

Liquidation of the Loan Board - 2020

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of liquidation of the Loan Board for the year ended 31 December 2020 comprising the statement of financial position of liquidation as at 31 December 2020 and the statement of financial performance of liquidation for the year then ended 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 provisions of the National Audit Act, No. 19 of 2018 and Finance Act, No. 38 of 1971. My comments and observations which I consider should be reported to Parliament, appear in this report.

I do not express an opinion on the financial statements of liquidation of the Loan Board based on matters described in paragraph 1.5 of this report. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

I do not express an opinion based on the matters described in paragraph 1.5 of this report. As described above I was unable to confirm or verify by alternative means, material items included in the statement of financial position of liquidation and statement of financial performance of liquidation. As a result of these matters, I was unable to determine whether any adjustments might have been found necessary in respect of the amounts making up the statement of financial position of liquidation and statement of financial performance of liquidation.

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 determine 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 Board'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 Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act, No. 19 of 2018, the Company 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 Board.

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, misrepresentations, 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 Board'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 Board'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 Board 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 Board, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board;
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

Audit Observation	Comments of the Management	Recommendation
(a) The manner of liquidation of the Loan Board is not specified in the Loan Board Ordinance No. 4 of 1865. In terms of Section 24 of the Finance Act, No. 38 of 1971, the Loan Board is an institution which should adhere to provisions of the Finance Act, No.38 of 1971. The manner of liquidation of an institution which complies with provisions of the Finance Act, is set out in Sections from 19 to 21 of the Finance Act. Even though it had been decided to liquidate the Loan Board in the year 1976 according to the Note submitted along with the financial statements, the said decision, Cabinet approval and the approval of Parliament had not been made available to Audit.	In terms of Section 2 of the Loan Board Ordinance No.4 of 1865, the Loan Board has been operated by Commissioners and it has been mentioned that the decision of liquidation of the Loan Board, dated 26.03.1976 had been taken by the Commissioners of the Loan Board. However, it has been kindly informed that the said decision, approval of Parliament and the Cabinet approval could not be found in the examination of old files relating thereto.	It should be confirmed whether the approval has been obtained.

(b) According to the financial statements presented to Audit, the loss of liquidation had been Rs.916,303 as per the statement of financial performance for liquidation of the Loan Board for the year ended 31 December 2020. The said entire loss had been charged on the Consolidated Fund without obtaining approval of Parliament therefor in terms of the Financial Regulation 513.

The Loan Board had taken over the deposits determined by the court, through District Secretariats and Divisional Secretariats and repaid to depositors with interest thereon after concluding relevant court proceedings and these transactions have been made through following General Deposit Accounts of the General Treasury.

As transactions of the Loan Board had been made through General Deposit Accounts of the General Treasury, action has been taken to waive loan balances remained unrecovered in those accounts and interest payable therefor totalling Rs.916,303/- in the year 2020 on the approval of the Deputy Secretary to the Treasury considering it as other waivers in terms of F.R. 113 (3) (a) and it has been waived under the Loss and write off Object-245-01-01-00-1701 in the year 2020 subject to the covering approval of Parliament.

As budgetary provision required therefor had not been approved for the year 2020, the said Object was created for waiving the said loss as per the request made through my letter No. PFD/ASD/LB/1/6 dated 26/11/2020 from the Director General of Budget and it is kindly informed that provision required therefor had been allocated by managing provision

The said loss had been charged on the Consolidated Fund and as such, even the covering approval of Parliament should be obtained therefor.

approved for this Department for the year 2020, on the approval of the Department of National Budget in terms of provisions of F.R. 66.

- (c) A case had been filed in the Colombo District Court to recover outstanding property loan balances totalling Rs.195,000 granted to three officers by the Loan Board. According to information made available to Audit, judgements on two of those cases had been given on 22 July 1988 and 08 October 1988. Information on the other case had not been made available. According to information relating to two cases filed, it had been ordered to sell by public auction, the property held as security and to pay the relevant full amount and legal expenses from those proceeds on conditions approved by the Court. It is further mentioned that the relevant judgements could not be executed due to failure in giving the said judgements to the relevant defendants. Evidence was not made available to Audit to confirm that the said judgements could not be given to the defendants.
- The Director General, Department of Legal Affairs has been informed by my letter No.PFD/ASD/LB/1/6 dated 02.10.2018 to enquire on the current position of these judgements from the Colombo District Court. According to information obtained from the record room of the Colombo District Court, information indicated in paragraph 1:2 (c) of the Draft Auditor General's Report is confirmed by letter No.MOFP/LAD/Correspondence/PFD dated 23.04.2019 of the Director (Legal) and it is kindly informed that a copy of the aforesaid letter is submitted herewith as Annexure 01.
- Relevant information should be obtained.