

Police Reward Fund – 2019

1.1 Qualified Opinion

The audit of financial statements of the Police Reward Fund for the year ended 31 December 2019, comprising the statement of financial position as at 31 December 2019 and the income statement, 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 73(4) (Cap 65) of the Police Ordinance and the provisions of the National Audit Act, No.19 of 2018. My comments and observations which I consider should be tabled in Parliament, appear in this report.

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion Section of my 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

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.

1.2.1 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
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(a) In terms of paragraph 150 of Sri Lanka Public Sector Accounting Standard 1, an entity shall disclose in the financial statements, the jurisdiction within which it operates, the relevant legislation governing its operations and the nature of its principal activities. However, no such disclosures had been made.	Those details have been included in the Corporate Plan and the Action Plan. Action will be taken to disclose in the financial statements in future.	Action should be taken to disclose the relevant details in the annual financial statements.
(b) Imprests of Rs.20,450,725 and Rs.2,407,870 granted under ordinary and motor vehicles respectively to 02	Action will be taken to rectify the accounting error occurred in the	Action should be taken to accurately identify the

Police Divisions had been settled in cash in the year 2020. However, the said value had been included in the Income Statement in the year under review as ordinary imprest expenditure and motor vehicles imprest expenditure.

year 2019 by expenditure adjustments made in the year 2020 to the Accumulated Fund. relevant for the year and to account it.

- (c) A sum of Rs.1,967,615 had been shown as court fines receivable at the end of the year under review from 11 courts. However, the income from court fines receivable, had been understated by Rs.1,615,213 in the financial statements due to receipt of Rs.3,582,828 in the year 2020. Moreover, a sum of Rs.11,017,998 had been shown as court fines receivable from 04 courts. However, as only a sum of Rs.3,265,230 had been received in the year 2020, the income receivable from court fines had been overstated in the financial statements by Rs.7,752,767.
- Action will be taken to adjust the sum of Rs.1,231,035 shown in the financial statements received in the year 2020 exceeding the income from court fines receivable, to the financial statements.
- Action will be taken to rectify the overstatement of Rs.7,843,845 indicated as court fines receivable, by journal entries.
- Action should be taken to accurately identify the income from court fines receivable at the end of the year and to account it.
- (d) The interest income from fixed deposits overstated by Rs.4,688,010 due to computation errors and the income from interest understated by Rs.4,981,809 due to computation on inaccurate ratios had been shown in the financial statements under investment income.
- Replies had not been made.
- Action should be taken to accurately identify the interest income relevant to the year and to account it.
- (e) The interest received at maturity relating to 4 fixed deposits had exceeded the interest accounted, by Rs.1,066,640 and the interest relating to 7 more fixed deposits had been received less by Rs.4,928,632 than the interest accounted for. However, no relevant adjustments had been made therefor.
- Replies had not been made.
- Action should be taken to accurately identify the interest income relevant to the year and to account it.

1.2.2 Unreconciled Balances of Control Accounts

Audit Observation	Comments of the Management	Recommendation
In the comparison of Letters of Confirmation on income from fines of 28 courts with the schedule submitted along with the financial statements, the income from court fines of the year under review had been understated and overstated by Rs.6,481,780 and Rs.43,258,080 relating to 16 and 12 courts respectively.	Fines receivable from 22 courts and 13 courts had been understated and overstated by Rs.1,453,981 and Rs.43,258,080 respectively and action will be taken to rectify these errors.	Action should be taken to accurately identify the income from court fines and to account them.

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 misstatements, 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 Scope of Audit

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 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 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.

2. Operating Review

2.1 Non-compliance with Laws, Rules, Regulations and Management Decisions

Audit Observation	Comments of the Management	Recommendation
Matters to be included in the Action Plan submitted relating to the Fund in terms of Sections (a), (c) and (f) of paragraph 04 the Public Finance Circular No.01/2014 of 17 February 2014, had not been included.	The Corporate Plan of the Police Reward Fund and details of the updated organization structure, approved cadre and the present cadre which had not been included in the Action Plan, is submitted herewith.	Action should be taken to prepare the Action Plan in terms of the circular.

2.2 Accounts Receivable and Payable

Audit Observation	Comments of the Management	Recommendation
(a) A sum of Rs.2,000,000 as advances had been shown in accounts without taking action to settle for over a period of 19 years.	Future action will be taken by examining the ability of elimination from accounts.	Action should be taken to settle advances.
(b) In paying rewards from the Fund for Special Raids, an advance of 50 per cent is paid before finalizing the lawsuits and balance amount is paid after finalizing the case. Nevertheless, action had not been taken to pay special rewards payable totalling Rs.85,064,711 relating to 381 case files for a period ranging from 01 year to 18 years due to non-completion of the lawsuits	Action will be taken to notify the paying offices to pay the balance rewards immediately after the legal proceedings are finalized.	Suitable action should be taken in respect of the progress of completion of law suits relating to the special rewards payable and follow-up action should be taken thereon.
(c) Action had not been taken to credit the court fines receivable from a court totalling Rs.1,285,832 to the Fund for 15 months up to December of the year under review.	The Superintendent of Police – Jaffna Division has been notified to take action on the rewards receivable from the	Action should be taken to collect revenue without delay.

Magistrates' Court of Pedro Point. The Courts Registrar as well has been notified.

- (d) A continuous delay of recovery of spot fines was observed and a sum of Rs.22,269,797 receivable in the year 2018 and before, relating to 20 Districts had been received in the year under review. Moreover, action had not been taken to recover a sum of Rs.492,040 receivable before the year 2017 from 2 Districts.
- The District Secretariats and Divisional Secretariats have been notified from time to time to credit the spot fines to the Reward Fund. It has been notified again by the letter dated 16.06.2020 due to continuous delays.
- Action should be taken to collect revenue without delay.

2.3 Performance

Audit Observation	Comments of the Management	Recommendation
<p>(a) Even though the total revenue of the year under review was Rs.3,467 million, the expenditure on rewards amounted to Rs.906 million. As such, the contribution towards the expected objectives of the Fund had taken a value as low as 26 per cent of the revenue of the year.</p>	<p>The paying offices have been informed to pay the rewards by using the maximum imprest limits approved for payment of rewards for Divisional offices in the year 2020.</p>	<p>Priority should be given to achieve the objectives of establishing the Fund.</p>
<p>(b) The officers engaged in duties of motor vehicles have collected a sum of Rs.1,219 million to the Fund as revenue from vehicle fines in the year under review. However, only a sum of Rs.194 million representing 16 per cent had been spent out of the revenue for vehicle rewards.</p>	<p>Even though the revenue from vehicle fines had increased by 29 per cent as compared with the preceding year, the increase in payment of rewards is 14 per cent. An increase in the payment of vehicle rewards is expected in future.</p>	<p>Priority should be given to achieve the objectives of establishing the Fund.</p>

- (c) The total revenue earned in the year under review by the Fund was Rs.3,467 million. The investments of the Fund had increased by Rs.2,483 million during the said period. Even though the expectation of the Fund was to spend 80 per cent of the revenue for payment of rewards and welfare activities, 71 per cent had been spent in relation to the total revenue for improvement of investments.
- The surplus of the working capital is invested in fixed deposits. It establishes the financial stability and going concern of the Fund. An arrangement will be made and implemented for the welfare of the officers on the interest from revenue in future.
- Even though the value of fixed deposits of the Fund increases annually, priority should be given to achieve the objectives of establishing the Fund.

2.4 Management Activities

----- Audit Observation -----	----- Comments of the Management -----	----- Recommendation -----
An interest totalling Rs.4,694 million had been earned on fixed deposits from the year 2013 up to the year 2019. However, the Fund had not paid attention towards utilizing this revenue for achievement of prime objectives of establishing the Fund.	It is vital that a stable financial basis exists due to the possible effect on the stability and the going concern of the Fund as a result of financial and other unfavourable factors arisen in the country.	A decision should be taken on how the revenue from fixed deposits should be utilized for the objectives of establishing the Fund.