

Saumyamoorthi Thondaman Memorial Foundation – 2016

The audit of financial statements of the Saumyamoorthi Thondaman Memorial Foundation 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 statement of cash flows for the year then ended and the 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 Financial Statements

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 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 judgment, including the assessment of the risk of material misstatement 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 the 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 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 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 07

The following observations are made.

- I According to the paragraph 47 of the standard, when the fair value of an asset differs materially from its carrying amount, annual revaluation should be done and the assets with only insignificant changes in the fair value should be revalued every three or five years. However actions had not been done accordingly in connection with the assets shown in the fixed assets account at the cost of Rs. 625,643,071.

- II According to the paragraph 72 of the standard, depreciation had been made considering the value of the building as 50 per cent out of the value of Rs.272,000,000 relating to the land and buildings which was handed over to the foundation at the commencement of the foundation in the year 2005 without evaluating land and buildings separately.

2.2.2 Accounting Policies

Although the fixed assets amounting to Rs.360,962,513 which was purchased from the government grants was being depreciated annually, an accounting policy for amortization of capital grant had not been recognized.

2.2.3 Accounting Deficiencies

A payable sum of Rs.5, 415,000 had not been taken in to account relating to V-SAT antenna maintenance service carried out in 96 instances out of 120 by an Internet Service Company during the period from 16 December 2009 to 01 November 2013.

2.2.4 Unexplained Differences

Although a sum of Rs 4,356,341 had been shown in the financial statements of the foundation for the year under review as to be reimbursed from the line Ministry relating to the year 2015 and the years before, it had not been shown as payable in the records of the Ministry.

2.2.5 Lack of Evidence for Audit

Balance confirmation and age analysis had not been furnished to audit for the receivable balances of Rs. 9,568,353, unsettled advance of Rs. 17,181,605 and credit balance of Rs.88.184, 387 shown in the financial statements as at 31 December 2016.

2.3 Receivable and Payable Accounts

The following observations are made

- a) Action had not been taken by the Foundation to settle the advance and debit balance of Rs. 13,607,208 and the credit balance of Rs. 10,165,586 which had been brought forward in the financial statements over a long period.
- b) Although Committee on Public Enterprises had directed to recover in the meeting held on 07 November 2012, action had not been taken even up to the end of the year under review to recover the sum of Rs. 1,890,246 which should be receivable at the end of the year 2017 out of the expenses incurred for renovation of a building of Lanka Liberal congress.
- c) Although an advance of Rs. 541,840 had been paid on 23 April 2014 to a private company to be installed a computer data system for the supervision of the activities of the Prajashakthi Development Project, the said job had not been implemented. However action had not been taken to recover the advance issued.
- d) Action had not been taken even up to the end of the year 2016, to reimburse a sum of Rs.6, 813,624 relating to the year 2013 and the years before, a sum of Rs.47, 370,427 relating to the year 2014 and a sum of Rs.3, 716,500 relating to the year 2015.

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

The following non- compliances with Laws, Rules, Regulations and Management Deficiencies were observed.

Reference to laws, Rules and Regulations

Non – compliance

- a) Saumyamoorthi Thondaman
Memorial Foundation Act, No.19
of 2005

I. Section 3 (1)

A Board of Management had not been appointed after the year 2014 for the administration of the Foundation.

In this regard Director (Finance) had informed that as per the Gazette notification No: 1933/13 dated 21 September 2015, activities of the foundation had been carried out under the direct supervision of the Ministry of Hill Country, New Villages, Infrastructure and Community Development. Hence it was not functioned as the Thondaman Foundation and therefore a Board of Directors had not been appointed by the Ministry or in another way.

II. Paragraph 2,3 and 4 of
Section 10

Although the all expenditure incurred for implementation and fulfil the authorities and activities of the Foundation should be made by their own funds, total expenditure of Rs. 102,827,804 had been obtained from the line Ministry for implementation of the activities of the Foundation. However the Foundation had earned only a sum of Rs.3.35 Million during the year under review.

- b) Employees Provident Fund amended
Act No: 26 of 1981

Paragraph 10(1) and (2) of part II

An employer and employee contribution of Rs.4,205,282 which should be remitted to the Employees Provident Fund for the period from September 2012 to March 2013 had not been remitted to the said Fund.

- c) Financial Regulations of the
Democratic Socialist Republic of
Sri Lanka

Financial Regulation 757

Board of Surveys had not been carried out covering all sections of the Foundation.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Foundation for the year under review had resulted in a deficit of Rs.32,380,913 and as compared with the deficit of Rs.45,027,660 in the preceding year, thus indicating an increase in the financial results by Rs.12,646,747. The increase of the expenditure for salaries and wages, supplies and other consumable expenses and other expenses by Rs.7,248,230 and decrease of depreciation by Rs.5,687,651 and amortization of computer software development by Rs.13,471,171 during the year under review had mainly effected to the above increase.

In the analysis of the financial results of the year under review and 05 preceding years a financial deficiency of Rs. 54,307,157 for the year 2012 had decreased up to Rs.32, 431,913 in the year 2016. However, considering the adjustments of employee's remuneration, and depreciation for non-current assets made to the financial results the contribution had increased continuously from Rs.37, 825,404 for the year 2012 to Rs.81, 671,104 for the year 2016.

4. Operating Review

4.1. Performance

The following observations are made

- a) Although the estimated capital expenditure for the year under review was Rs, 54.6 Million, any capital activity had not been carried out during the year under review.
- (b) An action plan for the activities of the foundation had not been prepared for the year under review. However according to the performance reports, 12 and 6 months vocational training programmes such as community based programmes as awareness programmes for spreading diseases and nutrition, self-employment workshops , students awareness programmes for computers under the Prajashakthi Development programme and information communication technical technicians, aluminum, welding motorcycle, electrician, tailoring, carpenter and English and other awareness workshops and 07campaigns in the Thondaman vocational Training Centre had been conducted.

4.2 Management Activities

The following observations are made

- a) Action had not been taken to acquire 44 Prajashakthi Centers conducted by the Foundation for providing service to the estate community and even though a sum of Rs. 2,359,298 had been incurred for surveys of lands to construct 35 Prajashakthi Centers in the year 2012, those lands also had not been acquired by the foundation even up to the end of the year 2016.

- b) Deeds had not been prepared even up to December 2016 for the lands and buildings which had been assigned to the foundation under the Section 10 (2) of the Saumyamoorthi Thondaman Memorial Foundation Act No.19 of 2005.
- c) A sum of Rs. 20,484,000 had been granted to the foundation by the Ministry for field coordination activities in few selected areas under the Prajashakthi Project. The foundation had recruited 90 officers in this regard. The allowances which should be paid to said officers had been credited to the personal accounts of the manager and the coordinating officer of the project. It had been observed in an investigation carried out for the period from April 2011 to April 2013 that out of those sum, a sum of Rs.4,252,500 had been obtained fraudulently by the manager and the coordinating officer of the project submitting false names. Accordingly those officers had agreed to pay back the money and a sum of Rs.1,050,000 had been paid up to 25 May 2014. However actions had not been taken to recover the rest of Rs. 3,202,500 up to the end of the year 2017. Further an investigation had not been carried out by the Foundation in connection with the action that had been taken to credit the field coordinating allowances of Rs.5, 265,000 granted by the Ministry during the period from the year 2010 to March 2011 to personal bank accounts.

4.3 Procurement and Contract Process

The following observations are made.

- a) Nine construction contracts of the Thondaman Cultural Foundation valued at Rs.72,818,294 had been commenced in the years 2010,2011 and 2012 and had been abandoned later. The value of said work in progress amounting to Rs.25,675,995 had been shown in the statement of financial position under the other non-financial assets. However the Foundation had failed to complete those work in progress even up to the end of the year 2017. Although a sum of Rs.7, 544,265 had been paid to a contractor as mobilization advance in the year 2012, a payable amount of Rs.1, 985,942 had been brought forward in the accounts from the year 2012 for the construction completed by the contractor.
- b) A sum of Rs.51,099,464 had been paid to a private service institution for purchasing computers and V-SAT antenna maintenance service for the period from September 2009 to March 2014 without being entered in to an agreement as per the 8.9.1 of the procurement Guideline 2006.

4.4 Idled Assets

The following observations are made.

- a) Fifty seven motorcycles at the cost of Rs.5, 396,901 which had been totally depreciated and not in use at the end of the year under review had been remained idle up to 30 November 2017 the date of audit without taking actions to sale or dispose.

- b) Forty four cement blocks machines purchased at Rs.4, 048,000 on 01 December 2014 in order to be given to Prajashakthi Centers under the Self Employment Loan Project had been remained idle up to December 2017 in the stores of Norwood Thondaman Sports Complex .Those machines were not be able to distributed to relevant Prajashakthi Centers due to a court order issued on 24 February 2015.
- c) It was reported to audit that 15 kovilbells and 377 brass sacred lamps valued at Rs.1,070,848, 07 sets of body building equipment valued at Rs. 350,000 , and 194 sets of sports equipment valued at Rs.1,373,520 had been remained idle in that sports complex.

Distribution of those equipment purchased at the end of the year 2014 had been stopped due to a court order issued after the presidential election in January 2015.However 7 kovil bells and 68 brass sacred lamps had been distributed to Kovils and 7 body building equipment had been taken in to use of the body building center of the sports complex. The Director (Finance) of the Foundation had replied that out of the sets of sports equipment, all which can be distributed had been distributed and some sports equipment were decayed and not in the usable condition.

- d) A sum of Rs.131, 404,288 had been spent for providing internet service to 42 Prajashakthi Centers, paying consultancy fees in this regard and purchasing, repairing and maintenance of 42 sets of V-SAT antenna equipment under the Prajashakthi project in the year 2007, 2008 and 2009.However obtaining of the antenna service had been terminated since 01 March 2014 and 42 sets of antenna equipment had been remained idle up to the end of the year 2017. Further the decision of the Board of Directors for termination of the service had not been furnished to audit.
- e) A stock of commemorative ornaments valued at Rs. 398,999 which had been shown under the current assets in the financial statements had been remained idle without issuing relavant parties.

4.5 Identified Losses

Contrary to the Budget circular No 50 dated 7 December 2010 and without obtaining the approval of the Line Ministry and the Ministry of Finance, the Mitsubishi double cab numbered WPPF 7268 had been purchased at Rs.5,840,000 under operational lease from a private company on 26 November 2014 for the use of Ramboda Cultural Centre under the operational lease on the basis of initial payment of Rs.1,000,000 and 60 monthly installment. The cab had been taken over again by the lease due to non-payment of lease installment as scheduled and the right of the vehicle had been transferred by the lease as at 30 November 2015. However a sum of Rs.1,565,504 as the total of the initial payment of Rs.1,070,290 and installment of Rs.495,214 paid to this vehicle had been shown in the accounts as advance receivable as at the end of the year under review. However attention had not been paid by the management to recover those money.

4.6 Staff Administration

According to the information presented the approved cadre of the head office and 03 approved projects as at 31 December 2016 was 218 and the actual cadre was 130 thus there were 88 vacancies. The following observations are made in this regard.

- a) Although the cadre and the salary scales for the Thondaman Vocational Training Center had not been approved, the actual cadre of the project as at 31 December 2016 was 33.
- b) Six posts including the post of accountant of the head office were vacant over a long period. An officer who is aged more than 60 years had been appointed to the post of Deputy Director General (Finance) since the year 2005 on the contract basis without taking action to appoint a permanent officer.
- c) Although a staff of 21 posts had been approved for the project for Norwood Sports Complex since the year 2003, sports practices had not been implemented as planned. Hence only two officers were employed.
- d) The recruitment procedure which had been prepared by an external consultant incurring Rs.150, 000 by the foundation in the year 2013 had not been approved even up to the end of the year 2016. However at present projects of the foundation had been taken over and implemented by the Line Ministry therefore the said expenditure was observed as fruitless expenditure.
- e) An officer had not been appointed since the year 2005 for the post of Cultural Officer which was approved by the Management Services Department for the Thondaman Cultural Center. Two officers had been recruited for 02 posts of coordinator and warden which were not included in the approved cadre and a sum of Rs.832, 180 had been paid as salaries for them during the year under review.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

The following observations are made.

- a) According to the paragraph 6.5.1 of the Public Enterprises Circular No:PED/12 dated 02 June 2003, financial statements should be presented to the Auditor General within 60 days after the financial year. However financial statements for the year 2016 had been presented by the foundation on 15 March 2018.
- b) According to the paragraph 3 of the Public Enterprises Circular No:PED/45 dated 02 October 2007, the certification of responsibility of the management for the financial statements had not been included in the financial statements. Further board of directors had not been appointed to the foundation since the year 2014 and according to the letter of President Office No: CSA/1/31 dated 20 July 2016, all activities of 04 projects conducted by the foundation had been implemented by the Ministry of Hill Country, New Villages, Infrastructure and Community Development and the financial statements had been presented to audit by the Secretary to the said Ministry.

5.2 Internal Audit

Although the Internal Audit staff should be employed to create an efficient internal control system as per the Audit and Management Circular No: DMA/2009(1) and DMA/ADM/2011/1/26 dated 09 June 2009 and 23 December 2011 respectively, the internal auditor had covered the duties of the vacant post of the accountant. Hence an internal audit had not been carried out during the year under review.

5.3 Budgetary Control

An approved budget had not been prepared for the foundation due to unavailability of Board of Directors and only a draft budget had been prepared.

5.4 Procurement plan

A Procurement plan had not been prepared by the foundation for the year under review.

5.5 Tabling of Annual Reports

According to the paragraph 6.5.3 of the Public Enterprises Circular No:PED/12 dated 02 June 2003, annual reports should be tabled in the Parliament within 150 days after the financial year. However annual reports had not been tabled since the year 2005 in which the foundation was established up to the end of the year under review.

6 Systems and Controls

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

Areas of Systems and Controls	Observations
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a) Contract Administration	Constructions were not completed as agreed.
b) Financial Control	Non- compliance with procurement guidelines.
c) Asset Management	Assets were remained idle.
d) Internal Audit	An Internal audit was not done.