

Shrama Vasana Fund – 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Shrama Vasana Fund for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 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, 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 fund as at 31 December 2020, 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 fund'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 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 Responsibility 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 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 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 Audit Observations on the preparation of Financial Statements

1.5.1 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
<p>a) Although the fixed deposit interest income for the year under review was stated in the financial statements as Rs. 7,600,124, the interest income as per the schedule was Rs. 8,591,293. Accordingly, a difference of Rs.991,169 was observed between the scheduled of fixed deposit interest income and financial statements for the year under review.</p>	<p>When calculating the fixed deposit interest income receivable in the previous year, the interest income was over calculated by Rs. 986,473. Therefore, as on January 1, 2020, that amount had been recorded more in the balance of the accumulated fund. As the fixed deposit interest income for the year is deducted from the account receivable of the fixed deposit interest income, the above calculation was deducted and the profit for the year is deducted from that account. But at the end of the year, the balance of the accumulated fund is accurately presented in the statement of accounts.</p>	<p>Interest income should be properly accounted for and corrected in comparison with the relevant schedules.</p>
<p>(b) Due to miscalculation, the interest receivable on a fixed deposit of Rs.5 million invested in the year under review was overstated by Rs.129,808.</p>	<p>Correction will be made in future account statements</p>	<p>Annual investment interest income should be calculated by calculating interest on each investment separately.</p>

- (c) Rs. 3,625,500 of Fixed Assets, transferred to the Fund as Government Grant as at 31st December 2020 and the software called web based system included all the details about programs planned and conducted by the Fund valued at Rs.2,774,958 had not been amortized on the identified percentage.
- Action will be taken to amortize the value of the web-based system identified as investments during the periods identified in the income statement for the next financial years.
- Action should be taken to amortize intangible assets.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Shrama Vasana Fund Act No. 12 of 1998 and Shrama Vasana Fund (Amendment) Act No. 15 of 2019			
(i) Sub-sections 3 (3) (g) (i) and (ii) of the amended Act	To provide financial relief to obtain legal assistance to employees where proceedings in respect of termination of employment of an employee or of an industrial dispute, is initiated or pending under the provisions of any written law, before the Commissioner General of Labour, a Labour Tribunal, an Arbitrator or an Industrial Court or any court of law; the financial relief provided under this	Referred the matter to the Board of Directors, obtained the necessary advice and noted the future action to be taken.	Action should be taken to provide legal aid to the employees mentioned in the Act to achieve the objectives mentioned in the Act.

paragraph shall be subject to such amount as the Board may determine by rules made in that behalf under this Act. The relevant rules for granting this legal aid had not been prepared until 31 December 2020

(ii) Section 13 (1) of the original Act and sub-sections 5 (1) and (2) of the amended Act

Although the Fund and the Lotteries Board may agree on a number of possible lotteries, the types of lotteries and the prizes awarded at such lotteries, the manner in which the prizes are not claimed in those lotteries, and the amount of money to be allocated to the Fund from the lottery proceeds, there is no such agreement had been reached between the Fund and the National Lotteries Board.

The Shrama Vasana Fund and the National Lotteries Board were informed that the agreement to be reached should be sent to the Ministry of Finance and a draft of the agreement was recommended by the Ministry of Labour and approved at the Board Meeting held on 17/01/2017.

Accordingly, On 28/02/2017, the former Secretary of the Ministry of Labour informed about this and sent a letter to the Secretary of the Ministry of Finance. Reminder letters were sent again on 07/01/2020 informing about this. A letter has been sent to the Ministry of Finance to hold a discussion on 25/03/2021.

Action should be taken to maintain the lottery by entering into an agreement with the Lottery Board in accordance with the provisions of the Act.

(iii) Section 14 of the original Act and sub-section 6 (2) of the amended Act

Although the Board has prepared and submitted to the Ministry of Finance rules governing the powers, functions and functions of the Board, or matters relating thereto or its ancillary matters, or having

A committee has drafted the rules and submitted them to the Ministry of Finance on 22/12/2020 for gazetting with the approval of the Board of Directors. This was

Management should take action to make and enforce the relevant rules in accordance with the provisions of the Act.

	been authorized by the Act to be governed by this Act, the Rules shall remain in effect until 08 April 2021 it was not published in the Gazette.	also inquired about on 25/03/2021 and necessary arrangements are being made for that.	
(b) Section 16: 2 of the National Audit Act No. 19 of 2018	The Chief Accounting Officer was required to submit the Annual Performance Report along with the Annual Financial Statements to the Auditor General, but the Performance Report was not submitted with the Financial Statements.	No comments.	Should act in accordance with the provisions of the National Audit Act.

1.7 Investment Management

Audit Observation	Management Comment	Recommendation
(a) Due to the failure to identify the bank balance to be maintained for the successful operation of the Fund and to identify the short term investment method, the amounts ranging from Rs.2 million to Rs.14 million at the end of each month of the year under review remained idle in the current account. As a result, interest income had lost that could have earned by the fund.	<p>The Board of Directors of the Shrama Vasana Fund made short-term investments as REPOs only on weekends.</p> <p>The balance of Rs.12,959,389 as at 31st July 2020 is required to be used for the COVID-19 Special Project so keep it for about a week</p> <p>Invested as a REPO on August 30, 2020.</p> <p>The balance of Rs.6,561,866 in the current account on 30.11.2020 was retained for the scholarship program on 02.12.2020.</p>	Should identify the bank balance and take action to invest the surplus money in a short term investment scheme.
(b) The fixed deposits of Rs.95,000,000 invested in three state banks during the year under review had matured and no action had been taken to select the most	<p>During the corona epidemic period from 18/03/2020, it became impossible to make interest rate calls through state banks on the maturity of fixed deposits.</p> <p>Therefore, with the approval of the Board of Directors, the fixed deposits</p>	Should invest by looking for investment opportunities in more profitable institutes.

profitable investment options by comparing interest rates on reinvestment.

were reinvested in the existing bank. About Rs.83 million of the fixed deposits of the Shrama Vasana Fund have been reinvested in People's Bank, which had a high interest rate at the time.

Previously, interest rates were called every year to invest in a bank with a higher interest rate.

2. Financial Review

2.1 Financial Result

The operating result of the year under review had been a surplus of Rs.12,330,517 and the corresponding surplus in the preceding year amounted to Rs.21,832,739. Accordingly, a deterioration of Rs.9,502,222 was observed in the financial result. The deterioration in the fund's revenue from Rs.73.2 million in the previous year to Rs.37.8 million in the year under review was the cause of this.

2.2 Trend Analysis of Major Income and Expenditure Items

- (a) Shrama Vasana lottery revenue decrease 50 percent from Rs.60.2 million to Rs.30 million compared to last year.
- (b) Capital expenditure for the year decrease by 75 percent over the previous year due to the inability to implement programs as expected.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
-----	-----	-----
(a) Only an internal audit plan for the year 2020 had been prepared but no internal audits and reports had been issued. Further, the post of Internal Auditor of the Fund remained vacant after March 2020.	On 19/10/2020, the Ministry of Finance was requested to re-appoint a new officer to the vacant post of Internal Auditor of the Shrama Vasana Fund and we were informed that necessary steps will be taken to appoint him soon.	Should prepare an internal audit plan and submit it to the Auditor General Copies of the audit queries issued should be submitted to the Auditor General.

3.2 Operational Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	<p>An estimate of Rs. 6,250,000 has been prepared to provide school bags and kits to 2,500 children of employees who lost their jobs due to COVID-19. The Commissioner General of Labor had called for the necessary information and applications covering 11 labour areas. Accordingly, as at 31 December 2020, more than 330 applications had been received. Fulfilling those social responsibilities is a matter of urgency as well.</p> <p>Although it was a program most suitable for the purposes of sub-section 6 (e) of the Act, it had not been implemented till March 15, 2021.</p>	<p>Although information was called for the distribution of school bags and kits to 2500 children of employees who lost their jobs due to COVID-19, the program was not carried out as instructed by the Board of Directors.</p>	<p>Should obtain the approval of the Director General of Health Services and take action to conduct formal programs as per the current requirements.</p>
(b)	<p>The report of the relevant committee which was appointed on 15th August 2017 to hold a ceremony to evaluate the persons who have done an excellent service for the welfare of the employees was delayed by 6 months.</p> <p>Although it was initially decided by the Board of Directors that 10 persons should be selected to represent the three parties as 03 employers, 04 employees and 03 government representatives,</p> <p>The appointed committee had decided that only 10 people who had been involved in trade union activities for more than 35 years would be selected through newspaper advertisements.</p> <p>However, up to 31st December 2020 for initial expenses including pre-videotaping, newspaper advertisements, committee membership allowances for this event</p> <p>Although Rs. 708,897 had been spent on initial expenses, no such event had been held on March 15, 2021.</p>	<p>The above program was planned to be held under the patronage of the President and allocations have been made for the entire program with the approval of the Board of Directors as per the Annual Action Plan.</p> <p>This amount has been spent on the initial activities related to the ceremony. The video made at this cost will be used at the next event so the money spent will not be wasted.</p>	<p>Expenditure estimates should be prepared and action should be taken to hold the ceremony after obtaining formal approval.</p>

- (c) 10 bulk items of equipment worth Rs. 60,464 remained in stock as non-moving bulk items till 31st December 2020. Purchased to distribute for programs prior to 2016.
- Although these stocks remain in relation to programs conducted in previous years, So far these stocks have been released for useful programs and the rest were released for the program in Dambulla
- Non-moving stocks should be written off or otherwise disposed of after obtaining the relevant approval.