

Head 4 - Judges of the Superior Courts

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statement of the Expenditure Head of Judges of the Superior Courts for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance and cash flow statement for the year then ended, 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. My comments and observations on the financial statements of the Expenditure Head of Judges of the Superior Courts appear in this report in terms of Section 11 (1) of the National Audit Act, No. 19 of 2018. The Detailed Annual Management Audit Report relating to the Head of Expenditure in terms of Section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Chief Accounting Officer on 03 May 2021. This report is presented in pursuance of provisions in Article 154 (6) of the Constitution to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Expenditure Head as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.6 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 Chief Accounting Officer and the Accounting Officer for the Financial Statements

The Chief Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 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.

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

As per Sub-section 38 (1) (c) of the National Audit Act, the Chief Accounting Officer shall ensure that effective internal control system for the financial control of the Expenditure Head of Judges of the Superior Courts exists, and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- 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.

I communicate with the Chief Accounting Officer regarding, significant audit findings, any significant deficiencies in internal control and other matters that I identify during my audit.

1.5 Report on Other Legal and Regulatory Requirements

I express the following matters in accordance with Section 6 (1) (d) of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year.
- (b) The recommendations made by on the financial statements relating to the preceding year had been implemented.

1.6 Comments on Financial Statements

1.6.1 Incurring Expenses under Different Heads

The following observations are made.

| Audit Observation | Comment of the Chief Accounting Officer | Recommendation |
|---|---|--|
| ----- | ----- | ----- |
| a) Expenses on insurance policy totalling Rs. 61,948 relating of 02 vehicles belonging to 04 Heads of Expenditure, had been incurred under the Item No. 234-01-01-1301 of Expenditure. | As those vehicles had been used in the affairs of the offices of the superior court, payments had been made under Head No. 234. | Expenses relating to the Head of Expenditure for which provision had been made, should be incurred under the same Head of Expenditure. |
| b) Expenses on insurance policy totalling Rs. 77,436 relating of 03 vehicles belonging to 234 Heads of Expenditure, had been incurred under the Item No. 04-01-01-1301 of Expenditure. | Those vehicles had been used as official vehicles of the judges and on other affairs under the Head No. 04; as such, payments had been made under the said Head of Expenditure. | Expenses relating to the Head of Expenditure for which provision had been made, should be incurred under the same Head of Expenditure. |
| c) The sum of Rs. 482,550 being the expenditure on repairs of a pool vehicle pertaining to the Head of Expenditure, No. 234, had been paid under the Item No. 04-01-01-1301 of Expenditure. | This vehicle is assigned to the judges when the official vehicle (Benz) of the honorable judge is undergoing repairs; as such, the expenditure on repair had been incurred through 04-01-01-1301. | Expenses relating to the Head of Expenditure for which provision had been made, should be incurred under the same Head of Expenditure. |

2. Financial Review

2.1 Expenditure Management

| Audit Observation | Comment of the Chief Accounting Officer | Recommendation |
|--|--|--|
| <p>Additional provision amounting to Rs. 12,770,000 and Rs. 14,051,000 had been made for the Item Nos 2102 and 2013 of Expenditure respectively comprising sums of Rs. 9,570,000 and Rs. 11,754,000 allocated respectively through supplementary estimates, and through transfers made in terms of Financial Regulation 66/69 amounting to Rs. 3,200,000 and Rs. 2,297,000 respectively. Nevertheless, provision amounting to Rs. 12,545,288 and Rs. 7,879,482 had respectively been saved in those Items of Expenditure by the end of the year. As such, additional provision had been made without a plan.</p> | <p>04-01-02-2102 = Rs. 3,200,000 (Office equipment and furniture) 04-01-02-2103 = Rs. 2,297,000 (Plant and machinery) Due to lack of provision when considering the quotations in view of purchasing assets with new judges being appointed to the superior court, provision had been transferred in terms of Financial Regulation 66.</p> | <p>= Plans should be prepared properly based on requirements, thus obtaining the additional provision.</p> |

2.2 Incurring Liabilities and Commitments

The following observations are made.

| Audit Observation | Comment of the Chief Accounting Officer | Recommendation |
|---|---|---|
| <p>a) According to Section 3.4 of Guideline 06 of the Public Finance Circular, No. 02/2020 dated 28 August 2020, the statement of liabilities and commitment furnished with the financial statements, should be tallied with the statement of liabilities of the Treasury. However, 14 items of liabilities totalling</p> | <p>As for the register of commitments issued by the Treasury, the other commitments, except for Sri Lanka Telecom, had been the ones recorded in CIGAS by mistake. Corrective measures have been taken.</p> | <p>Guidelines given in the Circular should be followed.</p> |

Rs. 1,180,529 mentioned in the statement of commitments and liabilities of the Treasury, had not been shown in the financial statements.

- b) According to Section 3.4 of Guideline 06 of the Public Finance Circular, No. 02/2020 dated 28 August 2020, any liability or commitment not mentioned in the statement of liabilities and commitments issued by the Treasury, should not be settled as expenses of the preceding year. However, payments had been made in the year 2021 for expenses on liabilities amounting to Rs. 70,770 that had not been shown in the financial statements of the year under review.
- The relevant bills of the Sri Lanka Telecom had been received after 2020.12.31. Expenses of that nature occurs oftentimes during the month; as such, it is informed that the payments had been made. A sum of Rs. 62,051.20 remained payable to Sri Lanka Telecom under commitments.
- Guidelines given in the Circular should be followed.

2.3 Operating Bank Accounts

The following observations are made.

| Audit Observation ----- | Comment of the Chief Accounting Officer ----- | Recommendation ----- |
|--|---|---|
| a) The balance of the bank statement furnished with the financial statements, amounted to Rs. 2,334,402, but the correct balance at the end of the year under review amounted to Rs. 17,759,887. | The balance as at 2020.12.01 was shown by mistake. The balance as at 2020.12.31 should be correctly shown as Rs. 17,759,887.03 | Accurate information should be presented. |
| b) The cheque No. 751867 valued at Rs. 46,600 dated 24 March 2020, had been invalidated and substituted with the cheque No. | The cheque No. 751867 dated 2020.3.24 had been sent by post. As the cheque becomes invalid after a lapse of 06 months, the bank was | The Financial Regulations should be followed. |

752077. Action had not been taken in that connection as per Financial Regulation 392 (a) I, 392 (b) iii, 393(1) and 393 (2). informed to withhold payments before issuing a new cheque. Action was taken to issue a new cheque in substitution of the said one which remained lapsed for over 08 months as at 2020.12.08.

- c) It is prohibited to obtain overdrafts from a Government bank in terms of Financial Regulation 387. However, overdrafts amounting to Rs. 3,757,495 and Rs. 4,901,237 existed in the current account as at 20 and 23 December of the preceding year respectively. A fee on overdrafts amounting to Rs. 8,030 had been charged by the bank on 31 December 2019. Furthermore, the value of overdraft relating to the current account amounted to Rs. 5,030 as at 01 January of the year under review.
- As payment of salaries for December 2020 under Head, No. 04 had been transferred to the said bank account pertaining to Head, No. 234, an overdraft fee had been charged on 20 and 23 December. An overdraft fee of Rs. 200 had been charged on the overdraft resulted in following the transfer of funds to the bank account of the Treasury on 2020.12.31.
- Financial Regulation 387 should be followed.

3. Operating Review

3.1 Annual Performance Report

| Audit Observation | Comment of the Chief Accounting Officer | Recommendation |
|---|---|----------------------------------|
| Annual performance reports had not been prepared as per paragraph 10.2 in accordance with Guideline 14 issued by the Department of Public Finance in terms of Public Finance Circular, No. 2/2020 dated 28 August 2020. | The said report is being prepared, and will be made available as soon as completed. | The Circular should be followed. |

3.2 Procurements

 The following observations are made.

| Audit Observation ----- | Comment of the Chief Accounting Officer ----- | Recommendation ----- |
|--|--|---|
| a) As for the purchase of 14 laptops and 14 computers, sums of Rs. 2,989,000 and Rs. 2,529,352 had respectively been paid before receiving the items based on the performance invoice given by the relevant institutions. | The invoices relating to the 14 laptops and 14 computers have been annexed to the voucher, and furnished to the Audit. | Payments should be made based on the invoice after the receipt of items requested. |
| b) A vehicle had been given for repairs on 11 December 2020, but the vehicle had not been returned after being repaired even by 08 February 2021. However, the total estimated value thereof amounting to Rs. 1,891,250 had been paid on 31 December 2020. | The engineer informed that the repair would take 03 months to complete as some of the spare parts had to be obtained from the parent company. The engineer stated that it was necessary to obtain those spare parts as the repair was done under his supervision. As such, the vehicle was not received by the superior court by the date of audit. | Payment should be made based on the invoice after verifying that the repair has been done correctly. |
| c) Consent of respective members on 14 decisions taken at the meetings of Technical Evaluation Committee and the Procurement Committee held in October and December 2020, had not been given even by 15 February 2021. | Once the recommendations and decisions reached by the Chairman and members of the Committee as the meetings of the Tender Committee progressed, were noted by the Committee, the reports were prepared and forwarded for signing. Obtaining signatures of the members delayed due to delay in preparing reports. | Consent on the recommendations and decisions reached at the meeting, should be obtained at the same time. Action should be taken to avoid delays. |

3.3 Assets Management

| ----- Audit Observation ----- | Comment of the Chief Accounting Officer ----- | Recommendation ----- |
|--|--|---|
| Action had not been taken even up to 03 February 2021 to acquire the ownership of a vehicle provided for the superior court by the Ministry of Justice in the year 2013. | It is kindly informed that action will be taken to promptly transfer the ownership of the vehicle to the superior court. | Action should be taken in terms of Section 2 (i) of the Assets Management Circular, No. 02/2017 dated 21 December 2017. |