

## **Divineguma Micro Finance Stationary Revolving Fund - 2015**

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The audit of financial statements of the Divineguma Micro Finance Stationary Revolving Fund for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory Information 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 45 of the Divineguma Act, No. 1 of 2013 . My comments and observations on the above financial statements appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgements, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in Paragraph 2.2 of this report.

## **2. Financial statement**

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### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in Paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Divineguma Micro Finance Stationary Revolving Fund as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

## **2.2 Comments on the Financial Statements**

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### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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The following observations are made.

- (a) The cash flow statement had not been prepared in accordance with Standard No. 02 and the following matters were observed in that regard.
  - (i) The stock remained in excess of the balance in the stock book as at 31 December 2015 amounting to Rs. 780,879 as a cash inflow from operational activities, and the writing off of damages in stock in the year 2014 from profit for the year under review amounting to Rs. 737,567 as a cash outflow under operational activities had been included in the cash flow statement.
  - (ii) The cash outflow under the receivables from the District Offices during the year under review was Rs. 8,380,417, it had been shown as Rs. 7,616,783 .
- (b) When depreciations had been made by a value equal to the asset in accordance with Standard No. 07, actions should be taken to account for determining the carrying value of that asset. However, arrangements had not been so made in respect of the office equipment cost at Rs. 119,962 that were fully depreciated accordingly.

### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) Even though the unrealized profit pertaining to the stocks in hand amounted to Rs. 12,725,122 as at the end of the year under review should be Rs. 1,156,829 as per the Quarterly Reports of the District Secretariat, as a result of computing of unrealized profit as Rs. 3,096,135 for the total amount of Rs. 34,057,486 receivable from the District Offices including the stationery sold to the Banking Associations, it had been overstated by Rs. 1,939,306 in the financial statements. As a result of implementation of the same policy in the preceding year as well, the unrealized profit at the beginning of the year had also been adjusted in excess by Rs. 939,425. As a result, the profit from the sale of stationery had been understated by Rs. 999,881 in the statement of financial performance.
- (b) Due to the fact that the non-inclusion the value of returned cheques in the accurate accounts when correcting errors made in the preceding year at the event of accounting for a cheque

valued at Rs. 80,500, overstating of the excess for the year under review by Rs. 71,404 and current liabilities by Rs. 1,778 and understating of current assets by Rs. 80,500 had been made in the financial statements.

### 2.2.3 Lack of Evidence for Audit

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The following observations are made.

- (a) Even though the balance as per the stock books as at 31 December 2015 was Rs.25,548,198, as a result it had been shown in the financial statements as Rs. 26,089,772 according to the Board of Survey Report, a sum of Rs. 541,573 had been adjusted as a profit without a definite identification. However, because of non- inclusion of the stock valued at Rs. 1,067,714 in the stock book, understating of the stock value of Rs. 287,044 in the stock book and the inclusion of unusable stock amounted to Rs. 871,055 in the stock in hand, the accuracy of the balance of the stock in hand was not confirmed during the audit.
- (b) The Credit Invoice Receipts for issuance of inventories amounting to Rs. 40,607,082 had not been submitted to audit as per the Quarterly Reports of the year under review.

### 2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The following inconsistencies were observed.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non-compliance</b>
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulation 763	A Stores Rules had not been formulated for efficiently manage inventory control by guiding officers and minimizing wastage.
(b) Guideline 5.4.12 of the 2006 Government Procurement Guidelines Code	Even though the reports had to be submitted by the 15th of the following month after paying of the Value Added Tax , the relevant reports had not been furnished in respect of the value of the Value Added Tax paid during the year under review amounted to Rs. 5,788,958 .
(c) Public Finance Circular No. PF / 423 dated 22 December 2006 (i) Paragraph 3.3 (b)	Actions had not been taken to legislate the Fund. Further, the Fund had been maintained under the Bank's Board of Management

without introducing regulations to maintain the Fund and to appoint a Board of Management.

(ii) Paragraph 4.4 (a)

Although the Annual Report of the Fund accompanying the Annual Financial Statements and Auditor General's Report, had to be tabled in Parliament within five months of the end of the financial year, the Annual Report for the year 2014 had not been tabled in Parliament.

**2.4 Accounts Receivable**  
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Even though, the stock of stationery stored in the warehouse belonging to Lanka Salusala had been removed in the year 2010, actions had not been taken to recover the warehouse deposit amounting to Rs. 1,454,112 paid for it.

**3. Financial Review**  
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**3.1 Financial Results**  
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As per the financial statements presented the financial results of the Fund for the year ended 31 December of the year under review was a surplus of Rs. 6,865,974 and thus indicating a corresponding surplus of Rs. 4,285,574 in the preceding year, a growth in financial results for the year under review amounted to Rs. 2,580,400 was shown as compared to the previous year. The increase in income of the Fund had mainly attributed to this growth.

**4. Accountability and Good Governance**  
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**4.1 Submission of Financial Statements**  
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As per Public Accounts Circular No: PF / 423 of 22 December 2006, although the financial statements of the Fund should be submitted to the Auditor General with a copy to the Department of Public Finance in the General Treasury within two months of the end of the financial year, the financial statements had been submitted to audit with a delay of 04 years.

**4.2 Internal Audit**  
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The Internal Audit Division of the Department had not carried out an audit regarding the activities of the Fund in terms of Financial Regulation 133 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

**4.3 Budgetary Document control**

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A Budget and an Action Plan for the activities of the Fund had not been prepared in terms of Paragraph 4.1 of the Public Finance Circular No. PF/ 423 of 22 December 2006.

**5. Systems and Controls**

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The deficiencies in systems and controls observed during the course of audit were brought to the notice of the Director General from time to time and special attention is needed in respect of establishing internal control systems and maintaining books and records systematically.