

## **Divineguma Micro Finance Stationary Revolving Fund - 2016**

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The audit of financial statements of the Divineguma Micro Finance Stationary Revolving 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 Divineguma 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**

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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**

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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 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**

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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 Divineguma Micro Finance Stationary Revolving 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 the Financial Statements**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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- (a) The cash flow statement had not been prepared in accordance with Standard No. 02 and the following matters were observed in that regard.
  - (i) The value of the physical balances which had remained for more than the balance in the stock book of the District Offices as at 31 December 2016 amounting to Rs.121,788 as cash inflow under operational activities and the writing off of damages in stock in the years 2014 and 2015 from profit for the year under review amounting to Rs.2,406,670 as a cash outflow under operational activities had been entered into the cash flow statement.
  - (ii) Even though the receipts from fixed deposit investment interest during the year under review was Rs.1,426,323 , it had been shown as Rs.1,550,351 in the cash flow statement.

#### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) As a result of adjusting of the balance of Board of Survey Report amounting to Rs.17,648,683 remained more than the balance of the stationery stock account amounted to, Rs.14,000,633 as at 31 December 2016, non - inclusion of the stock valued at Rs.410,067 in the stock book and the inclusion of unusable stock valued at Rs.994,585 remained in Koswatta Stores, to the closing stock in hand, it could not be satisfied with the accuracy of the stock balance .
- (b) Even though the unrealized profit of Rs.1,249,123 pertaining to the stock in hand in the stores of the District Secretariats as at the end of the year under review amounted to Rs.13,740,243 should be entered into the financial statements, as a result of computing of unrealized profit as Rs.2,687,234 for the total amount of Rs.29,559,575 receivable from the District Offices including the stationary sold to the Banking Associations, it had been overstated by Rs.1,438,111 in the financial statements. Further, as the opening and closing balances of unrealized profits were not adjusted accurately during the year under review, though a sum of Rs.408,901 had been adjusted to the statement of financial performance as a realized profit, because of

unrealized loss after adjusting of unrealized profits to the accurate stock was Rs.92,294, the profit from the sale of stationery had been overstated by Rs.501,195 in the statement of financial Performance.

### 2.2.3 Lack of Evidence for Audit

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The Board of Survey Reports pertaining to the stock balances of two District Offices as at 31 December 2016 amounting to Rs.1,310,524 had not been submitted to the audit.

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

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The following inconsistencies were observed.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non-compliance</b>
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(a) Financial Regulation of the Democratic Socialist Republic of Sri Lanka. Financial Regulation 770 (2)	Without taking actions to obtain the approval of the Chief Accounting Officer in accordance with Financial Regulations in respect of the stock cost at Rs.1,841,151 which had remained in the main warehouse and disposed of after the Board of Survey in 2014 and 2015 and the stock cost at Rs.565,519 identified as damaged in the warehouses of District Secretariats had been written off as an expenditure for the year 2016.
(b) Public Finance Circular No. PF/423 of 22 December 2006 and Financial Regulations 876 (3) as published by Public Finance Circular No. 01/2020 of 28 August 2020 and.	Although it was stated that if there are reasonable grounds for maintaining a non-statutory fund furthermore, such Funds should be legislated by an Act of Parliament, actions had not been taken to legislate the Fund.

### 2.4 Accounts Receivable

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Even though, the stock of stationary stored in the warehouse belonging to Lanka Salusala had been removed in the year 2010, actions had not been taken to recover the warehouse deposit amounting to Rs.1,454,112 paid for it.

## 3. Financial Review

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### 3.1 Financial results

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As per the financial statements presented the financial results of the Fund for the year ended 31 December of the year under review was a surplus of Rs.23,314,160 and thus the corresponding surplus in the preceding year was Rs.6,865,974 as compared to the previous year, a growth in financial results for the year under review amounted to Rs.16,448,186 was

shown. Increase in the profit from sale of stationaries by Rs.17,344,017 had mainly attributed to this growth .

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

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##### **4.1 Management Activities**

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As a result of the total value of fixed deposits amounting to Rs. 53,805,931 were invested in short-term investments ranging from 3 days to 6 months had been made in short term investments, the interest income that could have been gained from a long-term investment had deprived of.

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

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##### **5.1 Submission of Financial Statements**

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Although the financial statements should be submitted to the Auditor General within 02 months after the end of the financial year in accordance with Public Accounts Circular No. PF / 423 dated 22 December 2006 and Regulation 877 (2) (d) of the Financial Regulation as published in Paragraph 15 of 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**

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

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

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The deficiencies in systems and controls observed during the course of audit were brought to the notice of the Director General from time to time and special attention is needed in respect of establishing internal control systems and maintaining books and records systematically.