

## **Sri Lanka Foundation – 2017**

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The audit of financial statements of the Sri Lanka Foundation for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 the 14(2)(c) of the Finance Act appear this report. The detailed report in terms of Section 13(7)(a) of the Finance Act was issued to the Chairman of the Foundation on 15 May 2018.

### **1.2 Management's Responsibility for the Financial Statements**

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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**

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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 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.

#### **1.4 Basic for qualified opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

### **2. Financial Statements**

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#### **2.1 Qualified Opinion**

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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 Foundation 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**

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##### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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The following observations are made.

##### **(a) Sri Lanka Public Sector Accounting Standard – 03**

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In making provision as a result of the inherent uncertainties in delivering services, conducting trading or other activities, judgements should be based on the latest available and reliable information in terms of paragraph 37 of the standard. Nevertheless, in making provision for doubtful debts, such judgements had not been used and a provision for doubtful debts for the entire accounts receivable balances had been made by using a general percentage.

##### **(b) Sri Lanka Public Sector Accounting Standards – 07**

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The following observations are made.

- (i) Even though, an entity shall choose either the cost model or the revaluation model as its accounting policy in accounting fixed assets in terms of paragraph 40 of the Standard, in disclosing the value of motor vehicles in the financial statements as at the closing date of the year under review, both the cost model as well as the revaluation model had been used.
- (ii) If an item of assets is revalued the entire class of asset to which that asset belongs should be revalued in terms of paragraph 49 of the standard. Nevertheless, only six motor vehicles out of 12 motor vehicles costing Rs.40,327,280 had been revalued at a value of Rs.21,300,000.

### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) As the value of 2 motor vehicles revalued during the year under review had not been brought to accounts, the value of those vehicles and the revaluation reserve had been understated by Rs.4,767,166.
- (b) As a result of accounting 4 vehicles on assumed revaluation values which had not been revalued during the year under review, the value of vehicles and the revaluation reserve had been overstated by Rs.11,800,000.
- (c) In lieu of accounting the improved buildings by incurring an expenditure of Rs.2,630,841 existed at the beginning of the year under review at a cost of Rs.174,257,291 after being revalued, the assessed value which had been assessed at Rs.650,000,000 by a private party in the year 2017 for insurance purposes had been shown in the financial statements as revalued amount.
- (d) A sum of Rs.56,625 incurred in the previous year for a newspaper advertisement had been brought to accounts under works-in-progress, instead of being accounted as an expense of that year.

### **2.2.3 Unexplained Differences**

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The following observations are made.

- (a) A difference of Rs.79,065 was observed between the balance as per the financial statements and the balance as per the loan files in respect of the balance receivable from 6 officers whose services had been terminated in the years 2012 and 2013.
- (b) According to the financial statements the value of work-in-progress of the 'Gemi Gedara' project amounted to Rs.173,900 whereas according to the ledger, the value thereof amounted to Rs.128,900, thus observing a difference of Rs.45,000.

### **2.2.4 Suspense Accounts**

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Balances of 02 suspense accounts brought forward from 2005 amounting to Rs.289,196 and brought forward from 2015 amounting to Rs.189,588 had not been settled even up to the end of the year under review.

### **2.2.5 Lack of Evidence for audit**

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A sum of Rs.569,900 had been paid to 10 officers as allowances for participating as resource persons to whom letters of appointments as resource persons had not been issued in the 2 training programs conducted for field officers in the Ministry of Women and Child Affairs.

## 2.2.6 Accounts Receivable

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The following observations are made.

- (a) The total debtor balance of Rs.15,356,258 as at 31 December 2017 had included a debtor balance of Rs.4,511,762, receivable from debtors of Miscellaneous, Education and Business Development Unit remained outstanding between 01 to 05 years.
- (b) Even though, a sum of Rs.1,375,812 had been shown in the accounts as receivable withholding tax from the Department of Inland Revenue relating to the period 2006 to 2009, action had not been taken to get it settled even by the end of the year under review.

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

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

### Reference to Laws, Rules, Regulations etc.

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### Non-compliance

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| (a) Paragraph 3.1.6 of the Public Finance Circular No.05/2016 of 31 March 2016.  | Board of Survey reports relating to the year under review had not been completed and submitted to audit even up to 08 June 2018, the date of audit.   |
| (b) Paragraph 3.1 and 3.2 of the Circular No.2004/ප්‍රස/1 (amended in 2016) of the National Library and Documentation Services Board dated 22 December 2006. | Even though, the librarian had gone on transfer in December 2017, a board of survey in respect of library books had not been conducted prior to 3 months before the transfer or at the end of the year in terms of the circular instructions. |

## 3. Financial Review

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### 3.1 Financial Results

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According to the Financial Statements presented, the financial results of the Foundation for the year under review had been a surplus of Rs.1,906,195 as against the deficit of Rs.7,139,359 for the preceding year, thus indicating an improvement of Rs.9,045,554 in the financial result of the year under review as compared with the preceding year. Increase of other income by Rs.3,731,707 and decrease of other operating expenses by Rs.7,229,770 in the year under review had mainly attributed to this improvement.

In analyzing the financial results of the year under review and the preceding 4 years, a surplus had existed in the years 2013 and 2014 and it had become a deficit of Rs.16,935,858 in the year 2015. The deficit had decreased to Rs.7,139,359 in the year 2016 and it had improved to a surplus of Rs.1,906,195 in the year 2017. However, after being adjusted the staff remuneration and depreciation on non-current assets to the financial results, the contribution of Rs.107,804,833 in the year 2013 had increased to Rs.128,168,715 in the year 2017 being fluctuated annually

#### **4. Operating Review**

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##### **4.1 Performance**

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###### **4.1.1 Planning**

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Even though the annual action plan for the year under review had been prepared and submitted to audit, it had not been prepared in accordance with the requirements stated in paragraph 04 of the Public Finance Circular No.01/2014 of 17 February 2014.

###### **4.1.2 Operations and Review**

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- (a) Workshops, certificate courses and Diploma Courses planned and conducted in the year 2017 had dropped by 37 per cent as compared with that of 2016.
- (b) Lectures participation of 13 lecturers, comprising 12 lecturers in the permanent cadre and 01 lecturer recruited on contract basis for conducting 90 workshops, certificate courses and Diploma courses in the year under review amounted to 2773 hours and as such the annual average number of lecture hours per lecturer amounted to 213. However, 7,767 lecture hours, out of total lecture hours for conducting those courses in the year amounting to 10,440, had been obtained from the visiting lecturers. Accordingly, the hourly lecture participation ratio between the lecturers of the Foundation and the visiting lecturers was 1:3. Therefore, it could not be satisfied in audit about the full participation of total number of lecture hours by the lecturers of the Foundation.

##### **4.2 Management Activities**

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- (a) Action had not been taken to settle the balance money of Rs.704,676 out of the provision given to prepare a TV program by a non-governmental organization in the year 2016, even up to the end of the year under review and it had been shown under differed revenue in the financial statements.
- (b) As the contributions to the Employees Provident Fund had not been remitted in respect of a female officer who had been recruited on assignment basis and a female officer recruited on daily paid basis from the year 2013 to 2015, a sum of Rs.214,530 had been paid as arrears of contributions and surcharges thereon in the year under review.

### **4.3 Uneconomic Transactions**

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Due to complications in the designs of the contract awarded for Rs.4,493,740 on 19 September 2016 for the extension for terrace of the new building, construction works had been halted halfway. It was observed in audit that the total expenditure of Rs.1,043,924, comprising the advance of Rs.898,748 given for the contract and a sum of Rs.145,176 paid to detach and remove the constructed parts had become a fruitless expense.

### **4.4 Personnel Administration**

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The approved cadre and the actual cadre as at 31 December 2017 stood at 154 and 129 respectively and 27 posts in the cadre had fallen vacant whereas there was an excess of 2 officers in the secondary level posts. Action had not been taken to fill those vacancies even up to the end of the year under review and a suitable officer had not been recruited to the post of Librarian which had fallen vacant since April 2015, even up to 20 July 2018.

## **5. Sustainable Development**

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Every Public entity should act in accordance with the agenda of the United Nations 2030 on Sustainable Development and the Sri Lanka Foundation was aware in respect of the functions of the Foundation within its scope.

The following observations are made in this connection.

- (a) Internal circulars/ guidelines issued by the Foundation in respect of implementing Sustainable Development objectives were not made available for audit.
- (b) Without making aware about 17 Sustainable Development objectives, in accordance with agenda 2030 on Sustainable Development, the Sri Lanka Foundation had stated 3 objectives and it was observed that only 2 of them had been Sustainable objectives.
- (c) As action had not been taken to identify the interested parties for the implementation of 2 objectives, Viz; Strengthening physically handicapped persons and budgeting in compliance with gender propinquity recognized in respect of achieving Sustainable Development objectives, it was observed that the participatory approach had not been depicted in setting targets related to the Institute.
- (d) Functions recognized by the Institute for reaching Sustainable targets had not been included in the annual action plan and the financial provisions to achieve those functions had not been included in the annual budget.

## 6. Accountability and Good Governance

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### 6.1 Procurements and contract process

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#### Procurement management

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A Procurement Plan for the year under review had not been prepared in terms of Guideline 4.2.1 (a) of the Government Procurement Guideline.

## 7. Systems and Control

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Weaknesses in systems and controls observed in audit were brought to the attention of the Chairman of the Institute from time to time. Special attention is needed in respect of the following areas of control.

#### Areas of Systems and Control

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#### Observations

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| (a) Debtors Control                   | As action had not been taken in accordance with conditions in respect of provision of hall facilities, there were delays in the recovery of debts.   |
| (b) Computer System                   | Computer System had not been operated so as to identify the outstanding course fees at a given date.   |
| (c) Preparation of records on courses | Non-preparation of the actual cost records in respect of certain courses conducted during the year under review and the attention on all components in the workshop estimating not paid.   |
| (d) Settlement of advances            | Action had not been taken to settle advances given during the period from 2001 to the end of the year under review.  |
| (e) Maintenance of Library Books      | As a result of appointing unqualified officers in charge of the library, weaknesses in storing, lending and reference books properly, lending and returning books, recovery of demurrages, entering all books to the accession register etc. |