summary of significant accounting policies and other explanatory information, 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 report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the financial statements of the Fund give a true and fair view of the financial position of the Fund 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.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). 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 qualified 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 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 Fund 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 Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process. As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Fund 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 Fund

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

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 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, 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 Fund'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 Fund'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 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 Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund,
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund 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 Internal Control over the Preparation of Financial Statements

Entities are required to "devise and maintain" a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management's general or specific authorization, transactions are recorded as necessary to permit preparation of

financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Accounting Deficiencies

Audit observation	Comment of the management	Recommendation
(a) A sum of Rs. 408,998 of accrued expenses had not been accounted as at 31 December 2018.	Due to the mistake had occurred when taking information accrued expenses had not been accounted.	Action should be taken to account accurately.
(b) The ledger balance of stationery stock was Rs. 54,843,092 as at 31 December 2018 and as per that balance of physical stock as per that day was Rs. 62,814,047. Instead of making necessary adjustments identifying reasons for the difference of Rs. 7,970,955 that value had been accounted as sales income of stationery.	In some instances issuing of last stock on the basis of previous order price during the year under review and the balance at the end of the year calculate on the basis of previous order price when calculating of physical balance a difference had been created between those values. After observing that directions had given to issue stationeries as First In First Out (FIFO) method Further removing of packing of printed parcels which ordered preparing bundles of stationery as 1000/5000/10000 handed over by the Press even when issuing to the districts on needed an excess quantity of calculating that parcels had been the reason for a difference. Therefore that difference had adjusted to the income.	The ledger balances of stationery stock and the physical stock should be timely compared.

1.5.3 Documentary Evidence not made available for Audit.

Board of survey reports relating to the stocks and office equipment amounting to Rs.3,914,166 had not been furnished for audit.

1.6 **Non- compliance with Laws, Rules, Regulations and Management Decisions.**

Reference to Laws, Rules and Regulations	Non-compliance	Comment of the management	Recommendation
(a) Financial Regulations 486	Action had not been taken in terms of Financial Regulations in respect of the total of Rs. 614,487 with regard to the 18 cheques which were deposited but not realized within a period from 04 months to 20 months had elapsed as at 31 December 2018.	The bank has been aware to settle.	Action should be taken in terms of Financial Regulation.
(b) Financial Regulations 876(3)	Even though action should be taken to legislate the Fund, if there were fair reasons for maintaining a non-statutory Fund further, that type of funds should be legalized by an Act of parliament. Action had not been taken as per.	Funds which had implemented in the 03 authorities absorbed to the department has become Statutory Fund in terms of Section 45 of the Divineguma (Samurdhi) Act No. 1 of 2013. Actions are being taken by now to legalize those funds. Accordingly the Divineguma Act the approval had received to maintain stationery revolving fund even by the parliament. In accordance with the Act of the department established regarding Funds were being legislated. Sets of law and Regulations needed for maintaining those Funds prepared and forwarded to the Department of Legal Drafting.	Action should be taken to legislate funds through Acts of Parliament.

(c) Government Procurement Guidelines 2006. (i) Guideline 4.2.1	Procurement activities envisaged shall be listed in the Master Procurement Plan and even though a procurement activities for the immediately succeeding year shall be prepared in detail and shall be regularly updated at intervals not exceeding six months. Procurement Plan had not been prepared for the year under review and a value of Rs.83,679,825 stationary had been purchased.	Values for stationeries had included in the procurement plan, but detailed procurement plan had not been prepared. It was noted to that action to be taken in the future.	Procurement plan should be prepared in accordance with the Guideline.
(ii) Guideline 5.4.11	Printing of stationery of banks amounting to Rs. 18,513,750 had been done in 10 instances from a private printing institute which shall be liable to pay Value Added Tax ,but action had not been taken to have tax invoices from that institute.	If there were no claim of VAT when the submission of price proposals, the VAT has not paid and VAT has not mentioned even at the submission of invoices and therefore VAT has not been paid for this institute.	The institute has paid the Vat and therefore action should be taken to have VAT invoices.

2. Financial Review

2.1 Financial Results

The operational result for the year under review was a surplus of Rs.15,908,082 compared with the corresponding surplus of Rs. 16,507,651 for the preceding year thus observing a decrease of Rs.599,569 of the financial result. Increasing of total expenditure by Rs. 1,236,049 had been mainly attributed to this decrease.

3. Operating Review

3.1. Management Inefficiencies

Audit Observation	Comment of Management	Recommendation
Even though more than 3 years had elapsed action had not been taken to settle an amount of Rs. 21,269,895 payable to the Department of Government Printing for printing of stationery as at 31 December 2018.	Even though it had been informed to the Department of Government Printing regarding time to time, invoices relevant to that had not received yet.	Action should be taken to settle the balances.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Observation	Comment of Management	Recommendation
Even though the Financial Statements and the Report of the Annual Performance should be required to render to the Auditor General within 02 months after close of financial year in accordance with the Financial Regulation 877 (2)(d) The Financial Statements for the year 2018 had been submitted by the date of 17 May in 2022 after a delay of more than 03 years.	The financial statements of the stationery revolving fund which become under the Divineguma Development Department had been submitted at once earlier from the year 2014 regarding year 2014/2015/2016 and 2017 for audit..... but it was informed that the financial statements to be rendered for year after year audited.	Accounts should be presented within the relevant period. In terms of the Financial Regulations and as per instructions of the circulars.

4.2 Budgetary Control

Audit observation	Comment of Management	Recommendation
A budget for the activities of the Fund had not been prepared in terms Financial Regulation 877 (1).	Preparing of action plan included in the action plan of the micro finance section from the year 2021.	Budget should be prepared and presented during the relevant period in terms of Financial Regulations and as per instructions of the circulars.