

Sri Lanka Foundation – 2016

The audit of financial statements of the Sri Lanka 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 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 13(3) of the Sri Lanka Foundation Law, No. 31 of 1973. 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. A detailed report in terms of Section 13(7)(a) of the Finance Act was issued to the Chairman of the Foundation on 14 July 2017.

1.2 Management’s Responsibility for the 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 judgement, including the assessment of the risks 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 financial statements. Sub-sections (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.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Sri Lanka 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

The following observations are made.

Sri Lanka Public Sector Accounting Standard 07

- (a) When the fair value of an asset differs materially from its carrying amount, those assets should be revalued and those revalued amounts should be adjusted in accounts. Nevertheless, action had not been so taken in respect of fixed assets costing Rs.57,093,384 except for lands and buildings .
- (b) Even though the assets costing Rs.34,225,505 had been fully depreciated as the useful life of non-current assets had not been reviewed annually, they were being further used. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Public Sector Accounting Standard 03.

2.2.2 Accounting Deficiencies

The income from courses had been brought to account without considering the duration of courses conducted by the Foundation. As such, the income from 4 courses subjected to audit test check, had been overstated by Rs.818,250 in the accounts.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) The debtors balance of the Foundation as at 31 December of the year under review amounted to Rs.17,216,836 and out of that, loan balances amounting to Rs.399,578 and Rs.6,262,434 had remained for over a period of 05 years and for a period between 01 to 5 years respectively.

- (b) Action had not been taken to recover the salaries and other allowances amounting to Rs.551,863 recoverable from 15 officers and the balance of festival advances of Rs.18,750 from 3 officers who had vacated the service without prior notification.

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

The following non-compliances with laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules, Regulations	Non-compliance
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<p>(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka</p> <p>-----</p> <p>(i) Financial Regulation 757</p> <p>(ii) Financial Regulations 570 and 571</p>	<p>Reports on Boards of Survey for the year 2016 had not been submitted to Audit even by 15 June 2017.</p> <p>Retention money totalling Rs.207,333 over a period exceeding 3 years had not been credited to revenue.</p>
<p>(b) Establishments Code of the Democratic Socialist Republic of Sri Lanka</p> <p>-----</p> <p>Section 16.1.2 of Chapter XII</p>	<p>Even though the maximum period which can be granted as continuous no-pay leave for study abroad, is 3 years, no-pay leave for a period of another year had been approved on behalf of a Lecturer after completion of the due period of 03 years.</p>
<p>(c) Public Finance Circular No.2/2016 of 12 February 2016</p> <p>-----</p> <p>Paragraph 05</p>	<p>A sum of Rs.2,617,029 which had been identified as the income in the years 2013/2014 and shown under debtors, had been written off without the approval of the Treasury due to failure in recovery of course fees.</p>

2.5 Transactions not supported by Adequate Authority

Distress loans ranging from Rs.252,780 to Rs.526,560 with an interest of 4.2 per cent had been granted to 05 officers of the Foundation contrary to provisions of the Public Administration Circular No.30/2008 of 31 December 2008.

3. Financial Review

Financial Results

According to the financial statements presented, the financial result of the Foundation for the year under review had been a deficit of Rs.7,139,359 as compared with the corresponding deficit of Rs.16,935,858 for the preceding year, thus indicating an increase of Rs.9,796,499 in the financial result of the year under review as compared with the preceding year. The decrease in the employees' remuneration by Rs.8,940,578 and the expenditure on trainings and education by Rs.18,547,128 in the year under review as compared with the preceding year, had been the main reason for the above increase.

An analysis of financial results of the year under review and 04 preceding years revealed that the deficit of Rs.4,083,994 of the year 2012 had converted to surpluses in the years 2013 and 2014. Even though there was a deficit of Rs.16,935,858 in the year 2015, it had decreased to Rs.7,139,359 in the year 2016. However, after adjusting the employees' remuneration and depreciation on the non-current assets to the financial result, the contribution of Rs.85,958,365 in the year 2012 had continuously improved up to the year 2014. Even though it was observed that the contribution had decreased to Rs.113,069,546 in the year 2015, it had again increased to Rs.117,558,523 in the year 2016.

4. Operating Review

4.1 Performance

The main objectives in terms of Section 5 of the Sri Lanka Foundation Law, No.31 of 1973 were the promotion of an understanding and belief in the democratic way of life and the protection of human rights, the promotion of universal respect through international understanding and the co-operation for the observance of human rights and fundamental freedom, the encouragement and promotion in furtherance thereof, of providing education and knowledge on the social progress among the public and diffusion of knowledge among them. The following observations are made in the comparison of the Action Plan prepared for the year under review with **Performance Reports**, for achievement of those objectives.

- (a) The activities planned for achieving objectives such as democratic way of life and international understanding for the observance of fundamental freedom of all individuals had not been included in the Action Plan of the year under review.
- (b) Even though 24 courses had been planned to be commenced by the Foundation under the Policy Theme of "Provide education to minimize skill gaps in line with mandate of the institution", only 14 courses had been commenced and progress reports had not been prepared for the examination of the progress thereof.

- (c) According to the financial and physical progress reports prepared by the Internal Audit Unit, the 05 Divisions of the Foundation had planned to conduct 11 Diploma Courses, 10 Certificate Courses and 03 Workshops during the year under review. Nevertheless, 03 Diploma Courses, 05 Certificate Courses and 02 Workshops had not been conducted.

4.2 Management Activities

Despite the elapse of a period ranging between 2 years and 9 years after granting the advance of Rs.204,896 for printing purposes, it had been failed to perform the relevant purpose.

4.3 Transactions of Contentious Nature

In the revision of salary according to Management Services Circulars No.30 of 22 September 2006 and No.2/2016 of 25 April 2016, the Accountant and the Internal Auditor should be placed on medium level management and junior management salary groups respectively. However, contrary to that, the Accountant and the Internal Auditor had been placed on salary groups relating to posts of senior level and medium level management respectively and salaries and allowances had been paid to them accordingly from the year 2006. Further, action had not been taken to compute and recover the value of excess salaries and bonus received relating to the highest salary step. Even though the salary groups had been rectified by the Letter No. DMS/17/71/Vol/11 of 25 October 2016 of the Department of Management Services, action had not been taken by the Foundation to rectify them.

4.4 Staff Administration

It was observed in audit that existence of vacancies even in 3 posts out of 5 posts at the senior management level, would possibly affect the administration activities of the Foundation.

5. Accountability and Good Governance

5.1 Corporate Plan

In terms of Section 5.1.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003, matters such as objectives of the Foundation, current resources available with the Foundation, organization structure and financial results of three preceding years, had not been included in the Corporate Plan prepared for the years 2016-2018.

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) Debtors Control | Delay in the recovery of debts. |
| (b) Staff Administration | Non-formulation of a Scheme of Recruitment. |
| (c) Control of Income | Non-computation of income accurately and Providing Auditorium and Hostel facilities on credit basis. |