

Divi Neguma Fund - 2016

The audit of financial statements of the Divi Neguma Fund for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 45 of the Divi Neguma Act, No. 1 of 2013. My comments and observations on the above financial statements appear in this report.

1.2 Management's Responsibility 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 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 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 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.

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 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 Divi Neguma Fund as at 31 December 2016 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 Standards

Transactions, other events and situations should be identified and included in the financial statements within the relevant period when they occur in accordance with Paragraph 07 of Standard No. 03. However, instead of stating the rent income receivable from 1286 buildings where the Samurdhi Community Based Banks and Banking Societies are located amounting to Rs. 15,432,000 in the financial statements, only the actual income earned amounting to Rs. 12,226,000 had been appeared in the financial statements.

2.2.2 Accounting Deficiencies

The amount of Rs. 617,617 received during the year under review for the revenue generating projects of the previous years had been accounted for as an income of the year without adjusting to the receivables.

2.2.3 Lack of Evidence for Audit

Written evidences on schedules and balance confirmations pertaining to two accounting items of fisheries and animal husbandry receivable balance and agriculture receivable balance totalled to Rs. 17,412,473 were not submitted to audit..

2.3 Accounts Receivable and Payable

Actions had not been taken get reimbursed the loan of Rs. 212,000,000 provided by the General Treasury on the basis of reimbursement for the development activities of 03 Districts in line with the Deyata Kirula programme in the year 2014 even by the date of audit.

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

Actions had not been taken to legislate the Fund in accordance with Financial Regulations 876 (3) as published by Circular No. PF / 423 dated 22 December 2006 and Public Finance Circular No. 01/2020 dated 28 August 2020 and the necessity to maintain this Fund furthermore under the Department of Divineguma (Samurdhi) Development had not been reviewed.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Fund for the year under review was a surplus of Rs. 114,506,350 and the correspondent surplus of the preceding year was Rs. 87,064,477 thus indicated a growth of Rs. 27,441,873 in the financial results in the year under review as compared to the preceding year. The increase in total income including investment interest income by Rs. 58,341,814 had mainly attributed to this improvement.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) Even though the formulating of financial facilities to build Samurdhi Community Based Banks and Banking Societies is one of the functions of this Fund, a sum of Rs. 25,747,492 had been spent to construct 13 banking societies and to repair 9 banking societies out of 1286 community based banks / banking societies island wide during the year under review. Accordingly, the percentage of spent on that work from annual income was less than 17.19 per cent .
- (b) Actions had not been taken to properly calculate and recover project income and rental income for the year under review and it was not revealed in audit that the revenue receives from the projects functioned island wide were Invested / Re-invested.

4.2 Management Activities

A total of Rs. 17,412,423 included in receivables under the current assets in the financial statement had been provided as loans on revolving basis to Beneficiaries from the beginning of the Samurdhi programme till 2007 on the basis of recovery by the Samurdhi Authority on the Treasury provisions for agriculture, fisheries and

animal husbandry projects. Even though it had been ordered to credit the loan recoveries to the “Gam Pubudu Livelihood Revolving ” Account of the Divisional Secretariats in terms of the instructions of the Director General of Samurdhi dated 16 July 2007 No. ස/අධි/10/ජාස.ගම්/ ව්‍යුහ අරමුදල, there were no submission of reports or settlement of loans even up to the year under review. As a result, no money had received to the Fund from a revenue-generating projects whatsoever since 2007.

5. Accountability and Good Governance

5.1 Submission of Financial Statements

Although the financial statements should be submitted to the Auditor General within 02 months after the end of the financial year in accordance with Regulation 877 (2) (d) as published in Paragraph 15 of Public Accounts Circular No. PF / 423 dated 22 December 2006 and Public Finance Circular No. 01/2020 dated 28 August 2020, the financial statements for the year under review were submitted on 14 July 2021 after a delay of 05 years.

5.2 Budgetary Control

A Budget Estimate in respect of the functions of the Fund had not been prepared in terms of Paragraph 4.1 of the Public Finance Circular No. PF / 423 dated 22 December 2006 and the Regulation 877 (1) of the Financial Regulations as published in Paragraph 15 of the Public Finance Circular No. 01/2020 dated 28 August 2020 .

6. Systems and controls

A special attention should be drawn in maintaining of books and records in a systematic manner through establishing internal control systems by legislating the Fund and the presentation of financial statements in a proper manner.