

Institute of Valuers of Sri Lanka – 2013

The audit of financial statements of the Institute of Valuers of Sri Lanka for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013, the statement of comprehensive income for the year then ended, statement of changes in member's funds for the year then ended 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 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 31 of the Institute of Valuers of Sri Lanka Law, No. 33 of 1975 of the National State Assembly. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

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

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 judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institution'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 Institution'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 the financial statements. Sub sections (3) and (4) of the Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

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

1.4 Basis for Adverse Opinion

Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2 Financial Statements

2.1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial statements do not give a true and fair view of the financial position of the Institution of Valuers of Sri Lanka as at 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The Institute had not prepared the financial statements on an accrual basis in terms of Sri Lanka Public Sector Accounting Standard 01.

2.2.2 Accounting Deficiencies

The following accounting deficiencies were observed in audit.

- (a) Staff loan amounting Rs. 29,000 shown in the financial statements had been overstated by Rs. 7,000 due to set off the arrears contribution to the Employees Provident Fund amounting to Rs. 27,200 against staff loans account and the omission of recovered staff loan amounting to Rs. 34,200 during the year under review.
- (b) Even though, the office rent for the year under review was Rs. 412,643, it had been accounted for as Rs. 366,158. As such surplus for the year had been overstated by Rs. 46,484. Further, penalty on office rent amounted to Rs. 1,698 had not been accounted.
- (c) Audit fees amounting to Rs. 201,689 had neither been provided in the accounts nor paid since 1996.
- (d) The closing stock, interest income receivable on fixed deposits, sale income on diaries and fees for the preparation of financial statements aggregating Rs. 231,703 had been omitted in the accounts and as a result the surplus for the year under review had been understated by Rs. 175,203 while the current assets and current liabilities had been understated by Rs. 203,453 and Rs. 28,250 respectively.

2.2.3 Lack of Evidence for Audit

Expenditure relating to Seminar and valuers night aggregating Rs.293,520 and Rs.110,000 respectively could not be satisfactory vouched or accepted in audit due to non- submission of relevant vouchers, supporting documents etc although they were called for audit.

2.3 Non - compliance with Laws, Rules and Regulations

Instances of non- compliance observed in audit are given below.

<u>Reference to Laws, Rules, and Regulations</u>	<u>Non - compliance</u>
(a) Schedule A (5)(2) of the Institute of Valuers of Sri Lanka Law, No.33 of 1975 of the National State Assembly.	Even though 12 members of the Institute had not paid the membership fees for 2 year period,the names of such members had not been removed from the Membership Register.
(b) Chapter 5.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003.	A budget had not been prepared for the year under review.

3. Financial and Operating Review

3.1 Financial Result

According to the financial statements presented, the operations of the Institute during the year under review had resulted in a surplus of Rs. 143,801 as compared with the corresponding surplus of Rs. 347,661 in the preceding year, thus indicating a decrease Rs. 203,860 in the financial results for the year under review. The increase of expenses as against the increase of income by Rs. 203,860 with compared to the preceding year was the main reason attributed for this deterioration in the financial results.

4. Operating Review

4.1 Performance Review

According to the Council meeting held on 04 March 2013 and 01 July 2013 the council had decided to transfer a sum of Rs. 200,000 from current account of Benevolent Fund to a fixed deposit account , and to transfer a sum of Rs. 100,000 from the Building Fund Current

Account to Building Fund Savings Account. However, action had not been taken to implement this decision even up to end of the year 2013.

4.2 Uneconomic Transactions

A sum of Rs. 342,400 had been shown in the financial statements under work in progress relating to the Head Office building since 2009. Nevertheless, the Urban Development Authority had decided to cancel the lease agreement, stating that the Institute had not constructed any building on the land. Therefore, the expenditure incurred thereon had become a fruitless.

4.3 Key Objectives not Adequately Performed

Action had not been taken to achieve the following key objectives as mentioned in Section 04 of the Institute of Valuers of Sri Lanka Law, No.33 of 1975 of the National State Assembly.

- (a) To award scholarships, exhibitions bursaries and medals and other prizes.
- (b) To take meaningful measures to establish and maintain data banks as may be necessary for the benefit or advancement of those who practice valuation in Sri Lanka.

4.4 Transactions in Contentious Natutrs

Contrary to the decision taken at the Council meeting held on 01 April 2013, the Institute had recovered the low rates from the participants who had attended the Seminars without obtaining the proper approval from the authorities concerned. As a result, a sum of Rs. 65,150 had been lost to the Institute.

4.5 Nonmoving and Slow Moving Items.

Nonmoving and slow moving inventory items valued at Rs.71,190 and Rs. 220,089 respectively, had been included in the inventory as at 31 December 2013.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

The Financial statements of the Institute for the year 2013 had been submitted to Audit only on 17 November 2014 after 09 months later contrary to Public Entreprises Circular No. PED/12 of 02 June 2003.

6. Systems and Controls

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

- (a) Accounting
- (b) Control over Fixed Assest
- (c) Budgeting

