

## **Police Reward Fund - 2020**

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### **1. Financial statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Police Reward Fund for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the revenue statement, statement of changes in equity and cash flow statement and notes to financial statements for the year then ended 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 and Section 73(4) of the Police Ordinance, No. 16 of 1865. My comments and observations which I consider should be presented in 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 give a true and fair view of the financial position of the Fund as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

#### **1.2 Basis for Qualified Opinion**

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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 (SLAuS). 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**

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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 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 Responsibilities for the Audit of the Financial Statements

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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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design 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 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 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 Relating to the Preparation of Financial Statements

### 1.5.1 Accounting Deficiencies

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
<p>a) As the fines on vehicles receivable from the Department of Posts for the year under review had not been correctly identified and brought to accounts, the revenue through fines on vehicles and the receivable fines on vehicles had been understated by Rs.150,127,525.</p>	<p>Monies totalling Rs.150,127,525 relating to the months of October, November, and December, 2020 from the Department of Posts, had been received in the year 2021.</p>	<p>Revenue of the year should be correctly identified and brought to accounts.</p>
<p>b) It was observed in the comparison between the values for verifying the revenue provided for the Audit by 09 courts and the annual court fine income shown in the schedule furnished with the financial statements that such values had been understated by Rs.26,781,472 with respect to 05 courts whereas a value of Rs.10,336,765 had been overstated in the financial statements with respect to 04 courts.</p>	<p>The comparison between values verifying the revenue from courts and the court fine revenue shown in the Schedule, 03 presented with the financial statements, indicated that a sum totalling Rs.183,694 had been understated with respect to 02 courts. The fine that had been reported on by 03 courts was not overstated.</p>	<p>Differences should be examined and reasons should be identified.</p>
<p>c) Due to changes in the interest rates on fixed deposits and the renewal notices based on which the financial statements had not been prepared, the interest on fixed deposits shown in the accounts in respect of 04 fixed deposits had been overstated</p>	<p>Revenue earned through interest had been overstated by Rs.2,467,022 in the financial statements of the year 2020. Corrective measures will be taken through adjustments on</p>	<p>Revenue earned through investments should be brought to accounts correctly.</p>

- by Rs.2,467,022 in the year under review. financial statements of the year 2021.
- d) According to the computations made by Audit with respect to 04 fixed deposits, the interest income from 03 fixed deposits had been overstated by Rs.367,859 whereas the interest income from one fixed deposit had been understated by Rs.32,824 in the financial statements of the year under review. The revenue earned through investments made in fixed deposits had been overstated by Rs.335,035 in the financial statements of the year 2020. Corrective measures will be taken through adjustments in the year 2021. Investment revenue should be brought to accounts correctly.
- e) The balance 50 per cent of a special reward equivalent to Rs.130,000 had been paid in the year under review relating to the year 2016. However, that value had been brought to accounts as an expenditure of the year without being deducted from the value of the special rewards payable. The amount of Rs.135,000 paid as special rewards had been included in the balance of special rewards payable. The balance of special rewards payable should be corrected as Rs.90,876,211. Payments of special rewards should be brought to accounts correctly.
- f) The balance 50 per cent equivalent to Rs.235,000 that had not been brought to accounts as special rewards payable relating to 02 special reward files for the years 2008 and 2006, had been paid in the year under review. That value had been adjusted as an expenditure of the year without being adjusted in the financial statements with respect to the preceding year. The sums of Rs.175,000 and Rs.60,000 had been paid on 2020.09.15 by recording in the register for half-payment of special rewards. It was not mentioned in the financial statements of the year 2019 that the said sum should be paid. The balance of special rewards payable as at 2020.12.31, is correct. - Do.

## 1.5.2 Unreconciled Control Accounts or Reports

Item	Value as per Financial Statements	Value as per Corresponding Reports	Difference	Comment of the Management	Recommendation
	Rs.	Rs.	Rs.		
Comparison between the values for confirming revenue provided for the Audit by 41 courts and the revenue from court fines receivable	103,400,336	30,467,288	72,933,048	Revenue receivable from 11 courts had been overstated by Rs.29,312,325 whereas the revenue	Non-reconciliations should be examined and reasons should be identified.

by the end of the year under review shown in the schedule furnished with the financial statements.

receivable from 02 courts had been understated by Rs 5,760,955.

## **1.6 Accounts Receivable and Payable**

### **1.6.1 Funds Receivable**

Audit Observation -----	Comment of the Management -----	Recommendation -----
Action had not been taken to recover a sum of Rs. 2,000,000 given as an advance to the Police Sponsorship Fund, but the that sum had been shown as a balance receivable over a period of 19 years.	Upon approval of the Inspector General of Police, action had been taken to write off the sum after being adjusted to the accumulated fund through the journal entry on 2021.04.23	Action should be taken to settle the advances.

### **1.6.2 Funds Payable**

Audit Observation -----	Comment of the Management -----	Recommendation -----
Court proceedings relating to each incident should have been concluded in order to pay the balance amounts of the rewards under 400 special rewards files under which 50 per cent of the rewards had been paid in respect of commendable acts of the police officers during the period 2001-2019; and, the value of special rewards payable totaled Rs. 91,011,211. Action had not been taken to verify as to whether the court proceedings had been concluded by forwarding the information relating to the special rewards payable, to the relevant divisions , thus failing to make the payments in the year under review.	As being pointed out by the Audit, it is informed that action will be taken to reexamine the information relating to the special rewards to be paid.	Follow-up action should be taken on the files pertaining to special rewards payable of which the court proceedings have been concluded.

## 1.7 Non-compliances with Laws, Rules, Regulations, and Management Decisions

The following observations are made.

Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Management	Recommendation
a) Financial Regulation 396 of the Democratic Socialist Republic of Sri Lanka.	Action had not been taken in terms of Financial Regulations on 06 cheques valued at Rs. 530,905 that had not been realized even by 30 June 2021 despite being deposited in December 2020.	The sum of Rs. 351,200 included in the list of unrealized cheques, had been recorded in the cash book on 12 November 2021	The relevant adjustments should be made without delay.
b) Financial Regulation 877 included in Section 15.1 of the Public Finance Circular, No. 01/2020 dated 28 August 2020.			
<ul style="list-style-type: none"> <li>Section 03.</li> </ul>	Failure to prepare the quarterly reports on key functions of the Fund in a manner that performance of the Fund could be reviewed at the end of each quarter and present to the Auditor General with a copy to the Department of Public Finance and Department of National Budget before 15 days after the end of the quarter.	Agreed. It is noted to take action in accordance with Public Finance Circular, No. 01/2020.	The Circular should be followed.
<ul style="list-style-type: none"> <li>Section 5.3 (b).</li> </ul>	Certified copies of the certificates of confirmation of balances used to verify the value of investments made in	Agreed. Letters of confirmation of investment balances had been presented to the Audit on	The Circular should be followed.

- Section 6(e). state banks and financial institutions, had not been furnished with the financial statements. Financial statements should be prepared with values rounded to the nearest Rupee. However, financial statements had been prepared without doing so. 2021.01.04. Action will be taken to include them in the financial statements of the year 2021. Imprests had been furnished with values rounded to the nearest two Cents. Action will be taken to follow the Public Finance Circular. - Do.

## 1.8 Management of Funds

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The following observations are made.

Audit Observation -----	Comment of the Management -----	Recommendation -----
a) According to the cash book by the end of each month in the year under review, the balance in the current account of the Police Reward Fund being maintained at the Bank of Ceylon, ranged from the minimum of Rs. 299 million to a maximum of Rs. 695 million. Those funds remained idle without being invested thus failing to obtain an income through interest.	Owing to the spread of Corona Virus, operations of the Police Reward Fund had been crippled in the year 2020, and problems arose in drawing attention on the management of the Fund. It is informed that necessary action will be taken in due course.	Resources should be utilized with maximum efficiency.
b) A sum of Rs. 40,128,932 had been returned from the imprest of Rs. 96,732,000 given to 06 Divisions of Police in order to incur expenses on reward in the year under review, and the returned amount represented 22 per cent to 50 per cent of the total amount granted. Furthermore, the total imprest of Rs. 13,674,300 given from the Rewards Fund in the fourth quarter to incur expenses of the Police	Imprests that the Divisions were generally entitled to, were issued. However, the possibility of making payments based on those imprests was not looked into. As such, the imprests were settled.	Imprests should be released solely based on the requirements. Utilization of funds received should be done attentively.

Divisions of Nuwara Eliya and Colombo, had been returned without being utilized. As such, granting and obtaining imprests to / by the Police Divisions had been done without identifying the requirement of making rewards properly.

## 1.9 Management of Investments

Audit Observation	Comment of the Management	Recommendation
<p>A revenue totalling Rs. 5,922 million comprising sums of Rs. 433 million, 386 million, 326 million, 469 million, 820 million, 1,015 million, 1,275 million and 1,198 million relating to the period from 2013 to 2020 respectively had been earned through interest on fixed deposits. Nevertheless, attention had not been drawn as to how that revenue should be utilized to accomplish the objectives of establishing the Fund.</p>	<p>Excess revenue of the Fund is invested in fixed deposits under effective interest rates. This has helped to incur welfare expenses of the Fund, and on the going concern and financial stability of the Fund.</p>	<p>Revenue through investments should be utilized for accomplishing the objectives of the Fund.</p>

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review was a surplus of Rs. 1,340,208,192 as compared with the corresponding surplus of Rs. 2,590,107,212 in the preceding year, thus observing a deterioration of Rs. 1,249,899,020 in the financial result. This deterioration had mainly been attributed by the decrease in fines imposed on vehicles by Rs. 573,110,128 and the increase in payments made on special rewards by Rs. 541,670,500.

### 2.2 Analysis on Trends in Main Items of Revenue and Expenditure

In appreciation of the services rendered by the officers of Sri Lanka Police in their fight against Corona virus, a sum totalling Rs. 418,800,000 had been disbursed among 83,760 police officers each receiving a sum of Rs. 5,000 whilst a total of Rs. 154,644,000 had been paid to 51,548 officers each receiving a sum of Rs. 3,000 as special rewards in two instances. ; and hence, the value of payments made on special rewards in the preceding year totalling Rs. 55,097,500 had increased up to Rs. 596,768,000 in the year under review.



### 3. Operating Review

#### 3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
a) It was stated in the Vehicular Instructions Circular, No. 149/2019 that prevention of damages caused to the public by drunken drivers was essential. As such, it was decided to pay rewards to encourage the police officers conducting raids in that connection. Accordingly, the police stations in the division of Bandarawela had apprehended 391 and 800 drunken drivers in the years 2019 and 2020 respectively whilst 113 and 240 drunken drivers had been apprehended in the years 2019 and 2020 respectively by the police stations in Kantale division. However, no reward whatsoever was paid to the police officers and officers in charge who had been involved in such raids.	Action will be taken to inform through a Circular of the Inspector General of Police on the payment of rewards relating to the apprehension of those driving under the influence of liquor.	Payments should be made to the officers entitled to be rewarded.
b) The value of dishonored cheques totalling Rs. 358,794 shown as current assets in the preceding year, had not been identified and settled even by the end of the year under review.	Balance of dishonored cheques will be adjusted and corrected in the year 2021.	The value of dishonored cheques should be settled.

#### 4. Accountability and Good Governance

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##### 4.1 Budgetary Control

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Audit Observation	Comment of the Management	Recommendation
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a) A sum of Rs.50,000,000 had been estimated for paying special rewards in the budget prepared for the year under review. However, the actual expenditure amounted to Rs. 596,798,000, thus indicating a variance of 1094 per cent between the budget estimate and the actual expenditure.	Sums of Rs.50 million and Rs.575 million had been allocated on special rewards and welfare expenses respectively. The allowances of Rs. 5,000 and Rs. 3,000 given to the police officers in view of encouraging them to prevent the spread of Corona virus, had been shown as expenditure incurred on welfare.	Expenses should be incurred in accordance with the approved budget estimate, or the budget should be revised.
b) A sum of Rs. 575,000,000 had been estimated in the budget as welfare expenses. However, the expenditure totaled Rs. 93,277,390; and hence, expenses had been incurred 84 per cent less than the budget estimate.	The special incentive of Rs. 573 million had been brought to accounts under special rewards. As such, welfare expenses had decreased.	- Do.