

## **Office for Reparations - 2022**

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### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the financial statements of the Office for Reparations for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and notes to the financial statements 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 entity as at 31 December 2022, 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 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 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 ability of the office 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 office or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the office.

As per sub section 16(1) of the National Audit Act No. 19 of 2018, the office 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 office.

#### **1.4 Audit Scope (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 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.
- 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 ability to continue as a going concern of the office. 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 office 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 office, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the office has complied with applicable written law, or other general or special directions issued by the governing body of the office;
- Whether the office has performed according to its powers, functions and duties; and
- Whether the resources of the office 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 Preparation of Financial Statements**

**1.5.1. Non-compliance with Sri Lanka Public Sector Accounting Standards**

Non-compliance with reference to relevant standard	Comments of the Management	Recommendation
<p>(a) According to paragraph 70, of Sri Lanka Public Sector Accounting Standard No. 01 an institution should present a separate classifications as current and non-current assets on the face of the statement of financial position, but an amount of Rs. 222,489,000 invested by the institution in the lending institutions under the integrated subsidy scheme received by the institution before 31 December 2023 as non-current assets had been reported in the financial statements.</p>	<p>As this amount is scheduled to mature in the year 2023, it should have been recognized as a current asset, but due to an omission, it could not be done so. However, from the year 2023, it will be calculated correctly.</p>	<p>It should be done in accordance with paragraph 70 of Public Sector Accounting Standard No. 01 of Sri Lanka.</p>
<p>(b) Sri Lanka Public Sector Accounting Standard No. 07</p>	<p>The observation is correct, in the year 2023, I will recalculate this asset class and adjust it through the final accounts.</p>	<p>Should proceed in accordance with paragraph 49 of Public Sector Accounting Standard No. 07 of Sri Lanka.</p>
<p>(i.) According to paragraph 49 of the standard, when recalculating property, plant and equipment, the class of property, plant and equipment to which the asset belongs should be recalculated, but the institution has recalculated 03 classes of assets during the year under review and Instead of the entire asset classes of the two asset classes i.e. machines, peripherals and computers, only 11 subjects related to machines and</p>		

peripherals and 78 subjects related to computer assets were audited. Accordingly, as at 31 December 2022, the date of the recalculation, 03 subjects related to machines and equipments worth Rs. 517,523 and 105 subjects related to computer assets worth Rs. 4,315,472 had not been recalculated.

(ii.) During the year under review 60 subjects related to wooden furniture which had been given to the Institute by the Ministry of National Policy, Economic Affairs, Resettlement and Rehabilitation, Northern Provincial Development and Youth Affairs but had not been valued and accounted for. Although it was valued at Rs.350,600 and reported in the financial statements, it was not disclosed in the financial statements as per paragraph 86 of this standard.

(iii.) The carrying amounts of property, plant and equipment classified as retired from operation and held for disposal in accordance with paragraph 92 (c) of the Standard shall be disclosed in the financial statements, but the board of survey carried out in the year 2021 did not reveal the asset related information of 50 commodity items recommended for sale.

In the year 2023, I will disclose it through the final accounts.

Should proceed in accordance with paragraph 86 of Public Sector Accounting Standard No. 07 of Sri Lanka.

In the year 2023, I will auction according to a proper method and make the necessary adjustments through the financial statements of the year 2023.

Should be follow section 92 (c) of Sri Lanka Public Sector Accounting Standard No. 07

**1.5.2. Accounting deficiencies**

<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
In the year under review, compensation amounting to Rs.364,300 paid to four indemnities was not accounted for and the expense was understated by Rs.364,300 and the cash balance was overstated in the financial statements.	Adjustments regarding the February 2023 have been made and corrected. An internal system has been adopted to prevent such omissions from now on.	Expenses must be properly accounted for.

## 1.6 Cash management

### 1.6.1. Inactive bank accounts

#### Audit Observation

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The bank account bearing account number 2026496 opened at Bank of Ceylon Thaprobhan branch to collect commercial industry debt collection remained inactive since December 2014. As at 10th May 2023, which is the date of audit, in this account from December 2014 there was a balance of Rs. 315,284. This bank account was not closed as per Treasury Operational Circular 3/2018 dated 26 July 2018.

#### Comments of the Management

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By informing the members board meeting to be held in the future, arrangements were made to get approval to close these bank accounts.

#### Recommendation

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Proceed as per Treasury Operations Circular 3/2018.

### 1.6.2. Cash held in current account

#### Audit Observation

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Rs.20,000,000 from the investments of Rs.114,989,000 received in the year 2022 under the Integrated Debt Subsidy Scheme and Rs.5,081,456 retained from 22 March 2022 received from the treasury for capital expenditure were retained in the bank current account of the office of reparation till the date of audit without any economic benefit.

#### Comments of the Management

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It is expected to implement a loan scheme with Samurdhi Bank, a microfinance company, using this amount under the Joint Credit Subsidy Scheme. For that, it is expected to implement the relevant credit system as recommended by the Treasury. For that, the relevant amount has been deposited in the current account subject to the approval of the Board of Directors.

10 million had been allocated for capital expenditure in 2021. Although the procurement plan had been prepared to spend the imprest funds received for this capital expenditure in 2021, it was planned to be used for allocating the rooms contained

#### Recommendation

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Actions should be taken to invest the money in the current account so as to get an economic benefit.

in it. Since moving the office to another premises was not certain, these capital funds were kept to be used after the renewal of the lease agreement in the future without incurring these expenses. However, in the year 2023, the office was moved to a new location.

**2. Financial review**

**2.1 Financial result**

The operating result of the year under review amounted to a deficit of Rs.9,946,070 and corresponding deficit in the preceding year amounted to Rs.17,114,511. Therefore an improvement amounting to Rs.7,168,441 of the financial result was observed. The reasons for the improvement are increase in recurring grants and decrease in other expenses for compensation.

**3. Operational review**

**3.1. Management inefficiencies**

<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
(a) As revealed in the inspection of the office of Reparation, compensation payment process of the Office for Compensation, under 04 compensation schemes, 4,770 compensation applications worth Rs. 653,087,126, which had been forwarded to the institution since 2002, have been arranged to provide compensation by 31 December 2022. But not taken actions to payment of compensation.	We grant compensation using imprest provide by the treasury. Accordingly, in the year 2022, compensation has been given by utilizing all the funds provided. The 4,770 cash compensation applications received from the Treasury during the promotion year have been prioritized by year on the basis of time analysis.	Budget estimates should be prepared accurately and provision should be made on time and compensation should be paid.
(b) During the year under review, although checks were issued for compensation payments, the process was not carried out properly due to the fact that	Earlier, separate cheqs were issued for each beneficiary while giving compensation to the beneficiaries in this regard. In order to quickly identify some errors that occur	Compensation recommendations should be made based on the updated information of the concerned beneficiaries.

compensation activities were carried out based on information which was not updated at the time of issuing cheques to the beneficiaries. Out of the cheques given to the compensation beneficiaries for the year 2022, 150 cheqs worth Rs.18,056,625 were dishonored by the bank due to incorrect information. It was also observed that during the year under review, 448 cheqs worth Rs.29,876,935 were extended.

there, in order to remit the compensation money to the beneficiaries very quickly, money is being credited to the accounts of the beneficiaries through the automatic system. Our office follows a continuous system of obtaining updated information of these compensation beneficiaries through the affiliated officers of the district offices.

**4. Accountability and good governance**

**4.1. Annual report**

**Audit Observation**

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 According to Section 14(3) of the Finance Act No. 38 of 1971, the annual report related to the year under review must be tabled in Parliament before the end of the 10 months following that year, but the annual report related to the year 2021 was not tabled in Parliament by 07 July 2023.

**Comments of the Management**

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 That the annual report of the year 2021 will be submitted to the Parliament as soon as the printed copies are received.

**Recommendation**

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 Section 14(3) of the Finance Act No. 38 of 1971 shall be followed.

**5. Human Resource Management**

**Audit Observation**

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 As at 31 December 2022, the number of approved officers in the office was 78, the actual number of officers were 54, and 24 vacancies for 06 posts.

**Comments of the Management**

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 Vacancies cannot be filled as the recruitment of officers has been temporarily stopped as per Cabinet Circular No. 21/1596/304/134 and dated September 07, 2021.

**Recommendation**

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 A periodic review should be done to maintain an effective service level and necessary actions should be taken accordingly.