

State Institutions' Temporary Surplus Trust Fund – 2014

The audit of the financial statements of the State Institutions' Temporary Surplus Trust Fund for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the income statement, statement of trust capital, statement of cash flows 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 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.

This report is issued in terms of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

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 Generally Accepted Accounting Principles 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 Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report I am unable to verify the existence of the balance receivable from Treasury as at 31 December 2014.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

I was unable to verify the existence of balance receivable from Treasury as at 31 December 2014 amounting to Rs. 484,776,813 since I have not received the balance confirmation from the Treasury up to due date or any other evidence to verify the said balance.

2.3 Non-Compliance with Laws, Rules and Regulations

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 had been held during the year under review.
- (b) According to the Item No. 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 at least every six months to the Fund Manager”. However, no such projected fund flows 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. 95.95 million as compared with the corresponding pre-dividends net income of Rs. 110.01 million in the preceding year thus showing a decrease of Rs. 14.06 million or 12.78 per cent in the financial results. Decline in interest income as a result of decline in investments had been mainly effected to this decrease.
- (b) Even though only one state institution had deposited funds to the Trust amounting to Rs. 59.56 million, the withdrawals from the fund during the year was Rs. 204.88 million. Hence, it was observed that this situation would adversely affect the profitability and going concern of the trust.
- (c) The interest on investments is the main source of income of the Fund. However, the total investment had decreased by Rs. 78.36 million as compared with the preceding year.
- (d) Maintenance of separate files for investors and proper ledger folios.
 - (i) Although there were 18 investors in the fund, separate files had not been maintained for each investor with relevant documents.
 - (ii) It was observed that the proper ledger had not been maintained for all required accounts which aid in quick and easy preparation of financial statements.

4. **Systems and Controls**

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

Systems & Control areas	Observations
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Ledger Accounts	Proper ledger had not been maintained by the trust fund.
Investor Documents	Separate files had not been maintained for each investor with all relevant documents.
Withdrawals	Withdrawals was recorded as 344 per cent of deposits.
Non-compliance with the Trust deed	Meetings of the board of trustees had not been held during the year 2014.