

Saumyamoorthi Thondaman Memorial Foundation – 2014

The audit of financial statements of the Saumyamoorthi Thondaman Memorial Foundation for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in equity 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 11(2) of the Saumyamoorthi Thondaman Memorial Foundation Act, No. 19 of 2005. My comments and observations which I consider should be published with the Annual Report of the Foundation in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Responsibility of the Management for the Financial Statements

The 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 and fair presentation 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). 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 judgements, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation'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 Foundation'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 financial statements. Subsections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and the extent of the audit.

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

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraphs 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 Saumyamoorthi Thondaman Memorial Foundation as at 31 December 2014 and its financial performance and 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 Standard

(a) Sri Lanka Public Sector Accounting Standard 01

Information in respect of the value of Rs.11,653,854 shown in the accounts as prior year adjustments had not been disclosed in the notes presented along with the financial statements.

(b) Sri Lanka Public Sector Accounting Standards 07

The following observations are made.

- (i) Although the property, plant and equipment should be revaluated once in 3 years or 5 years in terms of paragraphs No.47 of the standard, action had not been taken accordingly, in respect of fixed assets account costing Rs.537,130,291 as at the beginning of the year under review.
- (ii) Without separately identifying the value of Land and buildings amounting to Rs.272,000,000 devolved upon the foundation in the year 2005, depreciation had been made 50 per cent on the total value, treated as the value of buildings.

2.2.2 Accounting Deficiencies

Payables totalling Rs.8,608,000 comprising a sum of Rs.7,008,000 payable for 96 instances out of 120 instances of V- SAT antenna maintenance services provided by an internet services Company in prajashakthi Centres for the period from 16 December 2009 to 01 November 2013 and the internet service charges of Rs.1,600,000 for the period of 3 months from 01 December 2013 to 28 February 2014 had not been brought to account.

2.2.3 Unexplained Differences

According to the financial statements for the year under review, it was shown a sum of Rs.4,261,841 as reimbursable from the Line Ministry for recurrent expenditure relating to the year 2014 and prior years to the Foundation. However, according to the record of the Line Ministry it was observed that there was no such a reimbursable amount to the Foundation.

2.2.4 Lack of Evidence for Audit

Age analysis in respect of a sum of Rs.8,572,886 receivable to the Foundation and a sum of Rs.8,937,243 payable balances by the Foundation was not made available for audit.

2.3 Accounts receivable and Payable

The following observations are made.

- (a) A sum of Rs.78,397,494 payable for the purchase of goods and equipment in the year 2014 from the State Trading (miscellaneous) Corporation Ltd. on the basis of settlement of dues within 01 month after receipt of goods, had not been settled even by the end of the year 2016.
- (b) A sum of Rs.282,567 payable to a private entity for making trade cubicles in respect of the “Deyata Kirula” festival held in the year 2012, had not been settled even by 31 December of the year under review.
- (c) Action had not been taken to recover or settle advances and debtor balances totalling Rs.12,627,270 and the creditor balances totalling Rs.5,356,146 brought forward for long period.
- (d) According to a directive of the Committee on Public Accounts held on 07 November 2012, a sum of Rs.773,172 recoverable as at the end of the year under review in respect of a reconstruction carried out to a building on behalf of the Ceylon Workers Congress had not been recovered even by the end of the year 2016.
- (e) Receivable balances of Rs.6,813,624 and Rs.49,161,510 relating to the year 2013 and the previous years respectively reimbursable from the Line Ministry had not been reimbursed even up to the end of the year under review. The Foundation had not taken any action whatsoever in this regard.

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

Instances of non-compliance with the following Laws, Rules, Regulations and Management Decisions were observed.

Reference to Laws, Rules, Non-compliance Regulations etc.

- | ----- | ----- |
|--|--|
| (a) Paragraph 10(1) and (2) of Part 11 of the Employees Provident Fund Amendment Act of 31 December 1998 | Employees and employers contributions totalling Rs.4,205,282 for the period September 2012 to March 2013 had not been remitted to the Employees Provident Fund. |
| (b) Paragraph 2,3 and 4 of Section 10 of the Saumyamoorthi Thondaman Memorial Foundation Act No.19 of 2005 | All the expenditure Incurred in the fulfillment of its duties and functions should be borne by the fund created by the Foundation. Nevertheless, the Foundation had earned only a sum of Rs.3.86 million during the year under review and the funds required for the balance expenditure had been given by the Government through the Line Ministry. |
| (c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka | |
| (i) Financial Regulations 371 | Although advances should be settled immediately after the purpose for which it was taken had been completed, advances amounting to Rs.318,867 and Rs.118,071 given to the Prajashakthi Project Manager in the years 2011 and 2013 respectively had not been settled even by 31 December 2014. |
| (ii) Financial Regulations 757 | Annual Board of Survey had not been conducted to cover all the divisions of the Foundation. |
| (iii) Financial Regulations 139(1) | Every Voucher accepted for payment should be certified by an officer who has the authority to do so Nevertheless, at a test check revealed that payments had been made for 06 Vouchers totalling Rs.157,516 without being certified. |
| (d) Paragraph 8.9.1 of the Procurement Guidelines of 2006 | The V-SAT Antenna maintenance Services had been obtained during the period September 2009 to March 2014 without an agreement and a sum of Rs.51,099,464 had been paid during that period to a private Service provider. However, the relevant institution had presented a draft agreement on 14 August 2009 to the Foundation. Without considering thereon by the Line Ministry, and the Foundation that service had been continuously obtained and made payments thereon. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Foundation for the year under review had been a deficit of Rs.48,715,500 as compared with the deficit of Rs.50,661,764 for the preceding year thus showing a decrease of deficit by Rs.1,946,264 in the financial result for the year under review as compared with the preceding year. Eventhough, donations of the Prajashakthi Project by Rs.43,997,693, publicity and promotion expenditure by Rs.4,950,987, salaries, wages and employee "benefit" by Rs.14,111,806 had increased and the increase of Government grant by Rs.63,516,683 had mainly attributed to decrease the deficit.

In analyzing the financial results for the year under review and the preceding 4 years, the deficit for the year 2010 amounting to Rs.11,511,530 had increased to Rs.50,601,704 by the year 2013 and decreased up to Rs.48,715,500 by the year 2014. However, after re adjusting the employee remuneration, and depreciation for non-current assets to the financial results, the contribution of the Foundation from the year 2010 to the year 2014 had been Rs.38,537,938, Rs.37,117,620, Rs.37,819,654, Rs.57,143,900 and Rs.69,018,051 respectively. The increase of salaries in the years 2013 and 2014 had specially attributed to increase the contribution of the Foundation.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) Although a provision of Rs.70 million had been made for capital expenditure relating to the year under review, only a sum of Rs.37 million had been spent as capital expenditure during the year under review, but the particulars of that expenditure had not been included in the performance report. Furthermore, a sum of Rs.29 million had been made for the capital expenditure of the Thondaman vocational Training Centre, Thandaman Cultural Centre and the Thondaman sports Complex but no any works whatsoever therefore had not been carried out.
- (b) According to the performance report presented, the following matters were observed.
 - (i) Under the Prajashakthi and Nawa Shakthi Project commenced in the year 2006, it was planned to provide Information Technology Training to 50,000 children and youths and employment opportunities to 200 youths. However, 3,352 students had been admitted to Information Technology Training in the year under review, and such training had been provided only to 39,140 since the year 2006 to the end of the year under review. Furthermore, the particulars of employment provided to youths in the year under review were not made available for audit.

- (ii) Although a provision of Rs.2 million had been allocated in the year under review for the construction of Regional Praja Shakthi Centres, any Centre whatsoever had not been built during that year.
- (iii) It was planned to spend a sum of Rs.24 million for the Thondaman Vocational Training Centre in order to train in the relevant vocations in accordance with the periodical requirement of 400 youths for the year under review. However, only 340 youths (85 per cent) for 12 courses were able to enroll during the year, out of which 231 youths only had sat for the examination. Accordingly it was observed that 109 youths (32 per cent) had left the courses. It was further observed that the youth enrolled for training during the year under review had decreased by 9 per cent as compared with the preceding year.
- (iv) Even though it was planned to conduct cultural courses for 240 students annually in the Thondaman Cultural Centre. Only 35 students had been trained in accordance with the performance report.
- (v) Although it was planned to provide sports facilities to 1000 youths and young women during the year 2014 in the Thondaman Sports Complex, according to the performance report, only 110 students had been registered to obtain sports facilities during the year.

4.2 Management Activities

The following observations are made.

- (a) Action had not been taken to get the ownership of 42 prajashakthi Centres operated by the Foundation transferred. Although a sum of Rs.2,359,298 had been incurred for surveys in the year 2012 for the construction of another 35 Prajashakthi Centres, those land had not been acquired by the Foundation even by the end of 2016.
- (b) According to the Section 10(2) of the Saumyamoorthi Thondaman Memorial Foundation Act No.19 of 2005, the preparation of title deeds for lands and buildings transferred and capitalized had not been carried out even by December 2016.
- (c) The Ministry had granted a sum of Rs.20,484,000 in the year 2009 for field Coordination functions in the selected areas under the prajashakthi Project. That money had been paid to 90 officers who had not been issued letters of appointments without assignment of specific duties and without ensuring the actual duties performed by them for the period from the year 2010 to April 2013.

As a result of management weaknesses in respect of the above coordinating activities, the project manager and the project coordinator of the Foundation, a sum of Rs.4,252,500 out of the Coordinating allowances had been credited fraudulently to the project manager's private bank account for the period, April 2011 to April 2013 by producing spurious documents. Subsequent to an investigation carried out in that regard, they had agreed to pay back this money but only a sum of Rs.1,050,000 had been paid by 25 May 2014 and the balance of Rs.3,202,500 had not been recovered even by the end of the year 2016.

In addition, the foundation had not conducted an Investigation in respect of crediting a sum of Rs.5,265,000 paid as field coordinating allowances to Private bank accounts during the period from the date of taking over field coordinating functions in the year 2010 up to March 2011.

- (d) Action had not been taken to get 4 motor vehicles, now being used, and given by the Line Ministry transferred in the name of the Foundation and brought to accounts.

4.3 Idle assets

The following observations are made.

- (a) Action had not been taken to sell or dispose of 57 motor cycles costing Rs.5,396,901 which had been removed from use and fully depreciated by the end of the year under review even up to 30 November 2016, the date of audit.
- (b) Although a motor vehicle used by the Foundation had been handled over to a private garage on 03 November 2014 for repairs, it was observed that it had been idle in the garage without being repaired even up to 30 November 2016, the date of audit.
- (c) It was observed that 44 cement block machines purchased on 01 December 2014 for Rs.4,048,000 under the self Employment loan project to be given to the prajashakthi Centres had been idle in the Norwood Thondaman Sports Complex even up to 30 November 2016, the date of audit which could not be given to the Prajashakthi Centres due to court order given on 24 February 2015. In addition, kovil bells, brass puja lamp, fitness equipment and set of sports equipment totalling Rs.2,794,368 on credit basis to be distributed as donations had stored in the same sports complex even by 30 December 2016 without being distributed.
- (d) Even though a sum of Rs.131,404,288 had been spent for the provision of Internet service facilities to 42 Prajashakthi Centres, payment of consultancy Services therefor, purchase of 42 set of V-SAT antenna equipment and maintenance and repair of them under the Prajashakthi Project in the years 2007, 2008 and 2009, such 42 pieces of equipment had become idle by the end of the year 2016, the date of audit, as the provision of internet service had been stopped since 01 March 2014. However, the decision of the Board of Directors to halt this service was not made available for audit.

- (e) A stock of souvenir plates costing Rs.398,999 shown under current assets in the financial statements had been idle without being issued to the parties concerned for a long time.

4.4 Procurement Process

Fitness equipments, puja goods, sports goods, wheel chairs, beds, laptop computers cement block machines, musical instruments, generators, Motor Cycles etc. valued at Rs.71,945,921 had been purchased in the year under review in 17 instances from the Sri Lanka State Trading (miscellaneous) Ltd. on credit basis. Approval of the Board of Directors of the Foundation or the Secretary to the Ministry had not been obtained for these purchases and the Procurement guidelines of 2006 had also not been followed.

4.5 Identified Losses

The following observations are made.

- (a) A Mitshubishi Cab valued at Rs.5,810,000 had been purchased from a private firm on 26 November 2014 on leasing basis by paying an initial payment of Rs.1,000,000 and the balance payable by 60 monthly installments for the use of Ramboda Cultural Centre. The total payment made thereto up to the end of the year under review amounted to Rs.1,070,290 and it had been shown under advances in the accounts. As the line Ministry had not given money to the Foundation thereafter, any lease installment whatsoever had not been paid. The lessor had taken back the vehicle and he had got the ownership of vehicle transferred in his name on 30 November 2015. However, the provision in the 150 of the budget circular No.DB/GPS/130/9/2 of 07 December 2010 had not been followed for the purchase of this vehicle and the approval of the Line Ministry and the Ministry of Finance had not been obtained as well.
- (b) Due to delays in the settlement of an electricity bill in the year under review and the remittance of contributions to the Employees Trust Fund surcharges of Rs.14,671 and Rs.101,747 had been paid respectively.

4.6 Personnel Administration

According to the information made available, the approved cadre of the Head office and for 3 projects as at 31 December 2014 amounted to 218 and the actual cadre stood at 144. Accordingly there were 74 vacancies.

The following observations are made in this regard.

- (a) Cadre and the salary scales had not got approved for the Thondaman Vocational Training Centre.

- (b) Although a cadre of 21 posts had got approved in the year 2003 for the Thondaman Sports Complex Project, 20 of such posts had not been filled and as such, the objective of this project could not be executed.
- (c) The recruitment procedure of the Foundation prepared by incurring an expenditure of Rs.150,000 in the year 2013 had not got approved even by the end of the year 2016.
- (d) Without being recruited a permanent officer for the post of Deputy Director General (Finance) since the year 2005, an officer over 60 years of age had been employed in the service on contract basis.
- (e) In addition to the posts approved by the Department of Management Services for the Thoandaman Cultural Centre, 4 posts including one clerk and 2 instructors had been recruited without approval and a sum of Rs.1,732,336 had been paid as salaries to them during the year under review.

5. Accounting and Good Governance

5.1 Presentation of Financial Statements

In terms of paragraph 6.5.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the financial statements should be presented to the Auditor General within 60 days after the closure of the financial year. Nevertheless, the Foundation had presented the financial statements for the year under review to the Auditor General on 14 September 2016, after a delay of 15 months.

5.2 Tabling the Annual Reports

In terms of paragraph 6.5.3 of the Public Enterprises Circular No.PED/12 of 02 June 2003 the annual reports from the year of establishment of the Foundation in 2007 up to the end of the year under review had not been tabled in Parliament.

5.3 Internal Audit

An internal audit had not been carried out in terms of Management Audit Circular No.DMA/2009(1) dated 09 June 2009 and No.DMA/ADM/2011/1/26 dated 23 December 2011 for the year under review and the Internal Auditor had performed the duties of the post of Accountant as well.

5.4 Budgetary Control

The following observations are made.

- (a) The approval of the Board of Directors for the budget prepared for the year under review had not been obtained.

- (b) According to the Budget, a sum of Rs.130,000,000 had been estimated for recurrent expenditure of the year under review but the actual expenditure was Rs.176,187,647 thus incurring an expenditure of Rs.46,187,647 in excess of the estimated expenditure. As the classification for recurrent expenditure stated in the estimate had not been prepared in compliance with the classification stated in the financial statements, provision of each expenditure object could not be compared with actuals.

6. Systems and Controls

Weaknesses in systems and controls observed in audit were brought to the attention of the Chairman of the Foundation from time to time. Special attention is needed in respect of the following areas of controls.

Areas of Systems and Controls	Observations
-----	-----
(a) Personnel Administration	Staff not recruited and the scheme of recruitment not approved.
(b) Procurement and Contract Administration	Non-compliance with procurement guidelines.
(c) Budgetary Control	Incurring expenditure in excess of estimates and purchases made without approval.
(d) Assets Management	Assets being idled
(e) Financial Control	(i) "PAID" seal not placed on vouchers and related documents. (ii) Payments cash book not authenticated by the responsible Officer.