

State Institutions' Temporary Surplus Trust Fund – 2013

The audit of the financial statements of the State Institutions' Temporary Surplus Trust Fund for the year ended 31 December 2013 comprising the Balance Sheet as at 31 December 2013 and the income statement, cash flow statement for the year then ended, and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(2) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 23 of the Indenture of Trust No. 109 signed on 03 August 2005. In carrying out this audit, I was assisted by a firm of Chartered Accountants in public practice.

1.2 Management's Responsibility for the Financial Statements

These financial statements are the responsibility of the fund manager and the Trustees and have been prepared and presented in accordance with Sri Lanka 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. I believe that my audit provides a reasonable basis for my opinion. I have obtained all the information and explanations, which to the best of my knowledge and belief was necessary for the purpose of my audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, so far as it appears from my examination, proper books of accounts had been maintained by the fund, with respect to its activity and to best of my information and according to explanations given to me by the fund manager, the financial statements which are in agreement with books of accounts read together with notes reported to therein indicate a true and fair view of the state of affairs of the fund, except for the effects of the matters described in paragraph 2.2 of this report, as at 31 December 2013.

2.2 Transactions not Supported by Adequate Authority and Accounting Treatment for Other Receivables

- (a) The Fund had to pay Rs. 325,812,879 as dividends to the Telecommunications Regulatory Commission of Sri Lanka (TRCSL) for the year 2012. However this amount had been set off against the amount receivable from General Treasury amounting to Rs. 810,589,692 without any reasonable basis or written approval from the TRCSL.
- (b) Even though the Fund had accounted Rs. 484,776,812 as other receivables from General Treasury in the Balance Sheet, this amount had neither been confirmed nor accounted as a liability in the books of General Treasury. As Such the recoverability of this amount is in doubt.

2.3 Comments on Financial Statements
Non-Compliance with Laws, Rules, Regulations etc.

The following instances of non-compliance were observed in audit.

- (a) According to paragraph (a) of Section 12 of the Indenture of Trust No. 109 signed on 3 August 2005; the Board of Trustees should meet at least once in three months. However, no meeting was held during the year under review.
- (b) According to the Item 6 of the Memorandum of Understanding (MOU) dated 27 June 2006, the Trustees shall request the individual participating Government Institutions of the Trust Fund to furnish their projected fund flow details of at least six months to the Fund Manager. However, no such projected fund flow details had been received by the Fund Manager for the year under review.

3. Financial Review

Financial Results

The following observations are made.

- (a) According to the financial statements furnished, the operations of the Fund during the year under review had resulted in a pre-dividends net income of Rs.110.01 million as compared with the corresponding pre-dividends net income of Rs.1,113.49 million in the preceding year thus showing a decrease of Rs.1,003.48 million of 90.12 per cent in the financial results. This decrease was mainly due to decline in interest income consequent to decline in investments.
- (b) Even though the withdrawals during the period had amounted to Rs. 247.47 million, no state institution had deposited any surplus to the Fund during the year under review.
- (c) The interest on investments which is the main source of income of the Fund. However, the total investment had decreased by Rs. 246.30 million as compared with the preceding year.

4. Systems and Controls

Special attention is needed in respect of the following areas of control.

- a) Control over Projected Fund Flow of the Participating Government Institutions.
- b) Control over Withdrawals.
- c) Holding of Meetings of Trustees'