

## **Legal Aid Commission of Sri Lanka - 2015**

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The audit of financial statements of the Legal Aid Commission of Sri Lanka for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in equity and the 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 23(3) of the Legal Aid Law, No. 27 of 1978. My comments and observations which I consider should be published with the Annual Report of the Commission in terms of Section 14 (2) (c) of the Finance Act appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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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 Auditors' Responsibility**

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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 judgement, 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 Commission'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 Commission'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. 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 audit opinion.

### **1.4 Basis for Adverse Opinion**

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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**

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### **2.1 Adverse Opinion**

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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 Legal Aid Commission of Sri Lanka as at 31 December 2015 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**

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#### **2.2.1 Accounting Deficiencies**

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The following observations are made.

- (a) The Policy on accounting the Government grants received to the Commission under Accumulated Funds had been followed. The expenditure of Rs.20,637,571 incurred by utilizing these funds for the repairs of buildings not in the capital nature had been brought to account as buildings. However, the Commission did not have the legal ownership of these buildings.
- (b) Even though six projects had been commenced by utilizing financial aid received from Foreign Aid Agents to the Commission, action had not been taken to account for the receipt of money and expenditure relating to those projects in the Commission. As such, the amount received from Agents to the Commission which is a State Institution, the expenditure incurred and the balance, could not be examined in audit. However, according to the information obtained from the Unit by which these programmes were implemented, it was revealed that a sum of Rs.166,349,463 had been received to the Commission during the period from the year 2012 to the year 2015.
- (c) Despite having rectified the error of accounting for the value of a television set purchased at a cost of Rs.63,056 in the year 2014 in the Building Account in the same year by a Journal Entry, again it had been eliminated from the Building Account in the year under review and brought to account in the Office Equipment Account. As such, the Office Equipment Account and the Building Account had been overstated and understated by the aforesaid amount respectively.

### **2.3 Transactions not Supported by Adequate Authority**

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Even though only benefits approved precisely by the Cabinet of Ministers, the Ministry of Public Administration and the Treasury, can be paid to the employees with the approval of their Boards of Control according to the Public Enterprises Circular No.95 of 14 June 1994, without such an approval, the Commission had commenced a Private Insurance Scheme only with the approval of the Board of Control and agreed to incur an expenditure of 50 per cent thereon. Accordingly, a sum of Rs.1,141,595 had been paid as the contribution of the Commission to the Private Insurance Company during the year under review.

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

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Even though it is stated that any charges payable on account of delayed payments may be surcharged against the officers responsible in terms of the Financial Regulation 210(2) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka, action had not been taken to recover a sum of Rs.17,070 paid as penalty due to failure in paying the Employees Trust Fund Contribution on due date, from the responsible parties.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Commission for the year ended 31 December 2015 had been a deficit of Rs.5,854,116 as compared with the corresponding deficit of Rs.11,365,134 for the preceding year, thus indicating an improvement of Rs.5,511,018 in the financial result of the year under review as compared with the preceding year. Even though aid from Foreign Agents and income earned by the Commission had decreased by Rs.12,881,686 and the expenditure on establishment and administration had increased by Rs.9,082,123, the increase in the Government recurrent grants by Rs.27,460,000 had been the main reason for the above improvement.

An analysis of financial results of the year under review and 04 preceding years revealed a deficit in the financial result from the year 2011 to the year 2015 and it had fluctuated annually. However, taking into consideration the employees' remuneration, tax paid to the Government and depreciation on the non-current assets, the contribution of the Commission had taken a favourable value from the year 2011 to the year under review and it had improved continuously. As such, the contribution of Rs.56,044,832 in the year 2011 had become Rs.142,660,619 as at the end of the year under review.

## **4 Operating Review**

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### **4.1 Performance**

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In terms of Section 3 of the Legal Aid Law, No. 27 of 1978, the objective of the Commission was to operate an efficient Legal Aid Scheme throughout Sri Lanka to provide legal advice to deserving persons, funds for the conduct of legal and other proceedings for and on behalf of such persons, the services of Attorneys-at-law to represent them and such other assistance as may be necessary for the conduct of such proceedings and 77 Centres had been established throughout Sri Lanka for achieving this objective. The observations in respect of these Centres and the entire performance are given below.

- (a) The main objective of the Commission was the operation of an efficient Legal Aid Scheme and the assistance of Attorneys-at-law had been provided for settling 7,465 court cases during the year under review and the unsettled number of court cases stood at 23,609. Out of 77 Regional Centres, the performance of settlement of court cases in 65 Centres was less than 40 per cent. Out of 23,609 unsettled cases, there were 47 cases under 06 types, 5,068 cases under 18 types and 10,516 cases under 18 types remaining unsettled for more than 10 years, between 05 and 10 years and 01 to 04 years respectively.

- (b) According to the Action Plan, it had been planned to inspect 30 Regional Centres by spending Rs.575,000 during the year under review. Nevertheless, a sum of Rs.51,081 had been spent only for examination of 05 Centres.
- (c) Establishment of Regional Centres had been indicated as a function of the Commission for achieving the objectives in terms of Section 4 (b) of the Legal Aid Law. Even though a sum of Rs.22,000,000 had been estimated for the construction of 11 new Regional Offices in the year under review, constructions had not been carried out and 07 offices had been maintained in buildings procured on rental basis and a sum of Rs.774,000 had been spent thereon during the year.

#### **4.2 Underutilization of Funds**

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A sum of Rs.12.5 million had remained as the minimum balance without being utilized throughout the year in the Current Account maintained by the Commission and attention had not been paid for investing the money on short term basis.

#### **4.3 Idle and Underutilized Assets**

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One hundred and ninety six items of furniture and office equipment with an unidentified value owned by the Commission had been stored idle over 10 years.

#### **4.4 Staff Administration**

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According to the Management Services Circular Nos. 28 of 10 April 2006 and 28(ii) of 01 August 2006, all recruitments of employees on permanent, casual or other basis should be made only with the prior approval of the Department of Management Services. However, contrary to that, the Commission had deployed 26 employees on casual basis in the year under review and a total sum of Rs.2,090,158 had been paid as salaries, Employees' Provident Fund and Employees' Trust Fund Contribution for them.

### **5 . Accountability and Good Governance**

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#### **5.1 Budgetary Control**

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Variances ranging from 17 per cent to 253 per cent were observed between the budgeted and actual expenditure for the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control.

#### **6. Systems and Controls**

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

**Systems and Controls**

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(a) Accounting

(b) Budgetary Control

(c) Financial Control

**Observations**

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Failure in recording the adjustments through properly approved Journal vouchers.

Non- preparation of correct expenditure estimates.

Improper utilization of funds