

Ranaviru Seva Authority – 2017

The audit of financial statements of the Ranaviru Seva Authority for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the comprehensive income statement, 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 the Section 13(1) of the Finance Act, No. 38 of 1971 and Section 9(3) of the Ranaviru Seva Authority Act, No. 54 of 1999. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2)(c) of the Finance Act, 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 judgement, 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 Authority’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 Authority’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 the 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 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 Ranaviru Seva Authority 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 Sri Lanka Public Sector Accounting Standard 07

The following observations are made.

- (a) If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued in terms of Paragraph 49 of the Standard. Nevertheless, even though the Head Office building and the relevant land which were included in the value of lands and buildings of the Authority had been revalued and brought to account its value during the year under review, the Ranaviru Park at Mailapitiya which was acquired by the Authority in the year 2013 had been brought to account on its cost of Rs.2,872,387.
- (b) In the revaluation of assets, the effective date of revaluation, information on valuer and the methods and significant assumptions applied in estimating the asset's fair value had not been disclosed in terms of Paragraph 90 of the Standard.

2.2.2 Accounting Deficiencies

Even though revenue and expenses shall not be set off unless required or permitted in terms of Paragraph No.48 of the Sri Lanka Public Sector Accounting Standard 1, the excess provision of Rs.862,760 for doubtful debt in respect of the year under review had been stated by deducting from the expenditure on bad debt instead of being credited to the revenue of the Authority.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Even though the title of 02 plots of lands of 24.90 perches in extent received as donations during the preceding years had been transferred to the Authority in the year under review, action had not been taken to assess and account its value. Further, the value of 03 other plots of land owned by the Authority which were assessed at Rs.60,590,000 had not been brought to account.

- (b) The elevator costing Rs. 11,239,262 had also been revalued under the office building without considering the useful life and provision for depreciation had been made at 5 per cent which was the depreciation rate of building.

2.2.4 Unexplained Differences

The following observations are made.

- (a) Even though the balance of loans granted to the beneficiaries amounted to Rs.100,053,628 as per the financial statements of the year under review , the loan balance as per the summary of individual balances made available to audit, amounted to Rs. 99,963,300. Thus, a difference of Rs.90, 328 was observed.
- (b) Even though the service charge income for loan balances shown in the financial statements as at 31 December 2017 amounted to Rs.11,558,510, it had been Rs.12,016,481 as per the summary of individual balances. Thus, a difference of Rs.457,971 was observed.

2.2.5 Lack of Evidence for Audit

The register of donations including the information on various assets amounting to Rs.2,310,336 received as donations to the Authority from external parties from the year 2009 to 31 December 2016, had not been made available to Audit.

2.3 Accounts Receivable and Payable

It was observed that no installment whatsoever out of the loan balance of Rs. 595,709 receivable from 10 beneficiaries of housing loans as at the end of the year under review, had been recovered during the period from 2 years to 8 years.

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

The following non-compliances were observed.

Reference to Laws, Rules and Regulations

Non-compliance

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|---|---|
| (a) Financial Regulation 110 | Register of Losses had not been maintained by the Authority. |
| (b) Public Administration Circular No.30/2016 of 29 December 2016 | Even though the consumption of fuel must be re-tested after a period of 12 months from each fuel test or after running a distance of 25,000 km, the Authority had not tested the consumption of fuel of the motor vehicles pertaining to the year under review. |

(c) Public Finance Circular No.03/2015 of 14 July 2015

Even though advances should be settled immediately after the completion of purpose for which it was granted, advances totalling Rs.1,830,450 granted to two officers of the Authority in 5 instances during the year 2014, had not been settled even by 31 December 2017.

3. Financial Review

3.1 Financial Results

The following observations are made.

- (a) According to the financial statements presented, the financial result of the Authority for the year ended 31 December of the year under review, had been a deficit of Rs. 61,412,678 as compared with the corresponding deficit of Rs. 32,013,286 for the preceding year, thus indicating a further deterioration of Rs.29,399,392 in the financial result of the year under review as compared with the preceding year. Even though the total income of the Authority had increased by Rs.27,317,324 in the year under review, increase in the expenditure on supplies, contractual services and projects by Rs.4,342,661, Rs.9,231,860 and Rs.23,523,574 respectively had been the main reason for the said deterioration.
- (b) An analysis of financial results of the year under review and 04 preceding years revealed that the operating deficit of the Authority amounting to Rs.12,301,556 in the year 2013 had deteriorated further in the following years and it had been a deficit of Rs.61,412,678 by 31 December 2017. However, in readjusting the employees' remuneration and depreciation on non-current assets to the financial result of the year under review, the contribution of the Authority amounting to Rs.14, 882,175 as at the end of the year 2013 had deteriorated to Rs.1,159,434 in the year under review.

4. Operating Review

4.1 Performance

4.1.1 Functions and Review

The following observations are made.

- (a) In terms of Section 6 of the Ranaviru Seva Authority Act, No. 54 of 1999, the Authority shall within 60 days of the date of commencement of this Act, cause to be prepared registers respectively of all members of the Armed Forces and the Police Force who have become disabled in action and the dependants of all members of the Armed Forces and the Police Force who have been killed, or are missing in action and shall cause such registers to be revised or amended as and when it becomes necessary to do so.

Nevertheless, action had not been taken to prepare a complete register and update it as required, despite a lapse of 15 years since the inception of the Authority. Eleven years had elapsed since the establishment of 269 Ranaviru Sansada for the said purpose and even though a sum of Rs.12,958,801 had been spent for the collection of information required for the data base from the year 2011 to 2014, the in-depth examinations revealed that all information on the members of Ranaviru Sansada and their dependents was not available in the Authority.

- (b) Even though an expenditure amounting to Rs.9,366,285 had been incurred for reconstruction activities of the land with a house of 302 perches in extent, located in Yakabedda area, Akuressa, donated in the year 2009 to the Authority for welfare of the war heroes, it had not been made use of for welfare activities even by the end of the year under review.
- (c) It had been planned to construct 450 partly completed houses and 300 new houses during the year 2017 under the Virusumithuru Housing Project implemented from the year under review and thereunder, money had been provided as installments for the construction of 192 new houses as at 31 December 2017. Housing loans had not been given to any beneficiary as at that date for partly constructed houses and it was revealed that 15 persons had obtained Rs.1,950,000 at Rs.130,000 each for the construction of new houses by submitting fraudulent documents. Follow up action in this regard was at a weak level.
- (d) Action for the preparation of deeds in respect of 15 plots of land in Balangoda, Kegalle, Meerigama and Malabe granted to war heroes by the Authority through temporary permits, had not been taken even by 22 January 2018, the date of audit.

4.2 Transactions of Contentious Nature

An officer recruited to the post of Computer Operator of the Authority with effect from 01 September 2004 had obtained no-pay leave abroad in the year 2009 for 02 years and had left the service subsequently violating the Conditions of the Bond. Action had not been taken to recover a sum of Rs.530,380 receivable to the Authority from the said officer while her personal file was also misplaced.

4.3 Apparent Irregularities

Even though only an allowance of Rs.9,000 per annum was payable to a mother or father of a war hero under the “*Ranaviru Maapiya Rekawarana Deemana*” Scheme, it was observed that a sum of Rs.819,750 had been credited to a private bank account of a person identified as a father of a war hero during a period of 18 months from June 2016 to November 2017. In addition, it was observed in audit that a sum of Rs.5,120,250 had also been paid to an external party who was not the mother or father of a war hero for the said period. It was ascertained in the internal examination carried out in this regard that an irregularity had occurred in making the said payments and it was recommended to take legal action in this connection. Future action thereon was being taken by the Criminal Investigation Department.

4.4 Idle and Underutilized Assets

The following observations are made.

- (a) A printing machine purchased at a cost of Rs.651,739 in the year 2014 for the printing of Ranaviru Priority Identity Cards, 02 finger print machines costing Rs.229,500 and 06 computer tables costing Rs. 42,158 had remained idle over 02 years in the premises of Authority. In addition, it was observed that 04 laptop computers valued at Rs.152,000 received as donations in September 2015, had remained idle.
- (b) It was observed that the upper floor of 2,887 square feet in extent of the Head Office building of 11,548 square feet in extent of which the revaluation amounted to Rs.62,625,000 as at 31 December 2017, had not been utilized since the year 2001.
- (c) Even though a sum of Rs. 203,598 had been spent during the year under review as the expenditure on repairs to the motor vehicle purchased in the year 2012, only 300 kilometers had been run. Further, it was observed that another motor vehicle and the Cab owned by the Authority valued at Rs. 1,975,000 and Rs.900,000 respectively were remained idle at the Authority for a period of 02 years.

4.5 Identified Losses

A Board of Survey for the year 2016 had not been conducted by the Authority while the Board of Survey Report for the year 2017 had been submitted to audit on 10 May 2018. According to that report, a shortage of 170 goods pertaining to 31 items was observed. Eleven digital cameras, 4 almirahs, 2 cupboards, 2 filing racks, 1 multimedia projector and 19 pen drives (32GB) were among those goods misplaced.

4.6 Staff Administration

The powers for employing the officers had been delegated to the Board of Management in terms of Section 5(d) of the Ranaviru Seva Authority Act, No.54 of 1999 and it was observed that the Chairperson had appointed 11 unqualified officers to posts and placed them on 06 steps above the salary scale of MM-1-1-2006 included in the Management Circular No.30 of 22 September 2006. According to the explanation of the Chairperson of the Authority, information had been furnished to the Board of Management of the Authority on 31 August 2015 for obtaining the approval regarding these appointments. However, the Board of Management had appointed a committee for further investigation, and a copy of the relevant Committee report had not been received to Audit.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

Every Government institution should act in terms of the 2030 “Agenda” for Sustainable Development of the United Nations and the Ranaviru Seva Authority had been aware of the manner in implementing the functions that come under its scope pertaining to the year under review. Nevertheless, it was observed that those functions had not been included in the annual plan and the financial provision required to perform such functions had not been included in the annual budget estimate.

6. Presentation of Financial Statements

According to Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, financial statements should be presented to the Auditor General within 60 days after the close of the financial year. Nevertheless, the financial statements for the year under review had been presented to the Audit only on 28 June 2018.

6.1 Procurement and Contract Procedure

6.1.1 Procurements

The following observations are made.

- (a) Bids pertaining to the Generator purchased at a cost of Rs.3,776,250 in January 2017 by the Authority had been opened on 04 January 2017 instead of 01 December 2016, the due date concerned. Further, reports on opening bids had not been made available to Audit, thus the transparency of those activities was questionable. It was observed in audit that, advances totalling Rs.2,620,000 had been released without obtaining performance bonds in this regard and an additional cost of Rs.729,750 had been incurred due to the subsequent change of premises where the generator was installed.
- (b) Two colour photocopy machines had been purchased at a cost of Rs.827,770 during the year under review without any request for a colour photocopy machine. Quotations therefor had been submitted by 06 bidders and the Evaluation Committee had granted the procurement to the bidder who submitted the 04th lowest bid without obtaining a performance bond and stating that 3 lowest bidders had not fulfilled the required qualifications despite being fulfilled the required qualifications. Further, the cost and expenditure on maintenance of one photo copy had not been evaluated.

6.2 Budgetary Control

The following observations are made.

- (a) It was observed that the budget for the year 2017 had been revised in January 2018 and as such, it was observed that budgets of the Authority had not been prepared in a realistic manner.
- (b) In terms of Paragraph 5.2.1 of the Public Enterprises Circular No.PED 12 of 02 June 2003, statement of budgeted income and expenditure, statement of budgeted financial position and the cash flow statement had not been included in the budget prepared for the year under review.

6.3 Tabling of Annual Reports

In terms of the Public Finance Circular No.21 of 24 May 2002, the Performance Report of the year under review should be tabled in Parliament by the Ranaviru Seva Authority within 150 days after the close of the financial year. Nevertheless, Performance Reports for the years 2015 and 2016 had not been tabled in Parliament even as at 31 July 2018.

07. Systems and Controls

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

Areas of Systems and Controls -----	Observations -----
(a) Procurement	Failure to take action as per the Procurement Guidelines in purchasing goods.
(b) Advances Control	Lack of a proper supervision on issuing, settling and utilization of advances.
(c) Internal Control	Failure to establish proper systems of internal control so as to facilitate the smooth functioning of divisions in the Authority.