

Prisoners' Welfare Fund - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Prisoners' Welfare Fund for the year ended 31 December 2019 comprising the 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(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 7(1) of the Prisoners' Welfare Fund Law, No.18 of 1973 of the Department of Prisons and provisions of the National Audit Act, No.19 of 2018. 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 financial statements give a true and fair view of the financial position of the Fund as at 31 December 2019, 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

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 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 Responsibility for Audit of 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 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 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 Financial Statements

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

The following observations are made.

| Non-compliance with reference to the relevant Standard | Comments of the Management | Recommendation |
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| ----- | ----- | ----- |
| (a) According to Sri Lanka Public Sector Accounting Standard 1, the going concern of the Fund could not be revealed under disclosures relating to accounting activities presented along with Financial Statements, due to matters such as uncertainty of receipts collected from sources of income for the Fund, lack of contribution from the Government for the activities of the Fund, failure in functioning the Fund with adequate funds and non-preparation of budget for the Fund. | It is agreed with the audit observation. The balance of the Fund was inadequate due to matters such as uncertainty of sources of income of the Fund, lack of contribution from the Government etc. As such, an estimate for the year under review was not prepared due to inadequate funds for incurring expenses of the year under review. However, programmes were implemented with the assistance of external institutions and voluntary organizations for achieving objectives of the Fund at least to a certain extent | According to Sri Lanka Public Sector Accounting Standards, attention should be drawn towards the going concern of the Fund. |

- (b) (i) In terms of paragraph 25 of the Standard 7, where an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition. However, the fair value of 25 items of donated assets in 04 prison institutions and 528 items of donated assets in 04 prison institutions received during the period from 2017 to 2018, had not been disclosed in the financial statements.
- It is agreed with audit observations. The Audit will be notified that action will be taken to compute the cost of all assets pointed out by the Audit, under the process of presentation of all fixed assets owned by the Department of Prisons through the Appropriation Account and to present them by the Appropriation Account of the ensuing year.
- Action should be taken in terms of Sri Lanka Public Sector Accounting Standards.
- (ii) In terms of paragraph 70 of the said Standard, expected usage of the asset and asset's expected capacity should be taken into consideration in determining the useful life of an asset. However, instead of determining the rate of depreciation by determining the useful life of assets donated to the Fund, donated assets costing Rs. 2,555,334 received in the year under review had been depreciated based on the rates of depreciation determined by a committee in the year 2003.
- Assets received as donation to the Prisoners' Welfare Fund are the assets received for utilization of prisoners. The rate of depreciation has been determined by considering the expected usage of those assets, nature of purposes for which assets are donated and the existence of the asset. Those are the rates of depreciation determined by a committee appointed in the year 2003 in terms of Sri Lanka Public Sector Accounting Standard 8 for depreciation of fixed assets owned by the Prisoners' Welfare Fund of the Department of Prisons.
- Action should be taken in terms of Sri Lanka Public Sector Accounting Standards.

1.5.2. Accounting Policies

The following observations are made.

| Audit Observation | Comments of the Management | Recommendation |
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| (a) An accounting policy had not been recognized for accounting the value of assets received as donations. As such, the carrying amount of donated assets had been Rs. 10,030,844 as at 31 December | The value of assets received as donations has been identified and credited to the Assets Donation Free Reserve Account for capitalizing the value of those assets. Accordingly, the balance of the said Account as at | Donated assets should be brought to account correctly according to the recognized accounting policy. |

2019. Nevertheless, the balance of the Donated Assets Reserve Account as at that date had been indicated as Rs. 23,507,728.

31.12.2019 had been Rs. 23,507,729. In the usage of these capitalized donated assets, the annual depreciations have been written off against the Income Expenditure Account in each year. As such, the carrying amount of donated assets of the Prisoners' Welfare Fund has been shown in the financial statements deducting by an amount equal to depreciations.

(b) As an accounting policy had not been recognized for accounting consumable goods received as donations to prison institutions, action had not been taken to disclose consumable goods valued at Rs. 997,300 received to 10 prison institutions, in the financial statements. Further, action had not been taken either to compute the value of receipts of consumable goods or to disclose them in the financial statements in remaining 20 prisons.

Consumable goods received as donations, are the goods donated for utilization of prisoners and action is taken to provide those goods for their utilization. When those goods are finished, those are not adjusted to the final account as stocks. Accounting activities of the final account of the Prisoners' Welfare Fund have been disclosed under disclosures as at 31.12.2019 according to the Standard 16.

The value of consumable goods received as donations should be disclosed in the financial statements according to a recognized accounting policy.

1.5.3 Accounting Deficiencies

The following observations are made.

| Audit observation | Comments of the Management | Recommendation |
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| (a) Action had not been taken to eliminate donated assets from books, valued at Rs. 181,365 and Rs. 46,500 misplaced after shifting the Bogambara Prison to the Dumbara Prison and misplaced in the Colombo Remand Prison respectively. | It is agreed with audit observations. Moreover, it is noted that Superintendents of Prisons will be given instructions required to eliminate goods not physically existed, from books and that action will be taken in future to eliminate these assets from books by appointing a formal committee. | Financial Regulations should be adhered to. |

- (b) Action had not been taken to eliminate 41 donated assets costing Rs.668,431 from books, destroyed due to fire in the year 2012, received to the new Magazine Prison as donations during the period from 1998 to 2011. Further, action had not been taken to eliminate 59 donated assets costing Rs. 895,244 received as donations during the period from 2011 to 2016 but removed from use as scrap. As such, a sum of Rs. 55,830 had been adjusted in the financial statements as depreciation in the year under review for goods destroyed due to fire and for scrap.
- It is agreed with audit observations. Applications required for obtaining approval for writing off the goods destroyed due to fire broke out during riots at the Magazine Prison on 24.01.2012, had been filled and forwarded to the Ministry. However, approval had not been received therefor up to now. As such, those destroyed assets could not be written off from books and as a result, depreciation on those assets is computed annually and presented by adjusting to the final accounts. Future action will be properly taken to write off those assets from books.
- Destroyed assets should be written off from books and accounts should be corrected in a proper manner.

1.5.4 Lack of Documentary Evidence for Audit

| Audit Observation | Comments of the Management | Recommendation |
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| A schedule relating to donated assets costing Rs. 2,220,016 brought forward as the diminished value as at 31 December 1997 in the Register of Donated Assets of 16 prison institutions, had not been made available to Audit. | Balances of donated assets amounting to Rs. 2,220,216 indicated only as the balance as at 31 December 1997 in the Register of Depreciation on Donated Assets pointed out by the Audit had been brought forward as a balance in the ledger and as such, it is maintained in the same manner. | Depreciation on assets brought forward and schedules thereon should be made available. |

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

 The following non-compliances were observed.

| Reference to Laws, Rules, Regulations etc. | Non-compliance | Comments of the Management | Recommendation |
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| (a) Prisoners' Welfare Fund (Amendment) Act, No.54 of 1979 of the Department of Prisons | | | |
| (i) Section (aa) | Wages and private cash of Rs. 4,228,197 that remained as unclaimed for a period of not less than one year had been retained in the General Deposit Account without crediting to the Fund. | Action will be taken to give instructions to Superintendents of Prisons for summoning a report on age analysis pertaining to cash unclaimed by relevant institutions and to credit them to the Prisoners' Welfare Fund. | Provisions of the Prisoners' Welfare Fund Act should be adhered to. |
| (ii) Section 04 | The income of the Fund for the year under review had been Rs. 767,912 and proper attention had not been drawn towards the identification and implementation of a methodology to collect income under 10 sources of income for which provisions had been made in terms of the Act for increasing the income. | It is noted to give instructions to the Commissioner of Prisons (Rehabilitation) for taking action to increase the income by paying special attention on sources of income specified in the Prisoners' Welfare Fund Act. | Action should be taken to increase the income of the Fund in terms of the Act. |

- (b) Financial Regulation 104 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka
- Necessary action had not be taken in terms of Financial Regulations regarding the donated assets damaged during internal riots of Welikada Magazine Prison and Anuradhapura prison institutions and assets destroyed due to Tsunami disaster in Galle Prison on 26 December 2004.
- The relevant Provisions of Superintendents of Prisons had been notified to send documents by remedying shortcomings therein and it has been forwarded to the Department of State Accounts to write off the loss sustained during the riot broke out in the Magazine Prison.

2. Financial Review

2.1 Financial Results

The financial result of the Fund for the year under review had been a deficit of Rs. 1,359,184 as against the surplus of Rs. 281,121 for the preceding year, thus observing a deterioration of Rs. 1,640,305 in the financial result. The decrease in the income of the Fund by Rs. 1,147,589 and increase in the expenditure by Rs. 492,717 as compared with the preceding year had been the main reason for the said deficit.

3. Operating Review

3.1 Performance

The following observations are made.

| Audit Observation | Comments of the Management | Recommendation |
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| ----- | ----- | ----- |
| (a) Even though the balance of the Fund including receipts of Rs. 768,031 of the year under review had been Rs. 3,604,646, only 20 per cent representing Rs. 721,015 out of that had been spent for conducting welfare programmes for prisoners which is the role of the Prisoners' | The balance of the Prisoners' Welfare Fund as at 01.01.2018 had been Rs.921,329 and the balance thereof by June 2018 in which the estimate for the year 2019 is prepared, had been Rs. 1,276,863. As the estimate for the year 2019 was prepared | Action should be taken to collect funds according to sources of income specified in the Act and for achieving objectives of the Act. |

Welfare Fund according to Section 5 of the Act. A sum of Rs. 617,565 or 83 per cent of the overall income received during the year under review was the income received from labour of prisoners in 06 prison institutions.

by taking the said balance into consideration, an expenditure estimate was prepared only for the value of Rs.1,000,000 and out of the said estimated expenditure, 72 per cent representing Rs.721,015 had been spent on welfare programmes of prisoners. A larger percentage of 83 per cent out of the total income, represents the income received from labour of prisoners which is the major source of income of the Prisoners' Welfare Fund and the remaining 17 per cent represents income from 05 other sources. Accordingly, it is noted to give instructions to the Commissioner of Prisons (Rehabilitation) for taking action to increase the income of the Fund by paying special attention towards the sources of income specified in the Prisoners' Welfare Fund Act.

- (b) No welfare programmes whatsoever had been conducted on behalf of prisoners in the preceding year and as compared with average of expenditure amounting to Rs.2,515,269 incurred for conducting programmes of 05 preceding years including the year 2017, the expenditure incurred therefor in the year under review had decreased by approximately 71 per cent.
- An annual estimate for the year 2018 had not been prepared and as such, no expenditure whatsoever had been incurred for welfare programmes for that year whilst 72 per cent of the estimated expenditure had been incurred for the year under review.
- Welfare programmes should be conducted in an adequate manner.
- (c) Performance indicators had not been introduced for measuring the progress of the Fund and the nature of programmes to be conducted in prison institutions, number of prisoners/suspects to be participated in, pre-plan on programmes
- An Action Plan for the approved Annual Estimate is prepared and details such as number of programmes to be conducted, number of inmates (Prisoners/suspects) to be participated in and expected
- Performance indicators should be introduced for measuring the progress of the Fund.

indicating the cost to be incurred and the progress according to the said plan had not been reported. As such, financial and physical performance relating to achieving objectives of the Fund could not be evaluated by comparing the planned and actual figures.

expenditure, are included therein and provisions and funds for those programmes are made accordingly. It is noted to give instructions to the Commissioner of Prisons (Rehabilitation) for taking action to introduce performance indicators for measuring the further progress of the Fund.

- (d) No welfare programme whatsoever had been conducted on behalf of prisoners during the year under review by Batticaloa and Kalutara prisons.

According to the Annual Action Plan, it had been planned to conduct welfare programmes in Batticaloa and Kalutara prisons and welfare programmes for prisoners relating to the Fund had been planned and conducted based on contribution of voluntary institutions, prisoners' welfare sub-unions, external institutions and persons.

Programmes should be conducted in terms of the Act.

- (e) The Fund had not conducted any programme for spiritual and religious welfare of prisoners in 04 out of 30 prison institutions located throughout the island. Moreover, no programmes on educational welfare of prisoners by 10 prison institutions, programmes relating to provision of recreational facilities and other amenities to prisoners by 09 prison institutions and programmes relating to payment of rewards to prisoners by 14 prison institutions had been conducted through the Fund. Further, only a sum of Rs.5,000 had been spent by the Weerawila Prison for post-release support programmes to assist in their rehabilitation and as such, objectives had not been achieved in terms of the Act.

According to the Action Plan prepared for the year under review, it had been planned to implement welfare programmes on behalf of all prison institutions. However, certain programmes are sponsored by regional committees and Government / Non-government organizations of the Prisoners' Welfare Fund relating to each prison institution and as such, an expenditure estimate had not been prepared for certain programmes.

Action should be taken in terms of provisions of the Act for achieving objectives.

4. Accountability and Good Governance

4.1 Budgetary Control

| Audit Observation | Comments of the Management | Recommendation |
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| <p>In terms of paragraph 4.1 of the Public Finance Circular No. PF/423 of 26 December 2006, the Annual Budget prepared according to Formats introduced by the Treasury in compliance with objectives of the Fund, should be furnished to the Director General of National Budget and Director General of Public Finance with relevant approvals before 30 September. Even though the budget for the year under review had not been prepared, a statement on variations between budgeted and actual figures, had been furnished along with financial statements.</p> | <p>That an estimate for the year 2019 had been duly prepared.</p> | <p>Provisions of public finance circulars should be adhered to.</p> |