

Saumya Moorthi Thondaman Memorial Foundation

1. Financial Statements

1.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraphs 1.2.1, 1.2.3 and 1.2.4 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

1.2 Comments on Financial Statements

1.2.1 Accounting Deficiencies

The following matters were observed.

(a) The Procurement Committee Allowance amounting to Rs.91,800 on the purchase of fixed assets in the year 2012 had been capitalized.

(b) Project for Construction of Fences around 11 PrajaShakthi Centers

(i) Even though the advances settled in the year 2012 out of the mobilization advance of Rs.9,359,784 paid to the contractor amounted to Rs.3,335,283 that had been brought to account as Rs.2,668,226 and as such the balance of Advance Account had been overstated by a sum of Rs.667,057.

(ii) Even though the value of the 06 bills paid to the contractor amounting to Rs.16,676,415 should have been recorded in the Work-in-Progress Account and the Contract Account, that had been recorded as

Rs.13,341,132. As such those accounts had been understated by Rs.3,335,283.

1.2.2 Accounts Receivable

The following matters were observed.

- (a) The value of 05 three wheelers supplied on credit basis to 05 persons in the year 2010 amounting to Rs.1,723,450 should be paid in full in 48 installments and the value of the installments recoverable as at 31 December 2012 amounted to Rs.896,194. Nevertheless, the value of installments recovered amounted only to Rs.538,398.
- (b) The arrears of installments as at the end of the year under review out of the loans amounting to Rs.2,700,000 granted under the Self Employment and Entrepreneurship Programme to 74 beneficiaries in the year 2009 amounted to Rs.1,500,550.
- (c) The Foundation had paid a sum of Rs.90,577 for the import of books for a celebration held by the Plantation Human Development Trust in the year 2008, though that amount should have been paid by that Trust. But action had not been taken even up to 31 December 2012 for the recovery of the money.

1.2.3 Lack of Evidence for Audit

The following items of account could not be satisfactorily vouched or accepted in audit due to the non-submission of the evidence indicated against each item to audit.

Particulars -----	Value -----	Evidences not made available -----
	Rs.	
Land and Buildings – Cost	347,402,548	(i) Document in support of Title

		(ii) Register of Fixed Assets
		(iii) Board of Survey Reports
		(iv) Schedules
Non-current Assets	129,778,194	(i) Register of Fixed Assets
		(ii) Board of Survey Reports
		(iii) Schedules
Purchase of 1,250 Handbags for Women's Day Programme	812,500	(i) Stock Records
		(ii) Distribution and List of Names
V-Set System and Charges on Supply of Internet Facilities	5,213,760	Agreement with the Company Concerned.
Transport Charges of Women's Day Programme	819,703	(i) Number of Persons Transported
		(ii) Certificate from a Responsible Officer in respect of the Procurement of Service.
		(iii) Date of Transport and the Distance Transported

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

Reference to Laws, Rules, Regulations, etc.

Non-compliance

- (a) (i) Paragraphs 2,3 and 4 of Section 10 of the Saumamoorthi Memorial Foundation Act, No. 19 of 2005.

All expenditure incurred in the execution of the powers and functions should be incurred from the Fund built by the Foundation. Nevertheless, the activities of the Foundation had been executed on the basis of reimbursement from the Ministry.

- (ii) Section 10(5) of the Finance Act, No. 38 of 1971. Bank overdraft facilities amounting to Rs.5,309,579 had been obtained without concurrence of relevant Minister and the Minister of Finance.
- (iii) Paragraph 10(1) and (2) of Part II of the Employees' Provident Fund Act, No.15 of 1958 The contributions recovered from the salary of employees from February to December 2012 and the contribution from the employer amounting to Rs.1,015,811 had not been remitted to the Employees' Provident Fund.
- (iv) Section 16 i of Part II of the Employees' Trust Fund Act, No. 46 of 1980. A surcharge of Rs.61,886 had been paid due to the delay in the remittance of contributions to the Employees' Trust Fund.
- (b) Finance Regulations 188 and 323(1) and (2) of Financial Regulations of the Democratic Socialist Republic of Sri Lanka A sum of Rs.16,005,017 had been credited to two private Bank Accounts of 02 officers in charge of Prajashakthi/ Navashakthi Projects for the settlement of expenditure of Prajashakthi Centres and for the payment of the monthly allowances of the Field Officers.
- (c) (i) Treasury Circular No. 842 of 19 December 1978. A Register of Fixed Assets had not been maintained.
- (ii) Public Administration Circular No. 9/2007(1) of 24 August 2007 Paragraph (i) and (iv) Five officers over the age of 60 years had been deployed in service on contract basis without formal approval and a sum of Rs.2,487,600 had been paid as allowances in the year under review.
- (iii) Public Finance Circular No. Even though a sum of Rs.4,200,000 out of the

- PF/PE/09 of 27 June 2000. money received in the year 2009 for the settlement of expenditure had been invested in a fixed deposit, the Treasury approval for that had not been obtained.
- (iv) Management Services Circular No. 30 of 22 September 2006. The approval in terms of the Circular had not been obtained for the Scheme of Recruitment and Promotion.
- (d) Paragraph ii of Supplement 20 dated 01 January 2011 of the Procurement Guideline. Even though an urgent purchase of Rs.3,732,100 had been made in the year 2012 deviating from the Procurement Procedure, the approval of the Departmental Procurement Committee had not been obtained in that connection.
- (e) Board Paper No. 102 of 29 December 2008. Duty turns exceeding the approved number per day had been deployed for the security services of the Thondaman Vocational Training Centre and the Norwood Sports Complex and as such security expenditure exceeding the approved limit for those centers by a sum of Rs.3,147,050 had been incurred.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the operating results of the Foundation for the year under review was a deficit of Rs.54,307,157 as compared with corresponding deficit of Rs.38,064,921 for the preceding year. The deficit for the year under review as compared with the preceding year had increased by a sum of

Rs.16,242,236 and the increase of the overall expenditure for the year by a sum of Rs.20,117,042 had been the main reason for the increase.

2.2 Analytical Financial Review

Several stages of the financial results for the year under review and the preceding year had been as follows.

Particulars	For the year ended 31 December		Variance	Percentage of Variance
	<u>2012</u>	<u>2011</u>		
	Rs.	Rs.	Rs.	
Income	106,342,779	102,467,975	3,874,804	4
Expenditure	111,758,945	100,942,326	10,816,619	1
Surplus / (Deficit) before adjustment of Annual Depreciation and Set Off Expenditure	(5,416,165)	1,525,649	(6,941,814)	554
Annual Depreciation and Set Off Expenditure	48,890,992	39,590,569	9,300,423	24
Surplus/(Deficit) after adjustment of Annual Depreciation and Set Off Expenditure	(54,307,157)	(38,064,921)	(16,242,236)	43

3. Operating Review

3.1 Performance

The performance of the Institutions functioning under the Foundation had been as follows.

- (i) Even though plans had been made to provide training in Information Technology to 45,000 persons and provide job opportunities for 200 youths at a cost of Rs.80.5 million a sum of Rs.66.07 million had been spent for providing training in Information Technology to 32,556 persons and job opportunities to 36 youths.
- (ii) Even though an estimate of Rs.9.3 million had been made for training of 240 persons at the Thondaman Cultural Centre at the rate Rs.38,750 per trainee a sum of Rs.7.97 million had been spent in the year under review for the training of 60 beneficiaries. As such, the expenditure had exceeded the estimated expenditure by a sum of Rs.94,083. The number of trainees receiving training as at the end of the year had decreased to 38 persons.
- (iii) Even though the Norwood Sports Complex had estimated to provide sports facilities to 1,000 youths in the year under review at a cost of Rs.3.6 million, sports facilities had been provided only to 83 persons at a cost of Rs.1.99 million. As such, the actual expenditure incurred per person had exceeded the estimated expenditure by a sum of Rs.20,376.

3.2 Management Inefficiencies

Even though a sum of Rs.2,319,298 had been spent up to the year 2012 on the Survey of lands on which Prajashakthi Centers are established for the acquisition of the lands by the Foundation, the land surveyed had not been acquired by the Foundation even by the end of the year under review.

3.3 Uneconomic Transactions

The following matters were observed.

- (a) The cheques received from the Ministry for the reimbursement of expenditure of the Foundation had been cashed through the cheque purchase system resulting in an additional expenditure of Rs.532,789.
- (b) Even though 26,841 out of the 120,000 exercise books for distribution among poor children ordered on an advance of Rs.2,000,000 paid to a Government institution had been received in January 2013, action had not been taken up to October 2013 to distribute those to the children.

3.4 Deficiencies in Contract Administration – Ramboda Cultural Centre

The following matters were observed.

- (a) Even though a mobilization advance of Rs.1,918,264 had been paid to a contractor on 11 October 2012 without entering into an agreement in connection with the construction and carpeting of the internal roads system of the centre valued at Rs.9,591,320, the work had not been commenced even up to the end of the year under review. Even though the advance guarantee had expired on 17 March 2013 action had not been taken for the recovery of the advance.
- (b) A contract agreement valued at Rs.8,501,568 had been entered into on 26 December 2011 for the construction of the sports ground and the netball, volley

ball and basket ball courts of the Centre and a sum of Rs.3,700,313 had been paid to the contractor as the mobilization advance and the first payment. Even though the work should have been started within 07 days from the payment of the mobilization advance and completed within 06 months, the Deputy Director (Finance) of the Foundation had extended the period of contract without formal authority. But the work had not been completed even by 13 October 2013, the date of audit. A Performance Bond had not been obtained for this purpose and the advance guarantee had expired in November 2012. But that had not been renewed.

Similarly, the Foundation had not taken any course of action against the contractor for not executing any of the contract works after 13 August 2012.

- (c) The value of work done as at 31 December 2012 in connection with the contract agreement value at Rs.2,236,883 for the supply of water to the buildings signed in the year 2010 and scheduled for completion on 15 March 2011 amounted only to Rs.743,647. The file thereon required for the audit of the work had not been furnished to audit.
- (d) The value of work done as at 31 December 2012 in connection with the contract agreement valued at Rs.23,713,083 for the construction of the male hostel signed in the year 2010 and schedule for completion 30 September 2011 amounted only to Rs.8,590,462. According to the letter of the Deputy Director (Finance) of the Foundation dated 29 April 2013 it was observed that the work of the contract had not been executed after November 2011. The file thereon required for the audit of the work was not furnished to audit.
- (e) Even though a contract agreement valued at Rs.1,787,925 had been entered into for the construction of a water supply system from the water sources of the centre the Chairman for the Foundation had not signed and validated in agreement. Even though the contract period was one month, the Deputy Director (Finance) of the Foundation had extended the period of contract in two instances without the formal authority. But the work had not been commenced even by 10 October

2013, the date of audit. Even though a mobilization advance of Rs.357,585 had been paid to the contractor, the advance guarantee had expired on 20 August 2012. But action had not been taken for the renewal of the guarantee or for the settlement of the advance.

3.5 Staff Administration

The following matters were observed.

- (a) Two officers had been recruited on contract basis for two posts not included in the approved staff for the Head Office of the Foundation and a sum of Rs.1,452,000 had been paid in the year under review as allowance.
- (b) The approval for the staff and the salary scales for the Thondaman Vocational Training Centre had not been obtained.
- (c) Even though the suitable persons had not been recruited to the respective posts according to the staff and the salary scales approved for the Prajashakthi Project in the year 2011, an officer recruited on contract basis in the year 2006 had been deployed in service up to the end of the year 2012 and an annual salary of Rs.480,000 had been paid in the year under review.
- (d) Allowances amounting to Rs.18,157,500 had been paid from the year 2010 to the year 2012 for 90 Field Co-ordinators in the service as at 31 December 2012. According to the Work Done Reports of those officers, it is not possible to be satisfied with regard to the benefits accrued to the Foundation from those officers.

4. Accountability and Good Governance

4.1 Presentation of Accounts

In terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements should be presented to the Auditor General within 60 days after the close of the financial year. Nevertheless, the Foundation had presented the financial statements for the year under review only on 23 September 2013, that is, after a delay of 07 months.

4.2 Action Plan

Action had not been taken in accordance with the Action Plan for the year under review prepared by the Foundation.

4.3 Internal Audit

An Internal Audit Unit had not been in operation during the year.

4.4 Audit and Management Committees

The Audit and the Management Committees had not been established in terms of the Public Enterprises Circular No. PED/12 of 02 June 2003.

4.5 Procurement Plan

Action had not been taken in accordance with the Procurement Plan for the year under review prepared by the Foundation

4.6 Budgetary Control

The variance between the budgeted data and the actual data ranged between 21 per cent and 455 per cent, thus indicating that the budget had not been made use of as an effective instrument of management control.

4.7 Tabling of Annual Reports

The Annual Reports from the inception of the Foundation in the year 2005 up to the year under review had not been tabled in Parliament.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of Foundation from time to time. Special attention is needed in respect of the following areas of control.

- (a) Contract Administration
- (b) Staff Administration
- (c) Financial Control
- (d) Budgetary Control
- (e) Assets Management
- (f) Accounts Receivable
- (g) Performance