

Saumyamoothi Thondaman Memorial Foundation - 2019

1. Financial Statement

1.1 Qualified Opinion

The audit of the financial statements of the Saumyamoothi Thondaman Memorial Foundation for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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(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 the Finance Act No. 38 of 1971. My comments and observations which I consider should be reported 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 accompanying financial statements give a true and fair view of the financial position of the Foundation as at 31 December 2019, 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 on the matters described in paragraph 1.5 of this report.

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 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 Foundation'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 Foundation or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Foundation 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 Foundation.

1.4 Responsibility of the Auditor on Audit 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 Foundation'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 Foundation'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 Foundation 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 Foundation, and whether such systems, procedures, books, records and other documents are in effective operation;

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

1.5 Auditor’s Observation on the Preparation of 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 Non-compliance with the Sri Lanka Public Sector Accounting Standards

The following observations are made.

	Non-Compliance with the Reference to Particular Standard	Comment of the Management	Recommendation
(a)	Since useful life time of the non-current assets had not been reviewed annually in terms of Paragraph 65 of the Sri Lanka Public Sector Accounting Standard 07, fixed assets in 18 categories costed for Rs. 18,290,062 were further in use despite being fully depreciated. As such, action had not been taken to revise the said estimated error in the financial statements in terms of Sri Lanka Public Sector Accounting Standard 03.	All the assets will be revalued in the year 2023 and included in the financial Statements.	Action should be taken in terms of Sri Lanka Public Sector Accounting Standard in regarding the assets which were further in use despite being fully depreciated.
(b)	Information about the case against two officials regarding the field coordination activities of the Kotagala Prajashakti office and information about transfer of all the projects under the Foundation including the permanent staff of the Soumyamurthy Thondaman Foundation, its movable and immovable property, operations	Action will be taken to disclose from the year 2020.	Disclosures should be made in accordance with the Sri Lanka Public Sector Accounting Standards.

and the all income earned to the relevant line ministry with immediate effect as per the cabinet decision No. APM/16/1095/739/004 dated 29 June 2016, had not been disclosed in the financial statements in accordance with paragraph 44 of the Sri Lanka Public Sector Accounting Standard 3.

1.5.3 Accounting deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>The accounts disclosed that the depreciation policy of the institution will be 02 percent on 50 percent of the total cost of land and buildings amounted to Rs. 277,679,780 in making provision for depreciation for buildings due to the cost of land and buildings had not been recognized separately in the accounts. As a total sum of Rs. 77,388,249 was provided for depreciation on the total cost since the year 2005 to year 2019, the cumulative deficit by Rs. 35,925,236 and the deficit of the year by Rs. 2,776,798 were over stated in the financial statements.</p>	<p>The necessary corrections will be made by revaluation of assets in the year 2023.</p>	<p>Corrections should be done.</p>

1.6 Receivable and Payable Accounts

1.6.1 Receivable Accounts

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
<p>(a) Action had not been to recover loans valued for Rs. 562,996 given by the Foundation to external parties before 2016 for self-employments, after the acquisition of activities of the</p>	<p>A specific decision will be taken in the future and resolve the problem.</p>	<p>The recovery of the loan should be regulated.</p>

Foundation by the line ministry in the year 2016.

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| (b) | A sum of Rs. 1,536,529 had been given to the staff of the Foundation as festival advances and other loans during the period from 2016 to 2019, but action had not been taken to recover while paying staff salary and shown under other current assets in the financial statements. | Action will be taken to rectify in the year 2020. | Action should be taken to recover the loans. |
| (c) | Even though the COPE committee had recommended at the meeting held on 07 November 2012 to recover the expenditure on the reconstruction works carried out by the Foundation in the building belonged to the Lanka Workers congress in Kotagala where the Prajashakthi Project was operated, the Foundation was unable to recover the receivable amount of Rs. 2,457,239 even by 31 December 2019. | Although reminders have been sent on 16.08.2022 and 06.12.2022 for the recovery of this amount, replies had not been made. | The arrangements should be made to recover. |
| (d) | The foundation was unable to recover a total advance of Rs.14,760,076 given to 06 institutions for more than 03 years. | Action will be taken to settle. | Necessary action should be taken for the recovery. |

1.6.2 Payable Accounts

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) The amount of Rs. 4,205,283 payable to the Employees' Provident Fund for the period from February to July 2013 had not been settled and shown in the payable accounts even by 31 December 2019.	Action will be taken to settle from the provision of the year 2023.	Action should be taken to get provisions for essential expenses and pay the Employee Provident Fund contribution.

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| (b) | Action had not been taken to settle the long outstanding of electricity bills, telephone bills and water bills total amounted to Rs.605,313 in the Colombo branch and 04 projects under the Foundation even by 31 December 2019. | These bills had been directly paid by the line ministry. | Action should be taken to remove the settled bills from the financial statements. |
| (c) | Action had not been taken to settle a sum of Rs. 3,497,910 due for 03 construction projects to the respective contracting institutions for more than 5 years. | These works have been suspended due to lack of funds to complete the constructions. The Board of Directors will take a decision whether the amount to be paid to the relevant contract institutions can be offset and proceed further. | Proper actions should be taken to settle the dues promptly. |
| (d) | A total payable of Rs.8,445,582 due for 15 institutions shown under the accounts payable of the year under review had not been settled for more than 03 years. | Most of the institutions with these values to be paid are currently not in operating condition and will be dealt with in the future according to the decision of the Board of Directors. | Proper actions should be taken settle the dues promptly. |
| (e) | The total amount payable to 25 short term creditors as on 31 December of the year under review was Rs.88,184,387 and the creditors value exceeding 05 years in that value was Rs.85,331,368. | Inquiries have not been made from the creditors for more than 07 years now and reply has not been given even for balance confirmations. The decision of the Board of Directors will be followed in the future. | Proper actions should be taken settle the dues promptly. |

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following observations are made.

	Reference to laws, rules, regulations	Non compliance	comment of the Management	Recommendation
(a)	Financial Regulations of Socialist Democratic Republic of Sri Lanka			

i. Financial Regulation 134 (3)	Although copies of the Internal Audit reports should be submitted to the Auditor General the foundation had not complied.	Action will be taken to submit in the future.	Action should be taken to submit internal audit reports to the audit.
ii. Financial Regulation 371 (2) (c)	Although the sub imprest should be settled soon after the given work is completed, due to not compliance to that, advances amounting to Rs. 1,004,937 had not been settled even by 31 December 2019.	The employees who have taken these advances are not currently working in the institute and action will be taken to settle those promptly.	A proper mechanism should be implemented to settle.
iii. Financial Regulations 756 and 757 (2) (b)	The Foundation had not taken action to conduct a board of survey and submit the board of survey reports to the Auditor General during the year under review.	Action will be taken to submit the board of survey reports to the Auditor General.	The Financial Regulations should be complied.
(b) Paragraph 6.5.1 of Public Enterprises Department Circular No. PED/12 dated 02 June 2003	Even though the financial statements should be submitted to the Auditor General within 60 days after end of the financial year, the financial statement of the year 2019 had been submitted to the Auditor General on 15 September 2022.	The financial statements will be submitted in time from the year 2022.	As per the circular provisions the financial statements should be submitted in time.
(c) Section 5.3 of Department of Management Services Circular No. DMA/01-2019 dated 12 January 2019	Although the Audit and Management Committee meetings should be conducted at least 4 times a year, no meeting was conducted during the year.	Action will be taken to conduct Audit and Management Committee meetings from the year 2023 onwards.	Committees for the Foundation should be established and arrangements should be made to conduct Audit and Management Committee meetings.

2. Financial Review

2.1 Financial Results

The operation result in the year under review had been a deficit of Rs. 5,303,653 as compared with the corresponding deficit of Rs. 8,947,960 for the preceding year, thus observing an improvement of Rs.3,644,307 in the financial result. The decrease in the depreciation expenses had mainly attributed to this improvement.

3. Operational review

3.1 Management Inefficiencies

The following observation is made.

Audit observation	Comments of the Management	Recommendation
Crediting the field coordination allowance of Rs.4,252,500 related to the period up to April 2011 in the Kotagala Praja Shakthi Office to the personal bank accounts of two project managers who are not currently employed: after a special investigation conducted on 24 July 2013 revealed that only Rs.1,050,000 had been recovered and a sum of Rs.3,702,500 was not possible to recover yet.	A case has been filed in the Hatton District Court for this and these two officers have also filed a case against the foundation.	As the investigations were completed, the remaining balance should be recovered from the relevant parties without delay.

3.2 Operational Inefficiencies

The following observations are made.

Audit observation	Comments of the Management	Recommendation
(a) A cab was procured under the finance lease for Rs. 5,840,000 in the year 2014 for Ramboda Cultural Centre and the vehicle had been seized by the finance company due to non-payment of instalments since February 2015. Accordingly, although the payment of Rs.1,565,504 should be recognized as a loss to the foundation, it was accounted as an advance under current assets. The Board of Directors of the foundation had not taken any decision in this regard.	The cab has been used by the foundation for over a year. If a vehicle was taken on rental basis during that period, more than this amount will have to pay. Accordingly, there was no loss.	A correct decision should be taken in this regard and the financial statements should be corrected.

- (b) The mobilization advance of Rs. 7,544,265 given by the foundation in the year 2010 for the construction works of Ramboda Thondaman Centre had not been settled till the year under review. Although this construction should have been completed by September 2013, it was not completed even until the date of audit of 31 December 2022, and an amount of Rs. 25,678,995 was shown as work in progress.
- Approximately a sum of Rs.3.5 million has to be paid to these two institutions. The balance value will be settled. The provision was not available for completion of works. Legal advices will be taken regarding these two institutions and will be dealt with accordingly.
- The construction works should be completed and the payment should be completed.