Academy of Financial Studies (Guaranteed) Ltd. - 2013

The audit of financial statements of the Academy of Financial Studies (Guaranteed) Ltd. for the period of 07 months ended 31 December 2013, comprising the balance sheet as at 31 December 2013 and the statement of financial performance for the period of 07 months 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 4 (b) of Paragraph 24 of the Articles of Association of the Company. My comments and observations on the financial statements of the Company appear in this report.

1.2 Responsibility of the Board of Directors' for the Financial Statements

Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Financial Reporting Standards for Small and Medium Scale Institutions and for such internal control as the Board of Directors 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. 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 risks 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 Company'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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the 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 Reporting in terms of the other Legal and Statutory Requirements

In terms of the requirement of Section 163(2) of the Companies Act, No. 7 of 2007, I inform as follows.

(a) Basis for audit opinion, scope of audit and limitations for audit are as follows.

(b) In my opinion, I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of audit and so far as appears from my examinations, the Company had maintained proper accounting records and the financial statements of the Company are in agreement with requirements in terms of Section 151 of the Companies Act.

1.5 Establishment of the Academy of Financial Studies (Guaranteed) Ltd.

An institution had been established, named as the Institute of Public Accounts and Finance (INGAF) for training of officers in the Accountants Service and Planning Service of the institutions belonging to the Ministry of Finance and Planning in terms of the Cabinet Memorandum No. 99/1386/03/095 of 30 July 1999. Only the name of this Institute had been changed as the "MILODA" Institute without making any changes in the management or role of the institute by the Cabinet Paper No. අමප/10/1773/404/089 of 12 August 2010. Even though all assets and liabilities of the Institute of Public Accounts and Finance, the name of which had been changed in terms of the above Cabinet Paper had been vested in the Miloda Institute, this Institute had not been incorporated under any statutory written law whatsoever. Out of the assets existed in the Institute amounting to Rs. 118,351,258 except for the liabilities of Rs. 3,585,477, the remaining Funds amounting to Rs. 114,765,781 had been financed by the Ministry of Finance and Planning. Out of these assets, buildings, constructions and other assets valued at Rs. 14,741,476 had been vested in the University of Vocational Training. Total assets of Rs.99,491,776 consisting of fixed deposits amounting to Rs.96,500,000, interest receivable amounting to Rs. 1,617,384, cash in hand amounting to Rs. 1,364,393, petty cash advances and fuel advances totalling Rs. 10,000 and total net assets amounting to Rs. 99,491,776 with liabilities of Rs. 82,289 existed in the Miloda Institute and Funds amounting to Rs. 151,319,381 received from the Fiscal Management and Reform Project for renovation of the old Customs Building had been utilized to incorporate this Institute once again as a Company Limited by Guarantee on 17 May 2013 under the Companies Act, No. 7 of 2007 in terms of the Cabinet Paper No. අමප /12/1129/504/100 of 23 August 2014.

Even though it had been informed that fixed assets amounting to Rs. 1,082,127, staff loans amounting to Rs. 210,414 and employees' gratuity funds amounting to Rs. 663,590 will be handed over to this Company on liquidation of the Miloda Institute, those assets and liabilities had not been handed over according to accounts presented to audit for the period of seven months ended 31 December 2013.

1.6 Basis for Qualified Opinion

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

2. Financial Statements

2.1 Qualified Opinion

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 Academy of Financial Studies (Guaranteed) Ltd. as at 31 December 2013 and its financial performance for the period of 7 months then ended in accordance with the Sri Lanka Financial Reporting Standards for Small and Medium Scale Institutions.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Financial Reporting Standards

Even though only the income and expenditure relating to the period for which financial statements are presented, should be brought to account, contrary to it, income amounting to Rs. 1,534,976 and expenditure amounting to Rs.2,993,234 relating to the period under control of the Ministry of Finance from January 2013 to 31 May 2013 had been made use of in the preparation of the report on financial performance.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) A sum of Rs. 381,970,143 had been spent for the reconstruction of the old Customs Building from the Asian Development Bank Fund through the Fiscal Management and Reform Project and a sum of Rs. 265, 847,007 had been spent for purchase of property, plant and equipment from the Sri Lanka Government Fund for the establishment of the Academy of Financial Studies (Guarantee) Ltd. Out of these expenses, only a sum Rs. 151,319,380 spent from the Sri Lanka Government Fund for the purchase of property, plant and equipment had been brought to account in the accounts of the Company presented to audit on 31 December 2013. As such, the sum of Rs. 381,976,143 spent for the reconstructions of the old Customs Building from the Asian Development Bank Fund and a sum of Rs. 114,527,626 spent for the purchase of property, plant and equipment from the Sri Lanka Government Fund had not been brought to account.

(b) Even though the annual depreciation for computers and training equipment totalling Rs. 90,845,523 had been computed by applying effective lifetime of 5 years and 15 years respectively, these assets had been shown as an aggregated amount in the financial statements.

2.2.3 Inappropriate Disclosures

Even though it was stated that the manner in which the assets and liabilities vested in the Company by the Miloda Institute should be settled in terms of the LetterNo. MF6/19/3 of 28 November 2014 of the Deputy Secretary to the Treasury, the manner in which those assets and liabilities were settled had not been disclosed in the financial statements presented.

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

A Register of Fixed Assets on computers and accessories costing Rs. 90,850,523 had not been maintained in terms of the Treasury Circular No. IAI/2002/2 of 28 November 2002.

3. Financial Review

3.1 Financial Results

The total income of Rs. 40,473,562 comprising an income of Rs. 22,461,352 from training programmes and an income of Rs. 18,012,210 from interests, rents and grants during the period of 7 months from 01 June 2013 to 31 December 2013 had been earned by the Company and a net profit of Rs. 6,941,091 had been earned after making provisions of Rs. 23,642,969 for training and administrative expenses and Rs. 9,889,502 for depreciation thereon.

4. Operating Review

4.1 Performance

It was intended to achieve the development of knowledge and skills of the officers represented from the Top Management Level to the Field Operating Level in the Ministry of Finance and Planning and main institutions related to fields such as Planning, Accountancy, Taxation, Assessment and Management of Expenditure included in the scope of the Ministry through this Institute and the following observations are presented relating to the achievement of those objectives.

(a) Only two training programmes under the above objective had been held during the period of 7 months by the Company in the year 2013. A sum of Rs. 6,705,355 had been spent for these training programmes and a sum of Rs. 18,253,211 had been recovered from the Ministry of Finance and Planning. Three hundred and twenty eight officers had been trained under these training programmes.

(b) An income of Rs. 4,208,142 had been earned by conducting programmes for external institutions and a direct expenditure of Rs. 1,623,604 had been incurred for those programmes during a period of 7 months in the year 2013 by the Company. In absorbing the overhead cost incurred during this period into this expenditure, the cost increases up to Rs. 16,937,617. As such, it was problematic that conducting programmes for external institutions could be economically viable.

4.2 Management Inefficiencies

A sum of Rs. 2,717,366 had been incurred by the Company for sanitary services during the period of accounting. Even though the private Company which had been awarded the contract of supplying sanitary service had agreed to employ 16 employees per day, the number of average employees employed per day had been only 05. It was observed that 05 employees were inadequate to carry out cleaning activities of such a Company with fixed assets to the value of Rs. 154,226,660 in a six storied building. Further, a sum of Rs. 3,000 had been paid per day to an employee engaged in cleaning service.

4.3 Personnel Administration

The particulars of the staff of the Company as at 31 December 2013 are given below.

Category of Employees	Actual Cadre	Contract Period (years)	Monthly salaries and allowances paid during the contract period
			Rs.
Administrative Officer	01	01	50,000
Accountant	01	01	60,000
Research Assistant	01	On part time basis	10,000
Administrative Assistant	02	01	25,000
Technical Assistant	03	01	25,000
KKS	01	01	25,000
Total	09		

The following observations are made.

(a) All the employees in the Company had been employed on contract basis and as a result, delegation of financial and administrative powers to them was problematic.

(b) Even though the organizational chart and the approved cadre of the Company should be registered in the Public Enterprises Department in terms of paragraph 9.2(d) of the Public Enterprises Circular No. PED/12 of 02 June 2003, it had not been so done.

(c) Even though a public enterprise should have Schemes of Recruitments and Promotions for every post in terms of paragraph 9.3.1 of the Circular mentioned in the above (b), this Company had not prepared such schemes.

4.4 Idle and Underutilized Assets

The Company had conducted 11 training programmes and trained 1,662 officers during the period of accounting. Seven lecture halls had been constructed for the Company and 884 officers could be trained in those lecture halls at a time. As such, maintenance of lecture halls with such capacity in a continuous air conditioned system had been a maintaining of idle assets.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the Institute should present the draft annual financial statements to the Auditor General within 60 days after the closure of the financial year, in terms of paragraph 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the Company had presented the accounts only on 07 November 2014.

5.2 Corporate Plan

Even though the Corporate Plan approved by the Company, should be presented to the Auditor General at least 15 days before commencement of the next financial year in terms of paragraph 5.1.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the Corporate Plan of this Company newly incorporated, had not been presented to the Auditor General even up to 31 December 2014.

5.3 Budgetary Control

The following observations are made.

(a) Even though the annual budget should be prepared and copies forwarded to the Auditor General at least before 15 days of commencement of the next financial year in terms of paragraph 5.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003, it had not been so done even up to 31 December 2014.

(b) Even though the responsibility of maintaining a suitable system of control on expenses of vehicle maintenance, fuel, electricity, water and stationery lies on the Management, in terms of paragraph 8.3.6 of the Public Enterprises Circular No. PED/12 of 02 June 2003, an expense of Rs. 5,799,202 had been incurred for electricity by this Institute for a period of 7 months commenced from 01 June 2013 and ended on 31 December 2013. The expense on electricity had been 44 per cent taken as a percentage of the total administrative expenditure. The average monthly electricity expense had been Rs. 828,457. As such, it is apparent that a system of good governance had not been maintained relating to electricity expenses in terms of the Circular.

(c) The total cost estimate of the Company had not been prepared in terms of paragraph 4.3.1 of the Government Procurement Guidelines – 2006.

5.4 Procurement Plan

A Master Procurement Plan had not been prepared in terms of 4.2.1(b) of the Government Procurement Guidelines 2006 and the Procurement Time Table had not been prepared in terms of 4.2.2 (a and b) of the aforesaid Guidelines.

6. **Systems and Controls**

Deficiencies observed during the course of audit were brought to the notice of the Chief Executive Officer of the Company from time to time. Special attention is needed in respect of the following areas of control.

(a) Operating Expenses
(b) Budgetary Control
(c) Recruitment of Staff