

Superior Courts Complex Board of Management – 2018

1.1 Qualified Opinion

The audit of the financial statements of the of Superior Courts Complex Board of Management for the year ended 31 December 2018 comprising the balance sheet as at 31 December 2018 and the income and expenditure account, statement of changes in net assets and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and the Finance Act, No.38 of 1971. My comments and observations which I consider should be tabled in Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the financial statements of the Superior Courts Complex Board of Management give a true and fair view of the financial position of the Board as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Board is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Board.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation

of information to enable a continuous evaluation of the activities of the Board, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board;
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Accounting Deficiencies

Audit Observation -----	Management Comment -----	Recommendation -----
a) Fixed assets valued at Rs. 11,024,014 shown in the balance sheet as at 31 December 2018 had been fully depreciated though, they had still been in use. Nevertheless, action had not been taken in terms of Sri Lanka Public Sector Accounting Standard 03 to rectify the estimated error and revalue the said assets thereby showing those values in the books.	Once the assets of the Superior Courts Complex Board of Management have been depreciated, such assets are not depreciated further. In case that those assets are usable, the assets of higher value are revalued and made use of again; otherwise, those assets are identified as scrap, and will be sold to a third party after calling for quotations, or action will be taken to destroy them upon approval of the management. It is informed that action will be taken from the year 2020 to revalue the items of higher value.	If the fully depreciated assets are utilized further, action should be taken to revalue them and record in the books or else, such assets should be destroyed.
b) The value of Rs. 4,659,000 relating to the supply and installation of 16 air conditioners had been paid in full in the year under review. However, that value had been shown as work in progress in the financial statements instead of being capitalized.	Agreed.	The purchased assets should be capitalized.

1.6 Accounts Receivable and Payable

1.6.1 Funds Receivable

Audit Observation	Management Comment	Recommendation
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The sum of Rs. 11,111,000 shown in the accounts of the year under review as being lease rents receivable from 06 institutions, had remained unrecovered over a period of 01-05 years. The said value represented 48 per cent of the other receivable balance of Rs. 23,038,370 shown in the financial statements.	Agreed. Action will be taken from the year 2019 in accordance with the relevant Circulars.	Action should be taken to recover the receivable lease rents. If further recovery is impossible, action should be taken to eliminate such balances from the accounts after obtaining proper approval.

1.6.2 Funds Payable

Audit Observation	Management Comment	Recommendation
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The total creditor balance of Rs. 2,091,964 as at 31 December 2018 comprised 06 creditor balances totalling Rs. 410,271 that had remained unsettled for a period of one year indicating 20 per cent of the total creditor balance.	Agreed.	Action should be taken to settle the balances after being verified, or the unsettled balances should be identified and credited to the Government revenue.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a deficit of Rs. 27,889,471 as against the surplus of Rs. 13,738,357 in the preceding year, thus observing a deterioration of 41,627,828 in the financial result. This deterioration had mainly been attributed by the increase in expenditure on staff by Rs. 12,363,010.

3. Operating Review

3.1 Underutilization of Funds

Audit Observation	Management Comment	Recommendation
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<p>The average saving in the bank account of the Board relating to the period of 12 months ended as at 31 December 2018, amounted to Rs. 8,210,353. A sum ranging from Rs. 04 million to Rs. 16 million had remained underutilized in the current account as at the end of every month other than November. The management had not drawn their attention on investing such funds in a productive manner.</p>	<p>Agreed.</p>	<p>It is suitable to draw attention on investing the excess funds.</p>

3.2 Human Resource Management

Audit Observation	Management Comment	Recommendation
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<p>Action had not been taken to recover a sum of Rs. 191,919 overpaid as salaries and allowances to an officer who had held the position of Financial Manager of the Board of Management, when his service was terminated, from his gratuity; instead, having decided at the meeting of the Board of Management that the gratuity be paid in full, the relevant amount had been paid.</p>	<p>Agreed. Action will be taken properly from the year 2019 in terms of Circulars.</p>	<p>Action should be taken to recover the receivables from officers when their service is terminated.</p>

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Management Comment	Recommendation
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<p>The Action Plan had not been prepared in compliance with the Public Finance Circular, No. 01/2014, dated 17</p>	<p>It is scheduled to prepare the annual Activity Plan in terms of the relevant Circulars from the year 2019. Although quotations had been called</p>	<p>Each activity should be identified and included in the Action Plan thereby preparing the estimates</p>

February 2014 in view of the main functions and expected results of the Superior Courts Complex Board of Management. Although a sum of Rs. 20 million had been provisioned in the Action Plan for acquisition and improvement of capital assets, only a sum of Rs. 13.84 million had been utilized therefrom whilst 31 per cent of the provision had remained underutilized.

under capital expenses for the purchases including repairs and services, the contractors had not responded properly. As such, quotations had to be called 2-3 times for the same subject thus causing a delay of several months for the services giving rise to this situation. As the meetings of the Board of Management had also been postponed, obtaining approval for the expenses on the projects had been delayed. Accordingly, it is informed that the provision made in the Action Plan could not be utilized as planned in the year 2018.

accordingly and utilizing the provision made in a productive manner.