

Head 228 - Department of Courts Administration

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Department of Courts Administration for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance and cash flow statement for the year then ended 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. In terms of Sub-section 11(1) of the National Audit Act, No.19 of 2018, the summary report including my comments and observations on the financial statements of the Department of Courts Administration was issued to the Chief Accounting Officer on 26 July 2019. In terms of Sub-section 11(2) of the National Audit Act, the Annual Detailed Management Audit Report relating to the Department of Courts Administration was issued on 10 July 2019 to the Chief Accounting Officer. This report which should be read in conjunction with Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka is submitted to Parliament in terms of Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Department of Courts Administration as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted accounting Principles.

1.2 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility, under those standards is further described in the Auditor's Responsibility 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 opinion.

1.3 Responsibility of the Chief Accounting Officer for the Financial Statement

The Chief Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and in terms of Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as the Chief Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Sub-section 16 (1) of the National Audit Act, No. 19 of 2018, the Department of Courts Administration 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 Department of Courts Administration.

In terms of Sub-section 38(1) (c) of the National Audit Act, the Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department and carry out periodic reviews to monitor the effectiveness of such system and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibility for the Audit of 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 summary 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 scepticism 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, 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 Department's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- 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.

I communicate with the Chief Accounting Officer regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5. Report on Other Legal Requirements

As required by Sub-section 6 (d) of the National Audit Act, No.19 of 2018, I state the followings:

- (a) As there was no requirement of preparation of financial statements by the Department of Courts Administration for the preceding year, I could not state that the financial statements of the year under review are consistent with the preceding year.
- (b) As there was no requirement of preparation of financial statements by the Department for the preceding year, recommendations on financial statements had not been made by the Department.

1.6 Comments on the Financial Statements

1.6.1 Statement of Financial Position

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(a)The value of Work-In-Progress as at the end of the year under review amounting to Rs.3,375,669,923 had not been included in the statement of financial position, thus understating the total assets and liabilities by the same amount.	The value of Work-In-Progress should be included in the statement of financial position.	Only the finished value of property, plant and equipment relating to the year under review has been included in the statement of financial position and action will be taken to indicate the value of Work-In-Progress in the statement of financial position since the ensuing year as pointed out by the Audit.
(b)The advances of Rs.122,699,334 (Excluding VAT) granted in the years 2017 and 2018 for 12 construction projects and a sum of Rs.47,261,952 recovered from the said advance in the year 2018 had not been included in the Rent and Work Advance Account and Reserve Account, thus understating the balances	Payment and recovery of advances should be brought to account in terms of paragraphs (3) and (4) of the State Accounts Circular No.250/2016(I) of 03 August 2016.	Action will be taken to open Advance Accounts and Advance Reserve Accounts for all projects due to be commenced in the future.

of those two accounts in the financial statements by Rs.75,437,382.

1.6.2 Cash Flow Statement

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
<p>According to the Cash Flow Statement for the year ended 31 December 2018, expenditure incurred for personal emoluments and operations had been Rs.7,276,557,381. However, according to the Format ACA -2(II), expenditure incurred for personal emoluments and operations as per the cash book had been Rs.6,289,247,205, thus indicating a difference of Rs.987,310,176.</p>	<p>The Cash Flow statement should be prepared in terms of paragraph 3.6 of the State Accounts Circular No.267/2018 of 21 November 2018.</p>	<p>Cash books relating to the Courts Administration Object – Head 228 are maintained by High Courts and other Courts located island wide. Those notes are reported to the Ministry through monthly accounts summaries. The expenditure incurred by other Departments had been deducted from details incorporated in Treasury print outs issued by the General Treasury, based on accounts summaries prepared by the Ministry after consolidation of all those accounts summaries and the cash flow statement has been prepared by considering the remaining balance as expenditure according to the cash book. The actual expenditure incurred by cash has been failed to be obtained, comparing with cash books due to aforesaid practical problems. Action will be taken to summon information required therefor from Courts in future.</p>

1.6.3 Reconciliation Statement on Advances to Public Officers Account

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) According to the annual reconciliation statement of the year under review, outstanding loan balances totalled Rs.22,442,012 and it comprised of loan balances totalling Rs.8,675,188 older than a period of 05 years.	Action should be taken in terms of paragraphs 1 and 3 of the National Budget Circular No.118 of 11 October 2004 and Section 04 of Chapter XXIV of the Establishments Code.	Action has been taken to recover a sum of Rs.641,959.95 of the said amount by 30 June 2019. Officers of relevant Courts have been briefed to take action by paying special attention on the recovery of loan balances. Future measures are being taken by those officers for the recovery of those outstanding loan balances.
(b) A difference of Rs.13,038,442 was observed between the total summary of classification of individual balances and control account balance of the Department as at 31 December 2018. Further, explanations for the said difference had not been clearly furnished.	In case of a difference between the total summary of classification of individual balances and control account balance of the Department in terms of paragraph 05 of the State Accounts Circular No.256/2017 of 05 July 2017, explanations for the said difference should be clearly furnished.	Reasons for un-reconciliations between the total summary of classification of individual balances and control account balance of the High Court according to the Zonal accounts of the High Court have been indicated in the Zonal account submitted by the relevant High Court. However, non-reconciliations between control account balance of the Department and the total summary of classification of individual balances had remained over a period of 20 years and reasons for non-reconciliations relating to previous years could not be precisely found out.
(c) According to the Advance "B" Account as at 31 December 2018, the total difference between the total summary of classification of individual balances and control account balance of	In case of a difference between the total summary of classification of individual balances and control account balance of the Department in terms of paragraph 05 of the State Accounts Circular	The relevant Courts have been informed to take action by paying special attention on the requirement of identifying the unreconciled balances between the total summary of classification of individual

the Department had been Rs.13,038,442 and the difference between the summaries of classification of individual balances and control account balance of 25 court zones should be equal to the said difference. However, the said value had been Rs.714,948.

No.256/2017 of 05 July 2017, explanations for the said difference should be clearly furnished.

balances submitted by the **High Court Zones** and the control account and finding out reasons for those balances and taking action to rectify them and to report the progress thereof to the Ministry. Moreover, the progress thereof is monitored by the Ministry from time to time.

1.6.4 Deposits

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
<p>Age analyses had not been presented by each Court Zone in respect of total deposit balances included in the financial statements and an age analysis had been presented only for deposit accounts of the Ministry relating to the courts administration. Accordingly, the deposit balance older than two years had been Rs.35,510,959 representing 15 per cent of total deposits.</p>	<p>Action should be taken in terms of Financial Regulation 571.</p>	<p>As a large number of deposits are available relating to Court Zones, it is practically difficult to present an age analysis. An age analysis had been presented only for the Head Office.</p>

1.6.5 Responsibility of the Chief Accounting Officer

In terms of provisions of Section 38 of the National Audit Act, No.19 of 2018, the Chief Accounting Officer shall ensure the following matters. However, action had not been taken accordingly.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
<p>Even though the Chief Accounting Officer and the Accounting Officer shall ensure that all audit queries be answered within the specified</p>	<p>Action should be taken in terms of provisions of Section 38 of the National Audit Act, No.19 of 2018.</p>	<p>As replies for audit queries should have been given by examining old files and studying matters relating to audit queries, a delay has</p>

time as required by the Auditor-General, audit queries had not been replied in terms of paragraph 3.5 of the report.

occurred in replying to audit queries. However, the relevant officers had been briefed to take action for duly replying the audit queries in the future.

1.6.6 Non-compliance with Laws, Rules and Regulations

The following observations are made.

Reference to Laws, Rules and Regulations	Non-compliance	Recommendation	Comments of the Chief Accounting Officer
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Financial Regulations of the Democratic Socialist Republic of Sri Lanka			

(i) Financial Regulation 104(1)(a)	As soon as a loss or damage occurs, inquiries should be instituted to ascertain the extent and causes of the loss, and to fix responsibility. However, losses relating to 10 vehicle accidents occurred in the year under review had not been valued and included in the financial statements.	Action should be taken in terms of Financial Regulation 104(1)(a).	Instructions have been given to relevant officers to take action to account them in consultation with the Treasury thereon in future.
(ii) Financial Regulation 109(1) and (2)	Even though a period from 01 year to 10 years had elapsed after occurring losses of Rs.2,880,138 relating to 55 motor vehicle accidents, action in terms of Financial Regulations had not been taken in respect of those	Action should be taken in terms of Financial Regulation 109(1) and (2).	Proper action in terms of Financial Regulations is being taken on losses and damage relating to motor vehicle accidents occurred at present and it is informed that future measures will be taken to solve practical

	losses.		problems arisen in conducting examinations relating to old vehicle accidents enquired by the Audit.
(iii) Financial Regulation 396(d)	Action in terms of Financial Regulations had not been taken on cheques valued at Rs.2,568,001 remained uncashed for more than six months in 61 bank accounts belonging to 20 High Court zones, but not submitted to the bank as at the end of the year under review.	Action should be taken in terms of Financial Regulation 396(d).	Matters included in the audit query are correct. Instructions have been given to take action in terms of the Financial Regulation 396 on cheques remained uncashed for more than six months but not further cleared, pointed out by the Audit.

2. Financial Review

2.1 Management of Expenditure

(a) Non-utilization of Provisions

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(i) The estimated provisions for the construction of Courts Complex, Galle had been Rs.250 million and out of that, a sum of Rs.87.26 million had been transferred to another Object through the Financial Regulation 66, thus indicating savings of Rs.162.74 million.	Action should be taken in terms of the Financial Regulation 50.	As it was decided to construct the Courts Complex, Galle in another place due to policy reasons, this entire provisions amounting to Rs.250 million had been saved. However, action has been taken to transfer a part of the said savings to other projects through the Financial Regulation 66.
(ii) Even though provisions of Rs.50 million had been	-Do-	Even though provisions had been made for this project, it

made by a supplementary estimate for an automated case management system, the said entire provisions had been saved as at the end of the year under review.

could not be commenced due to unavailability of infrastructure facilities in the Courts System for commencing the project.

(b) Underutilization of Provisions

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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<p>A sum of Rs.618.76 million out of net provisions amounting to Rs.1,321.60 million made for 11 Capital Objects and a sum of Rs.1.00 million out of net provisions amounting to Rs.2.58 million made for 04 Recurrent Objects had been saved. It had been ranged between 20 per cent and 97 per cent of the net provision.</p>	<p>Action should be taken in terms of Financial Regulation 50.</p>	<p>The performance of certain projects had been at a weak level due to practical issues arisen in carrying out projects relating to Capital Objects and due to policy decisions and payments could not be made due to failure in receiving imprests from the Treasury, thus indicating savings of provisions made for the year.</p>

2.2 Incurring of Commitments and Liabilities

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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<p>Commitments of Rs.10.18 million had been incurred exceeding the savings of net provisions made for 06 Recurrent Objects not belonging to annual recurrent services or supplies.</p>	<p>Action should be taken in terms of Financial Regulations 94 (1) and 94 (2).</p>	<p>Various matters had been attributed to the incurring of commitments exceeding savings after utilization of net provisions made for Recurrent Objects not belonging to annual recurrent services or supplies according to the Financial Regulation 94(2) and it is further informed that</p>

action had to be so taken as continuous court proceedings are essential.

3. Operating Review

3.1 Planning

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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The updated organizational structure, approved cadre and details of present cadre of the Department for the year had not been incorporated in the Action Plan prepared for the year under review.	The Action Plan should be prepared in terms of the Public Finance Circular No.01/2014 of 17 February 2014.	It is informed that the Action Plan for capital expenditure of the year 2018 had been prepared and presented in terms of Guideline No."MNPEA/PLN/APG/15" of 14 October 2015 issued by the Ministry of National Policies and Economic Affairs according to the Cabinet Decision dated 22 September 2015 after issuing the Public Finance Circular No. 01/2014 and according to instructions of the Letter No."PC/MD/P//AP" of 13 November 2015 of the Secretary to the President.

3.2 Projects Not Commenced

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(a) Activities of the following three construction projects proposed to be carried out by the Sri Lanka Navy	Provisions obtained by preparing estimates should be utilized for relevant purposes.	The Ministry had obtained the approval of the Cabinet of Ministers for carrying out these projects through the Sri

under the Project of “Development of Infrastructure of offices, official quarters and courts, coming under purview of the Ministry of Justice and Prison Reforms”, had not been commenced in the year under review.

(i) Judicial Service Commission Building

- Rs.35 million

(ii) Official Quarters No.B 88, Gregory’s Road, Colombo 07

- Rs.06 million

(iii) Official Quarters No.B 89, Gregory’s Road, Colombo 07

- Rs.06 million

(b) Financial provisions of Rs.400 million had been decided to be granted in the years 2018, 2019 and 2020 for the construction of the Kantale Courts Complex under the project of “Construction of New Courts Building”. Even though, a sum of Rs.100 million had been granted in the year under review under additional provisions for the said construction, project had not been commenced by utilizing those provisions.

Provisions obtained by preparing estimates should be utilized for relevant purposes.

Lanka Navy. As an alternative, the Sri Lanka Navy had informed that in case of granting the total amount relating to this project to the Sri Lanka Navy, those projects can be commenced. However, the Ministry had informed that it is unable to grant money except for the release of provisions to another Department in terms of Financial Regulations. As a result, this project has been rejected by the Sri Lanka Navy, thus indicating the savings of the said entire provisions during the year 2018.

It had been informed to submit estimates and plans relating to the construction of the said building complex to the Central Engineering Consultancy Bureau and the said Institute had submitted the estimate to the Ministry on 25 July 2018. Subsequently, it had to be revised according to observations of the Technical Evaluation Committee from time to time. After calling for quotations by newspaper advertisements, recommendations of the Technical Evaluation Committee had been obtained on 19 November 2018. However, Tenders for the said project could not be awarded in the year 2018 due to the Cabinet reshuffle and revisions made to the Cabinet Appointed Procurement Committee and as a result, the project could not

be commenced.

3.3 Assets Management

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
Deeds or Title Certificates had not been made available to Audit to confirm that the lands proposed for constructing 03 courts complexes of which constructions have been commenced in the year under review, belong to the Ministry of Justice and Prison Reforms.	Ownership of the land should be settled before commencing constructions.	It is informed that action is being taken to vest those lands.

3.4 Losses and Damage

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
It has been mentioned in the Register of Losses and Damage that the difference between the loss assessed and the insurance claim relating to two motor vehicle accidents occurred in the year under review had been paid by the Ministry. However, the said value of Rs.94,939 had not been included in the financial statements as a loss.	All losses sustained should be included in the financial statements.	Matters pointed out in audit queries are accepted. Action is taken to examine in this connection and account them in the future.

3.5 Unanswered Audit Queries

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
----- Four and nine audit queries issued in the year under review and the preceding year respectively to the Ministry had not been replied even by 20 June 2019.	----- Action should be taken in terms of provisions of Financial Regulations 155 (1) and 452.	----- Replies should be given by studying matters included in old files relating to audit queries, thus resulting in a time delay. However, relevant officers were briefed to take action to make replies on due date in the future and replies are being prepared by now.

3.6 Contract Administration

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
----- Even though the construction of a parapet wall around the official residence under the project of construction of the Magistrate's Official Residence, Siyambalanduwa, had not been estimated, construction of a gate therefor had not been estimated. As such, an additional estimate valued at Rs.130,489 had been approved in August 2018 therefor and thus, proper action had not been taken to prepare estimates by identifying the requirements. Further, 09 works valued at Rs.70,460 estimated in this project had not been performed.	----- Estimates should be prepared by identifying the requirements.	----- It is informed that action will be taken to make replies in the future by examining in this connection.

4. Human Resources Management

The following observation is made.

Audit Observation

Recommendation

**Comments of the Chief
Accounting Officer**

Action had not been taken to fill the total number of vacancies of 5,456 existed as at the end of the year under review and to regularize the excess cadre of 3,976 recruited as at that date.

Action should be taken to fill vacancies and regularize the excess cadre.

Recruitment of officers for courts are made by the Ministry of Justice and Judicial Service Commission. As such, action is taken to fill vacancies and regularize the excess cadre by conducting an examination in this connection. Moreover, recruitment of officers for the posts of the Combined Service existed in Courts are made by the Ministry of Public Administration and Disaster Management.