

## **Thurusaviya Fund - 2015**

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The audit of financial statements of the Thurusaviya Fund 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 21(2) of the Thurusaviya Fund Act No.23 of 2000. My comments and observations which I consider should be published with the Annual Report of the Fund 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 Auditor's 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 Fund'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 Fund'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 section (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 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 Audit Opinion**

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

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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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 Thrusaviya Fund 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 Sri Lanka Public Sector Accounting Standards**

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The following observations are made.

- (a) Action had not been taken to include a description in respect of the legal form, operations and principal activities of the Institution that should be disclosed with the financial statements in terms of Sri Lanka Public Sector Accounting Standard 01.
- (b) Even though the depreciable amount of an asset should be allocated on a systematic basis over its useful life in terms of Sri Lanka Public Sector Accounting Standard 07, the depreciation policy had been adopted from the year after the year of acquisition of assets by the Fund.

#### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) A government capital grants of Rs.7,000,000 obtained for the purchase of assets had been brought to account considering it as an income of the year.
- (b) An overprovision of Rs.1,166,813 had been made due to erroneous calculation for gratuities at the end of the year under review.

### **2.3 Accounts Receivable**

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Sufficient action had not been taken by the Thrusaviya Fund to recover outstanding loans older than 05 years totalling Rs.1,028,210 receivable from Thurusaviya Societies.

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

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The following instances of non-compliance were observed.

## Reference to Laws, Rules, Regulations

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## Non- compliance

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| (a) Section 47 of the Employees' Provident Fund Act No.15 of 1958   | A sum of Rs.471,763 had been overpaid to the Provident Fund for the year 2015 due to calculating it by considering interim allowances and special allowances.   |
| (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka<br>Financial Regulation 371                 | Even though ad-hoc sub imprests should be given to a Staff- Grade Officer, advances had been given to two new Management Assistants who are in their probationary period ranging from Rs.100,000 to Rs.700,000 and there were instances where sub- imprests had been issued again before being settled the previous advances. |
| (c) Treasury Circulars  |   |
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| (i) Circular No.842 of 19 December 1978   | A Register of Fixed Assets had not been maintained in terms of Circular provisions.   |
| (ii) Circular No.IAI 2002/02 of 28 November 2002  | A Register of Fixed Assets in respect of Computer Software and Accessories had not been maintained.   |
| (d) Letter of the Director General of the Department of Management Services No. DMS/B/02/I/14/2006 of 13 December 2006. | Over- payment of salaries amounting to Rs.389,760 had been made to three officers due to placing them on a higher salary step, contrary to the approval of the Director General of the Department of Management Services.   |

## 2.5 Transactions not supported by Adequate Authority

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A sum of Rs.7,803,624 had been spent by the Fund for capital expenditure in the year 2015 exceeding the estimated provisions without adequate authority.

## 3. Financial Review

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### 3.1 Financial Results

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According to the financial statements presented, the operations of the Fund for the year under review had been a deficit of Rs.450,932 as against the corresponding surplus of Rs.1,147,220 of the preceding year, thus indicating a deterioration of Rs.1,598,152 in the financial result as compared with the preceding year. Even though other income had increased by a sum of

Rs.6,882,707 , the increase of development expenditure by a sum of Rs.6,477,800 and the increase of personnel emoluments by a sum of Rs.2,659,942 respectively, had been the main reason for this deterioration in the financial result.

The contribution of the Fund before reducing the personnel emoluments and the provision for depreciation and non- current assets had been a surplus and it had been continuously improved from the year 2011 to 2015.

#### **4. Operating Review**

##### **4.1 Performance**

The following observations are made.

- (a) The main objectives of the Fund in terms of Thurusaviya Fund Act No.23 of 2000 include promoting the savings habit in and the economic and social status of rubber smallholders; promoting necessary investments related to rubber industry; acquiring rubber processing units, rubber factories and other facilities required for the manufacture of the produce of such rubber smallholdings; developing or establishment; promoting and developing the marketing of the products; registering Rubber Smallholdings Development Societies (Thurusaviya Societies) ; regulating and providing assistance to the members of such societies registered with the Fund; taking measures necessary for the improvement and well-being of those engaged in the produce of rubber in rubber smallholdings.
- (b) Even though a sum of Rs.671,357 had been spent for awareness programmes conducted for the members of the societies, follow- up action had not been taken as to the achievement of the objectives of conducting those training programmes.

##### **4.2 Management Activities**

The following observations are made.

- (a) Balance ranging from Rs.3 million to Rs.6 million existed in bank accounts throughout the year under review and those surplus money had not been utilized to achieve the objectives of the Fund.
- (b) Even though 12 Thurusaviya societies considered as operative in Monaragala, Badulla and Ampara districts were reorganized, action had not been taken to implement programmes which were expected to be implemented after the reorganization.

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

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### **5.1 Renderd of Financial Statements**

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In terms of the Public Finance Circular No. PED/12 of 02 February 2003 the financial statements should be rendered to audit within 60 days after the close of the financial year. Nevertheless, the accounts of the Fund had been rendered to audit only on 05 July 2016 after a delay of 127 days.

### **5.2 Procurement Process**

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The following observations are made.

- (a) A loss of Rs.153,624 had been incurred due to awarding the contract to the Institution which presented the second lowest price by rejecting the lowest price quoted by the institution in compliance with the necessary specifications in purchasing aluminum trays used in solidifying rubber latex.
- (b) A test had not been conducted by the relevant committees to inquire whether 90 rubber processing machines purchased by spending a sum of Rs.2,250,000 in the year under review under the 50 per cent Subsidy Programme were in compliance with the prescribed quality and comply with the specifications.

### **5.3 Audit and Management Committees**

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In terms of the Paragraph 7.4.1 of the Public Finance Circular No.PED/12 of 02 June 2003, the Audit and Management Committee Meeting should be held at least every 3 months. Nevertheless, only one meeting had been held in the year under review.

## **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 from time to time. Special attention is needed in respect of adopting the regulations in the Procurement Guidelines.