

Police Reward Fund - 2017

The audit of financial statements of the Police Reward Fund for the year ended 31 December 2017 comprising the financial position as at 31 December 2017 and the statement of income, 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 73 (4) (Chapter 65) of the Police Ordinance. My comments and observations on the above financial statements appear in this report.

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 judgment, including the assessments 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 of 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 the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified 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 Police Reward Fund as at 31 December 2017 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 Accounting Deficiencies

The following observations are made.

- (a) Even though the given entire Advance had been brought to account as an expenditure in providing Advances, the expenditure of the year under review had been overstated by that amount due to settling the Advance provided in the year under review by the sum of Rs.41,169,710 in the year 2018.
- (b) Even though the Annual Fixed Deposit Interest Income relating to the year under review had been calculated as a sum of Rs.819,738,597 and had been brought to account, the interest income and the investment income receivable had been overstated by a sum of Rs.1,484,366 on that income being a sum of Rs.818,254,231, according to the calculations carried out by the audit.
- (c) A sum of Rs.410,000 of the total sum of Rs.720,000 relating to 03 Special Rewards recommended in the year under review had been paid in the year under review. The value of Rs.310,000 payable had been brought to account twice in the Special Rewards Expenditure in the statement of income and in the Special Rewards Value payable in the statement of financial position.
- (d) The value of Rs.600,000 which remained payable relating to two Special Rewards in the beginning of the year under review had been paid within the year and it had been brought to account as Special Reward Expenditure instead of debiting to the Payable Expenditure Account.
- (e) Only a sum of Rs.300,750 paid in the year under review out of the total Reward amounting to Rs.511,500 recommended relating to 07 Special Rewards had been brought to account as Special Rewards Expenditure. As such, Special Rewards Expenditure in the statement of income and the Payable Special Rewards Value in the statement of financial position had been understated by a sum of Rs.210,750.

- (f) Even though a fine totalling Rs.2,788,453 had been received in the year 2018 from 15 Magistrate Courts relating to the year under review, they had not been brought to account by identifying as the Annual Fine Income in the financial statements of the year 2017 as Courts Fines Receivable.

2.2.2 Unexplained Differences

The following observations are made.

- (a) A difference of Rs.4,401,626 was observed in comparing the Courts Fines Income of 12 Courts stated in the Schedule No.03 of the Financial Statements, with the confirmation of balances received from Courts.
- (b) A difference of Rs.1,182,666 was observed in comparing receipts of fines in the year under review with Magistrate Court Reports and with Police Division Reports.
- (c) A difference totalling Rs.2,136,496 in comparing the Motor Traffic Fines Income Reports, which had been directly given to audit from 08 District Secretariat Offices, with the Cash Book and with the Motor Vehicle Income Ledger Account.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) A sum of Rs.2,000,000 given as Advances to the Police Patron Fund, had been continuously retained in the Accounts without taking action to settle, from a period of over 18 years.
- (b) An amount of 50 per cent is being paid before winding up the lawsuits in making payment from the Fund, for Special Investigations. The Special Rewards Payable totalling Rs.57,719,711 belonging to a period between 01 year to 10 years relating to 251 documents on not winding up the activities of the lawsuits for the payments of the remaining Rewards, remained even by the end of the year under review.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year under review had resulted in a surplus of Rs.1,663,672,229 as compared with the corresponding surplus of Rs.1,272,679,612, thus indicating an improvement of Rs.390,992,617 in the financial result in the year under review as compared with the preceding year. The increase of the Fixed Deposit Interest Receipts by a sum of Rs.350,486,731 had been the main reason for the above improvement.

4. Operating Review

4.1 Performance

4.1.1 Function and Performance

Motivating Police Officers for carrying out the duties of the Chief Inspector and of the Police Officers of the lower levels by offering Rewards and the payment of Rewards for civilians who provide with the necessary information to the Police, had been executed as key functions by the Fund in the year under review.

The following observations are made in this connection.

- (a) Even though a sum of Rs.514,806,255 had been given as the Average Imprest and a sum of Rs.196,778,225 had been given as the Motor Traffic Imprest to all the Police Divisions in the year under review, sums of Rs.41,036,704 and Rs.22,319,356 respectively had been returned to the Police Reward Fund in the end of the year. Providing money by identifying the requirements of the payment of rewards of the Division Officers and the reward payment process not being carried out effectively had been reasons for returning of the Annual Reward Imprests. The following are the key factors observed in Divisional Level.
- (i) The maximum reward imprest of a sum of Rs.54.04 million had been given to the Gampaha Division in the year under review. A sum of Rs.9.90 million of the Average Imprest amounting to Rs.48.04 million and a sum of Rs.2 million of the Motor Traffic Rent amounting to Rs.6 million had been returned as at the end of the year on not utilizing for the payment of rewards.
 - (ii) The second highest reward imprest amounting to Rs.49.43 million had been provided to the Colombo Division. A sum of Rs.5.63 million of the Average Imprest amounting to Rs.21.65 million and a sum of Rs.5.37 million of the Motor Traffic Imprest amounting to Rs.27.78 million had been returned on not being utilized for the payment of rewards.
 - (iii) A sum of Rs.32.03 million had been given to the Anuradhapura Division. A sum of Rs.5.31 million of the Average Imprest amounting to Rs.23.41 million of it had been returned on not being utilized for the payment of rewards
- (b) The payment of rewards from a sum of Rs.1,200 to a maximum monthly reward of Rs.3,000 is being done as per the post of those officers to the Motor Traffic Division in the Police Stations in terms of the Inspector General of Police Circular No.2304/2011 of 12 September 2011, in the payment of rewards out of the income from Motor Vehicle Fines. The following matters are observed in this connection.
- (i) An amount of more than 72 per cent of the Motor Traffic Fines Income had been saved over the past three years on not revising monthly rewards timely and as compared with the income. Details appear below.

Description	2017	2016	2015
	Rs.	Rs.	Rs.
	-----	-----	-----
Receipt of Motor Traffic Fines	668,025,613	643,700,294	535,368,163
Payment of Motor Traffic Rewards	174,458,869	152,474,691	148,163,969
	-----	-----	-----
Savings	<u>493,566,744</u>	<u>491,225,603</u>	<u>387,204,194</u>
Percentage of Savings	73.88	76.31	72.32

- (ii) Even though a sum of Rs.645,580,931 received from the Department of Posts and a sum of Rs.22,444,682 received from District Secretariat Offices for the year under review had been brought to account as Motor Traffic Fine Income, an internal procedure to prepare and examine Motor Traffic Fine Reports in Police Stations and in Divisional Level for the confirmation of the accuracy of the rewards given by those Institutions, had not been prepared.

- (c) Details on the Fixed Deposits invested in 03 State Banks and on the interest income earned relating thereto, appear below.

Description	Balance as at 31 December		
	2017	2016	2015
	Rs.Millions	Rs.Millions	Rs.Millions
Fixed Deposits	8,123	6,750	5,533
Interest on Fixed Deposits	819	469	325

The following observations are made.

- (i) The total income earned by the Fund in the year under review and in the preceding year had been a sum of Rs.4,408 million. The investments of the Fund had increased by a sum of Rs.2,590 million within that period. As such, 58 per cent of the total income had been spent for investments. Only a sum of Rs.1,471 million or 33 per cent of the total income had been spent for awarding rewards for encouraging Police Officers and for carrying out their welfare activities, being the objective of the establishment of the Fund which receives income as 50 per cent of the Fines prescribed by Courts for the raids carried out by the Police Stations islandwide and 40 per cent of the Motor Traffic Fine.

- (ii) Even though a total sum of Rs.2,434.21 million had been earned as the interest income on Fixed Deposits, as sums of Rs.433.47 million, Rs.386.09 million, Rs.325.67 million, Rs.469.25 million and Rs.819.73 million each respectively from the year 2013 to the year 2017, a decision had not been made on the way that these income could be utilized for the achievement of the objectives of the establishment of the Fund.

5. Accountability and Good Governance

5.1 Budgetary Control

The following observations are made.

- (a) Even though the Motor Traffic Fine Income had not been estimated in the Budget prepared for the year 2017, the actual Motor Traffic Fine Income had been a sum of Rs.668,025,614. Moreover, even though a sum of Rs.550,000,000 had been estimated as Miscellaneous Income, Miscellaneous Income had not been received to the Fund.
- (b) Sums of Rs.35,479,452 and Rs.32,595,000 had been spent for the Police Sports Fund to the Supply Unit for the Water Purification Project and for the payment of rewards for the sportsmen of the Department of Police which, provisions not being made available by the Budget.

6. System and Controls

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

Areas of Systems and Controls

Observations

- (a) Control of Payments

The revelation of 06 instances of which special rewards being paid within a period between 03 years to 06 years after winding up of the Court activities, in the audit test check.

- (b) Collecting Income

The occurrence of delays between periods of 02 months to 05 months in receiving Motor Traffic Fine Income to the Fund from a sum of Rs.30 million to a sum of Rs.60 million, receivable monthly from the Department of Posts.

- (c) Handing over reward Cheques Special Rewards totalling Rs.1,435,500 of cheques entitled to 201 officers being accounted to State Revenue in the year 2017 due to handing over of cheques to the officers entitled to rewards not being carried out effectively and accurately.
- (d) Accounting Journal Vouchers not being used for 151 Journal Entries used in the year under review.
- (e) Budgetary Control Revising the Budget over again by the *Institution*, based on the progress.