

Sri Lanka Legal Aid Commission - 2017

The audit of financial statements of the Sri Lanka Legal Aid Commission for the year ended 31 December 2017 comprising the Statement of Financial Position as at 31 December 2017 and the Statement of Financial Performance, 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 provision 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 23(3) of legal Aid Act No: 27 of 1978. My comments and observations which I consider should be published with the Annual Report of the Commission 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 furnished to the Chairman of the Commission on 31 August 2018.

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 assessment of 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 Commission's preparation and fair presentation of the financial statements in order to design audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the Commission'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 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 Sri Lanka Legal Aid Commission 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 Standards

Sri Lanka Public Sector Accounting Standard 01

(a) A statement of net assets/equity that should comprise in a complete set of financial statements had not been included as per Section 21 of the Standard.

(b) Except when an accounting standard permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in financial statements as per Section 53 of the Standard. However, the comparative information in respect of 2016 had not been presented accurately in the financial statements of the Commission in the year 2017.

2.2.2 Accounting Policies

Although it was disclosed in the financial statements that accounting of income and expenditure on accrual basis was the policy of the Commission, interest income on fixed deposits amounted to Rs. 316,396 had been accounted cash basis.

2.2.3 Accounting Deficiencies

An amount of Rs. 2,097,890 of depreciation for the year under review had been under stated since Rs. 6,904,699 was stated in the financial statements though an amount of Rs. 9,002,589 was the depreciation of 5 items of fixed assets for the year as per the calculations of the audit.

2.2.4 Lack of Evidence for Audit

Written evidence had not been presented to the audit in order to confirm the following balances stated in the financial statements.

Description	Amount (Rs.)	Unpresented Evidences
(a) Advance for building	18,885,170	} Supporting documents
(b) Previous year adjustments	4,995,019	
(c) Amount of 118 journal entries	12,342,807	

2.3 Non Compliance with Laws, Rules, Regulations and Management Decisions

Following non-compliances with laws, rules and regulations were observed in audit.

Reference to the laws, rules and regulations	Non-compliances
Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(a) Financial Regulation 138(5), (6) and 237	Vouchers totaling to Rs. 1,829,698 had been certified for payment in the year under review when the relevant evidences were not attached to the vouchers to confirm the amount mentioned in the payment vouchers.
(b) Public Finance Circular No: 03/2015 on 14 July 2015	Although advances should be settled as soon as the work given completed, it had been spent time ranging from 16 to 74 days to settle advances of Rs. 753,900 at 19 incidents.
(c) Financial Regulation 835(2)	An amount of Rs. 192,000 had been paid as rent in the year under review without determining assessment value by government valuer for the rent building that carrying out Hatton Regional Center taken on rental basis.

2.4 Transactions not Supported by Adequate Authority

A private insurance scheme for 42 employees of the Commission had been started in the year 2015 only on the approval of Commission out of 9.12 provisions of Public Finance Circular No: PED/12 on 02 June 2003 and Rs. 1,088,941 that was 50 per cent of the insurance contribution had been paid to a private insurance company by the Commission for 41 employees for the year under review.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, financial result for the year under review had resulted in a deficit of Rs. 22,153,149 as compared with the corresponding deficit of Rs. 7,242,785 for the preceding year thus indicating a deterioration of Rs. 14,910,364 had been occurred in the financial results for the year under review as compared with the preceding year. The increase of salary expense by Rs. 20,380,665 had been the main reasons for above deterioration.

In analyzing the financial result of the year under review with 04 preceding years, it had been seen a deficit in the financial result from the year 2013 to 2017 and it was fluctuated annually. However, after adjusting employee remuneration, taxes paid to the government and depreciation for non-current assets to the financial result, the contribution of the Commission was being a favourable amount from the year 2013 upto the year under review and the contribution of Rs. 105,836,650 in the year 2013 had been Rs. 157,751,008 at the end of the year under review by increasing continuously.

4. Operating Review

4.1 Performance

4.1.1 Planning

Although 16 programmes were scheduled to implement according to the Action Plan of the year under review, the other 02 programmes had been conducted without conducting those programmes. Though Rs. 5,000,000 was estimated for the construction of 05 centers such as Palmadulla, Walapane, Moratuwa, Anamaduwa and Hettipola in Annual Action Plan, the other 04 centers such as Dehiattakandiya, Siyambalanduwa, Borella and Galagedara had been constructed. Further, physical targets for the expected programmes in the Action Plan had not been identified.

4.1.2 Function and Review

Following observations are made.

- (a) As per the progress report of the Commission, the number of carried forward court cases from year 2016 were 26,088 for the provision of legal aid and total number of court cases that were to be done in the year under review were 38,127 as the new court cases filed in the year 2017 were 12,039. However, the legal aid had been given to settle 8,344 court cases in the year under review and it had been 78 per cent out of the number of court cases that have to provide service as the number of balance court cases that have to be provided services further even by 31 December 2017 were 29,783.
- (b) Although it had been estimated Rs. 500,000 for the preparation of E-report on administration matters in legal division by networking regional centers that proposed from the Action Plan of 2017 in this entity, these works had not been completed even by end of the year under review.
- (c) Although it had been estimated Rs. 15,000,000 (3,000,000 x5) in the year 2017 for the construction of 05 regional centers in Walimada, Ruwanwella, Gampaha, Kalutara and Mahiyanganaya by the Commission, constructions had not been even commenced. However, it had been paid Rs. 100,000 in the year 2017 for the rented building that taken to carry on Walimada center.

4.2 Underutilization of Funds

It was observed that average cash balance of Rs. 37,600,823 had been carried on monthly in a current account of the Commission without productive utilization.

4.3 Deficiencies in Contract Administration

Following observations are made.

- (a) Provisions of Rs. 5,950,000 had been given for the construction of 03 new branch offices in Kurunegala, Kaluthara and Kaduwela areas in 2017 and any construction works had not been commenced in there in the year under review. However, an advance of Rs. 3,113,913 had been given on 22 December 2016 for the construction works in Kurunegala branch office.
- (b) Although Rs. 435,405 had been paid as an advance on 24 October 2016 for the repairs in Galle branch office, the repairs had not been completed until month of April 2018. Further, provision of Rs. 7,044,518 had been given for the rehabilitation works in 08 regional offices in the year 2017 and an advance of Rs. 2,023,297 had been given for 04 offices of them. However, the rehabilitation works had not been completed by the end of the year under review.

4.4 Staff Administration

Following observations are made.

- (a) Although cadre of the Commission had been approved by Department of Management Services on 13 January 2016, the Scheme of Recruitment had not been approved even by 06 April 2018. 14 legal officers, 05 management assistants, 09 office assistants and a driver had been recruited during the year under review without approving the Scheme of Recruitment.
- (b) 50 employees related to 10 posts in the approved cadre had been vacant even as at 10 April 2018 and 03 officers had been recruited on contract basis for 03 posts that not in approved cadre.
- (c) As per Management Services Circulars No: 28 on 10 April 2006 and 28(ii) on 01 August 2006, the recruitments for the posts of staff officer, subordinate, minor grades whether on permanent/ temporary/ casual/ substitute/ contract or any other basis should be suspended and it should be done only with the prior approval of the Department of Management Services. However, it had been paid Rs. 3,276,885, Rs. 311,320 and Rs. 77,830 as salaries and contributions of Employee provident Fund and Employee Trust Fund respectively by recruiting employees on casual basis during the year under review by the Commission without obtaining prior approval of Department of Management Services.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

Every public institution should act in compliance with the United Nations Sustainable Development Goals for the year 2030 and with respect to the year under review, the Commission had been aware as to how to take measures relating to the activities under purview of their scope.

Although the Commission had identified “Easy approach for all towards the justice” as the sustainable development goals to be achieved in accordance with their scope upon being aware of the said Agenda for the year 2030, but action had not been taken to identify the other goals coming under the scope. Accordingly, no action had been taken to identify the targets, statistical data and milestones in achieving the targets relating thereto, as well as the indicators for evaluating the performance.

6. Accountability and Good Governance

6.1 Internal Audit

An Internal Audit Unit had not been established as per Financial Regulation 133 of Financial Regulations of Democratic Socialist Republic of Sri Lanka and an internal audit had not been done even by the internal audit unit in Ministry of Justice in the year under review.

6.2 Audit Committees

An audit committee for the Commission had not been appointed as per provisions of Public Enterprises Circular No: PED/55 of 14 December 2010.

6.3 Budgetary Control

Variation ranging from 21 per cent to 268 per cent had been observed between budgeted expenditure and actual expenditure of 11 expenditure objects in the year under review. Further, 09 expenditure objects of Rs. 725,639 and 07 objects related to income of Rs. 4,115,162 had not been included to the budget estimate. Accordingly, it was observed that the budget had not been used as an effective instrument of management control.

6.4 Tabling of Annual Reports

As per paragraph 6.5.3 of Public Enterprises Circular No: PED/12 of 02 June 2003, annual report of 2017 had not been tabled by the Commission.

7. **Systems and Controls**

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Commission 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 Control	A proper supervision had not been done so as to get the construction contract works done as per conditions in the agreement and action had not been taken to obtain maximum performance.
(b) Staff Administration	Action had not been taken as per circular guidelines, regulations and provisions.
(c) Accounting	Journal entries had not used for recording opening balances of ledger accounts, supporting documents had not attached to verify the vouchers, balances of ledger accounts had not been included in the Trail Balance and a register of counterfoil books had not been maintained.
(d) Maintenance of Advance Register	<p>Advances given at 23 incidents during the year 2017 had not been settled even by the audited date and advance register with the information of expenditure and savings of each programme had not been updated at 10 incidents.</p> <ul style="list-style-type: none">• An amount of Rs. 2,036,297 that given for the rehabilitation activities of 06 buildings in 2017 had not been recorded in an advance register.• It was observed in checking the advance register that there were 10 incidents that advances had been given exceeding the sufficient money to the relevant activity.