

Shrama Vasana Fund - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Shrama Vasana Fund for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, 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(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 12 (4) of the Shrama Vasana Fund Act, No. 12 of 1998 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 Shrama Vasana 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 based 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 Board 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 Accounting Deficiencies

The following observations are made.

	Audit Observation	Comments of the Management	Recommendation
(a)	In terms of Section 53 of Sri Lanka Public Sector Accounting Standard 7, the revaluation loss of Rs. 306,348 resulted by revaluation of assets in the year under review should be indicated in the Revaluation Reserve Account. However, without indicating so, the annual surplus adjusted by the Accumulated Fund as prior year adjustments, had been overstated by that amount.	Action will be taken in future to write off the revaluation loss against the Revaluation Reserve Account and to deduct the balance from the income statement of the current year.	Revaluation of property, plant and equipment should be carried out in terms of Sri Lanka Public Sector Accounting Standards.
(b)	In terms of Sri Lanka Public Sector Accounting Standard 7, the useful life of fixed assets had not been annually reviewed. As such, fixed assets costing Rs. 430,420 fully depreciated as at the end of the year under review, were still being used. Action had not been taken to revise the estimated error in terms of Sri Lanka Public Sector Accounting Standard 3.	At the Annual Board of Survey of the year 2019, revaluation of assets was carried out after determining the assets to be revalued. As all classes of assets were revalued during the year 2019, in future the revaluation of all relevant assets will be carried out before completing of depreciation.	The Fund should review the useful life of assets after completion of depreciation.

- (c) A motor vehicle valued at Rs.3,500,000 transferred to the Fund by the Ministry of Labour, Trade Union Relations and Skills Development and wooden furniture and equipment valued at Rs.125,500 vested in the Fund by the Department of Labour, in the year 2019 had been adjusted to the accumulated profit as prior year adjustments, instead of identifying those as capital grants.
- In making prior year adjustments, action will be taken in future to remove the motor vehicle bearing No.KO 7519 valued at Rs.35,000,000 transferred by the Ministry of Labour and wooden furniture and equipment valued at Rs.125,500 vested in the Fund by the Department of Labour in the year 2019, from the capital and make adjustments in a separate account as Government donations, remove the depreciations of the assets and to maintain the closing balance of the year as the reserve.
- The Fund should take action to account the vested assets properly in terms of existing accounting practice.
- (d) The value of fixed deposits of Rs.2,692,741 as working capital adjustments under operating activities in the cash flow of the year under review, had not been confirmed in audit.
- As the interest income from fixed deposits of the year calculated through maintaining a control account by the surplus of the year taken to the cash flow statement and the difference between the receivable fixed deposit interest accounts of the current year and the preceding year as well are indicated under deductions and additions of working capital, the opening and closing balances of interest on fixed deposits of Rs.2,692,742.10 are once again deducted from the cash flow statement. As it effects the tallying of the cash flow statement, the above sum has been added to the surplus of the cash flow statement as an adjustment made to the working capital.
- Financial statements should be prepared as accurately as possible in compliance with Sri Lanka Accounting Standards.

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

 The following matters are observed in this connection.

Reference to Laws, Rules, Regulations etc.	Non-compliance (Rs.)	Comments of the Management	Recommendation
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(a) Government Procurement Guidelines of 2006 (i) Guideline 7.9.9	In the procurement of 3 desktop computers for Rs. 565,405, the Fund had obtained verbal clarifications from a bidder relating to technical matters for rejecting the bidder who had submitted the lowest bid. However, clarifications in writing had not been sought from the bidder as specified in the Guidelines.	In the procurement of desktop computers, letters of quotation had been forwarded to 11 institutions and quotations had been submitted only by 4 institutions. Out of them, the institution which had submitted the lowest quotation had priced a computer as Rs. 124,500.00. Further, as compared with the quotations submitted by all other institutions, a difference of Rs.35,000 was shown only in the quotation submitted by this particular institution. Accordingly, as per the verbal instructions of the Procurement Committee and the General Manager of the Shrama Vasana Fund, the officer in charge of the subject has made enquiries from the said institution by telephone, before the Technical Committee, on further details regarding the technical specifications. The said institution has responded by stating that even though the officer who prepared the documents had marked and sent that all specifications will be provided with, in the preparation of quotations, the quotation relating to the software named, Microsoft Office Package (Lifetime) had not been added.	The Fund should follow the instructions in Government Procurement Guidelines in carrying out procurements.

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| (ii) Guideline 3.4.3(c) | Despite the availability of registered suppliers, goods valued at Rs. 127,700 had been purchased from external institutions. | In calling for quotations relating to production of short eats and LED bulbs, the institutions providing with the relevant set of equipment were listed in Yellow pages and Rainbow pages. As such, quotations were called from the Sri Lanka State Trading (General) Corporation and other institutions registered therein.

The Secretary to the Ministry has stated at a meeting relating to mobile service that it is appropriate to get all printing purposes relating to the mobile service, carried out by one institution. Accordingly, as the Ministry had called for quotations relating to printing from the institutions listed in Rainbow pages, the Shrama Vasana Fund has called for quotations from the same institution relating to printing of handbills, posters and banners as well. | The Fund should follow instructions of the Government Procurement Guidelines in carrying out procurements. |
| (b) Section 2.1 of Public Enterprises Circular No.PED 3/2015 of 17 June 2015 | Even though the Executive Directors and the Chairman deployed in the Fund are not entitled for sitting allowances at Board Meetings, contrary to that, the Chairman had been paid a sum of Rs.42,000 as sitting allowances at 07 Board Meetings in the year 2019. | The former Secretary to the Ministry had retired by now and it had been decided by the Board of Directors that recovery of money from him as unfair. However, the sitting allowance is not claimed by the Chairman from January 2020. | The Fund should follow instructions of Public Enterprises Circulars. |

2. Financial Review

2.1 Financial Results

The financial result for the year under review was a surplus of Rs.21,832,738 as compared with the corresponding surplus of Rs.19,238,038 for the preceding year, thus observing an improvement of Rs.2,594,700 in the financial result. The increase in the income from lotteries by Rs. 10,004,734 had mainly attributed to this improvement.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
Out of functions which should have been executed by the Fund according to the Action Plan of the year 2019, seven functions for which a sum of Rs.2.41 million was allocated, had not been executed. Even though the said functions could not be implemented due to the nature of the aforesaid programmes and the weaknesses in the scope in the preceding year and the year under review, they had been continuously included in the Annual Action Plan by the Management without taking it into consideration.	The Board of Directors was briefed from time to time, on non-receipt of applications on programmes for which expected progress indicated in the Action Plan of years 2018/2019, could not be achieved. As such, a committee has been appointed for taking necessary action and the report thereof had been sent to the Secretary and is expected to be forwarded to the Board of Directors in future.	The Fund should make every attempt to implement the programmes planned, at optimum level while taking action to achieve targets included in the Action Plan as well.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
According to the Annual Action Plan, the number of programmes on providing medical assistance, distribution of artificial limbs and increasing lottery sales planned to be implemented during the year under review, was 85 and the estimated	The Board of Directors was briefed from time to time, on non-receipt of applications on programmes for which expected progress indicated in the Action Plan of years 2018/2019, could not be	The Fund should make every attempt to implement the programmes planned, at optimum level while taking action to achieve targets included in the Action Plan as well.

sum therefor was Rs.3.3 million. However, only 15 of those programmes had been conducted by the end of the year under review and a sum of Rs.1.3 million had been spent therefor. As such, it was observed that even though the physical performance stood at 17 per cent, the financial performance was 39 per cent. achieved. As such, a committee has been appointed for taking necessary action and the report thereof had been sent to the Secretary and is expected to be forwarded to the Board of Directors in future.