

Head 149 - Report of the Auditor General on the Ministry of Industry and Commerce and Departments coming under the Ministry – Year 2013

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This report consists of two Parts.

Part 1 - Summary Report on the Accounts of the Ministry and the Departments under the Ministry

Part 2 - Detailed Report on each Appropriation Head

**Part I**

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Summary report on the Accounts of the Ministry of Industry and Commerce and the Departments under the Ministry

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1. **Departments under the Ministry**

Head	Name of the Department
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295	Department of Commerce
297	Department of the Registrar of Companies
299	National Intellectual Property Office of Sri Lanka
303	Department of Textile Industries

2. **Accounts**

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2.1 **Appropriation Accounts**

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(a) **Total Provision and Expenditure**

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The total net provision for the Ministry and two Departments under that made amounted to Rs.964,056,559 and a sum of Rs.1,802,167,741 had been utilized from it as at the end of the year under review. Accordingly, the savings in the Ministry and each Department ranged from Rs.2,197,728 to Rs.936,016,957 representing 4 per cent to 41 per cent of the total net provision. Particulars are given below.

Head	As at 31 December 2013			Savings as a Percentage of Net Provision
	Net Provision	Utilization	Savings	
	Rs.	Rs.	Rs.	
149	2,283,700,000	1,347,683,043	936,016,957	41
295	107,401,000	101,608,156	5,792,844	5
297	28,550,000	26,352,272	2,197,728	8
299	20,925,000	12,902,075	8,022,925	38
303	325,648,300	313,622,195	12,026,105	4
<b>Total</b>	<b>2,766,224,300</b>	<b>1,802,167,741</b>	<b>964,056,559</b>	

## 2.2 Revenue Accounts

### Estimated Revenue and Actual Revenue

The Ministry and a Department under the Ministry had estimated a revenue of Rs.105million in the year 2013 for two revenue codes and revenue of Rs.141 million had been collected during the under review. Accordingly, an excess of 37 per cent and 39 per cent of the estimated revenue had been collected. Details are shown below.

Revenue Code	As at 31 December 2013			Excess as a Percentage of Estimated Revenue
	Estimated Revenue	Actual Revenue	Excess	
	Rs.	Rs.	Rs.	
20.03.02.10	100,000,000	134,005,630	34,005,630	34
20.03.02.12	5,000,000	6,966,000	1,966,000	39
<b>Total</b>	<b>105,000,000</b>	<b>140,971,630</b>	<b>35,971,630</b>	<b>34</b>

## 2.3 Advance Accounts

### 2.3.1 Advances to Public Officers Accounts

#### Limits Authorized by Parliament

The limits authorized by the Parliament for advances to Public Officers Accounts in the Ministry and five Departments under the Ministry and the actual figures are given below.

Item No	Expenditure		Receipts		Debit balance	
	Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
14901	12,000,000	7,291,800	8,000,000	9,484,464	55,000,000	36,721,676
29501	5,000,000	4,850,459	2,000,000	4,011,411	20,000,000	13,688,253
29701	4,500,000	3,110,161	2,100,000	2,905,947	32,000,000	12,051,295
29901	3,500,000	2,000,615	1,200,000	2,273,248	13,000,000	5,014,160
30301	5,500,000	4,159,114	3,200,000	3,382,448	32,000,000	17,350,659

## 2.4 General Deposit Accounts

Total of the balances in the General Deposits Accounts of the Ministry and two Departments under the Ministry as at 31 December 2013 amounted to Rs.68,489,696. Details appear below

Ministry / Department	Deposit Account No.	Balance as at 31 December 2013
		Rs.
Ministry of Industry and Commerce	6000/0000/00/0015/0060/000	64,264,164
Department of the Registrar of Companies	6000/0000/00/0015/0152/000	60
Department of Textile Industries	6000/0000/00/0015/0158/000	4,225,472
Total		68,489,696

## Part 2

### ----- Detailed Report on each Head -----

#### 1. Head 149 – Ministry of Industry and Commerce -----

##### 1.1 Scope of Audit -----

The audit of the Appropriation Account including the financial records, reconciliation statements books, registers and other records of the Ministry of Industry and Commerce for the year ended 31 December 2013 was carried out in pursuance of provisions in Article 154(1) of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Secretary to the Ministry on 08 August 2014. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

##### 1.2 Responsibility of the Chief Accounting Officer for the Accounts and Reconciliation Statements -----

The Chief Accounting Officer is responsible for the maintenance, preparation and fair presentation of the Appropriation Accounts and the Reconciliation Statements in accordance with the provisions in Articles 148,149,150 and 152 of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Financial and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliations Statements that are free from material misstatements whether due to fraud or error.

##### 1.3 Audit Observations -----

According to the Financial Records and books for the year ended 31 December 2013, it was observed that except for the effects of the general observations appearing at (a) to (c) and major audit findings appearing in paragraphs 1.4 to 1.5 herein, the Appropriation Account and the reconciliation statements of the Ministry of Industry and Commerce had been prepared satisfactorily.

##### (a) Budgetary Variance -----

The entire net provision of Rs.237,525,000 made under 12 Expenditure Items had been saved. Due to excessive provisions had been made for 27 Items of Expenditure, savings after utilization of provision were in a range between 25 per cent and 100 per cent of these expenditure item.

## (b) Imprest Account

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 Ad hoc sub Imprest totalling Rs.218,000 had been issued in 12 instances to 04 officers who are not in staff grade, contrary to provisions in Financial Regulation 371. Although the ad hoc sub Imprest obtained should be settled immediately after completion of the job, in terms of Financial Regulation 371, sub Imprest had been settled after a delay ranging between 11 days and 55 days.

## (c) Advances to Public Officers Account

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 According to the reconciliation statement as at 31 December 2013 relating to Item No.14901 Advance Account, total of balances in arrears amounted to Rs.105,532. The Ministry had failed to recover those balances in arrears.

## 1.4 Performance

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 Observations relating to progress of the Ministry, according to the Annual Action Plan – 2013 are shown below.

## (a) Projects not Showing an Adequate Financial and Physical Progress.

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- (i) Although a provision of Rs.4 Million had been made for the year 2013 for Food Safety and Hygiene Certification Program, a sum of Rs.0.47 Million only had been utilized. It had been 12 per cent of the provision made available. Adequate written information also had not been recorded to assess the physical progress.
  - (ii) Although it was expected to spend Rs.2 Million for training 30 individuals for rubber associated product industries, only 15 individuals had been selected for that and a sum of Rs.0.26 Million or 13 per cent of the expected amount only had been spent.
  - (iii) Although a provision of Rs.50 Million had been made for the construction of a Footwear Goods Production Training Institute, out of that, Rs.14.15 Million or 28 per cent of the provision had been utilized. The management had failed to confirm the audit that there had been a proper supervision to ensure the physical progress relating to the value for money invested.
  - (iv) Out of the provision of Rs.90 Million made available for Leather Associated Industries, Rs.2 Million had been utilized. Accordingly, financial or physical performance had not been reached relating to 97 per cent of the provision.

## (b) Projects not indicating any Progress.

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- (i) Although a provision of Rs.5 Million for a Coir Research Centre and other accessories, and another provision of Rs.5.26 for Blocks and Pressure Industry under Development Section II totalling Rs.10.26

Million had been provided, any progress had not been reached from those provisions. Management had reported to audit that “The Coir Research Centre and Other Accessories Project” is being performed through the Coconut Development Board and that the provision made available for the “Blocks and Pressure Industry” Project was insufficient and had to be suspended.

- (ii) Although provision amounting to Rs.2 Million had been made available for Metal Products and Equipment Industry that had not been implemented. Management had informed the audit that Equipment Trade Exhibition was cancelled for conducting the Conference of Heads of Governments of Commonwealth Countries and this situation was arisen due to that.

## 1.5 Human Resources Management

### (a) Approved and Actual Cadre

Cadre position as at 31 December 2013 was as follows.

Category of Employee	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior level	55	38	17
(ii) Tertiary Level	12	08	04
(iii) Secondary Level	1,087	593	494
(iv) Preliminary Level	99	88	11
Total	1,253	727	526

Following observation is made.

Action had not been taken by the Ministry to fill 526 vacant posts as at the end of the year under review.

## **2. Head 295 -Department of Commerce**

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### **2.1 Scope of Audit**

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The audit of the Appropriation Account including the financial records, reconciliation statements books, registers and other records of the Department of Commerce for the year ended 31 December 2013 was carried out in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of the Department on 27 October 2014. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

### **2.2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Accounts and Reconciliation statements**

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The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements in accordance with the Articles 148,149,150 and 152 of Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

### **2.3 Audit Observation**

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According to the Financial Records and Books for the year ended 31 December 2013, it was observed that except for the effects of the general observations appearing at (a) to (c) and major audit findings appearing in paragraphs 2.4 to 2.7 herein, The Appropriation Account and the Reconciliation Statements of the Department of Commerce had been prepared satisfactorily.

#### **(a) Non-maintenance of Books and Registers**

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Loan Register of Members had not been properly maintained and up-dated by the Department in terms of 6.3 of National Budget Circular No. 118 dated 11 December 2004.

#### **(b) Budgetary Variance**

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Excess provisions had been made for 06 Objects and as such the savings thereunder after utilization of provisions ranged between 24 per cent and 95 per cent of the net provisions relating to those Objects.

**(c) Reconciliation Statement of the Advances to Public Officers account**  
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Following observations are made.

- (i) According to the Reconciliation Statement of the Advances to Public Officer Account - Item No.29501 as at 31 December 2013 the balances that remained out standing as at that date totalled Rs.38,650 and the Department had failed to recover those outstanding balances.
- (ii) Loan balances totalling Rs.2,472,334 of officers of the Department of Commerce, attached to foreign missions had not been shown in the Advance account according to the loan category.
- (iii) It was observed in audit test checks that loan applications submitted by officers for distress loans had not been prepared in terms of provisions in Chapter XXIV of the Establishments Code.

**2.4 Good Governance and Accountability**  
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**2.4.1 Annual Action Plan**  
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Details relating to the officers responsible for implementing the works had not been indicated In the Action Plan prepared for the year 2013. Although it had been stated in the Action Plan that attention will be paid for matters such as promotion of selected products, introduction of new products, providing facilities for exports promotion, upgrading small and medium scale industrialists and creation of market for Sri Lankan products, planned targets for those activities had not been indicated.

**2.4.2 Annual Performance Reports**  
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In terms of Public Finance Circulars No.402 dated 12 September 2002 and No. 402(1) dated 20 February 2004, the Department should prepare the Annual Performance Report and table in the Parliament with copy to the Auditor General within 150 days after the end of the financial year. Performance report relating to the year under review had not been tabled even by 31 August 2014.

**2.5 Unsettled Liabilities**  
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The unsettled liabilities for less than one year by the Department as at 31 December 2013 amounted to Rs.1,993,183.

**2.6 Performance**  
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Observations regarding the progress of the Institute according to the Annual Estimates for 2013 are shown below.



**(a) Exports Promotion**

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Main function of the Department of Commerce is to promote the exports of the Island. The total value of overall exports of the Island during the year 2013 had increased from US\$ 9,180 million to US\$ 10,009 million as compared with the year 2012. It had decreased when that value is compared with the value of US\$ 10,017 million for the year 2011. Accordingly, necessity for an effective program of work for continuous growth in the export income of Sri Lanka was observed in audit.

**(b) Approval for Credit Institutions**

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In terms of Mortgage Act No. 6 of 1949, the following functions under Trustees Ordinance No. 12 of 1947 and Local Trust Receipts Act No. 14 of 1990 had been vested with the Director General of Commerce.

- (i) Registration and approval of Credit Institutions.
- (ii) Supervision relating to operations of approved Credit Institutions.

However, action had not been taken by the Department to fulfill the above functions even up to 31 December 2013.

**(c) Issuance of Recommendations for Residence Visa**

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During the year 2013, the Department of Commerce had issued 206 recommendations as the authorized establishment for issuing residence visa for immigrants to be employed. However, follow up methodology to ascertain the legality of business activities engaged by the foreigners in Sri Lanka had not been fulfilled by the Department.

**2.7 Human Resources Management****Approved Cadre and the Actual Cadre**

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The position of the cadre as at 31 December 2013 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
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Senior Level	54	51	03
Tertiary Level	02	01	01
Secondary Level	64	47	17
Preliminary Level	19	12	07
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Total	139	111	28
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Following observations are made.

- (a) Department had failed to fill 28 vacancies by the end of the year under review.
- (b) A post of Director of Commerce, two posts of Assistant Directors of commerce and four posts of Research Assistants of Commerce were among the vacant posts. In spite of vacancies in senior posts in the Department, two officers holding the posts of Deputy and Assistant Directors receiving salaries from the Department had been attached for duties in the Ministry.
- (c) It was revealed that 02 posts of Tertiary level such as System Analyst and Language Translator had been vacant from the date of the creation of the posts and post of Librarian had also been vacant for 15 years.

### **3. Head 297 - Department of Registrar of Companies**

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#### **3.1 Scope of Audit**

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The audit of the Appropriation Account and the Revenue Accounts including the financial records, reconciliation statements, books, registers and other records of the Department of Registrar of Companies for the year ended 31 December 2013 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Registrar General of Companies (covering of duties) on 11 November 2014. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

#### **3.2 Responsibility of the Chief Accounting officer and the Accounting Officer for the Accounts and Reconciliation Statements**

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The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account, the Revenue Accounts and the Reconciliation Statement in accordance with the

provisions in Articles 148,149,150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory provisions and public Finance and Administrative Regulations. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

### **3.3 Audit Observation**

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According to the Financial Records and Books for the year ended 31 December 2013, it was observed that except for the effects of the general observations appearing at (a) to (c) and other major audit findings appearing in paragraphs 3.4 to 3.11 herein, the Appropriation Account, the Revenue Account and the Reconciliation Statement of the Department of the Registrar of Companies had been prepared satisfactorily.

#### **(a) Budgetary Variance**

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Over provisions had been made for Object of Salaries and Wages and as such the savings thereunder after utilisation of the provisions amounted to Rs.2,171,137. That represented 22 per cent of the net provisions relating to the Object.

#### **(b) Revenue Accounts**

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Revenue Accounts relating to 02 Revenue Codes had not been prepared and presented to audit by the Department. The following observations are made in this connection.

- (i) The Department had expected to collect revenue amounting to Rs.70,000,000 under Revenue Code 20.03.02.10 according to the Annual Budget Estimates. The revenue estimate had been revised as Rs.100,000,000 in the year under review. Accordingly revenue of Rs.134,005,630 had been collected exceeding the revised estimate by Rs.34,005,630 or 34 per cent.
- (ii) Even though it was expected to collect revenue of Rs.5,000,000 in the year under review under Revenue Code 20.03.02.12, actual revenue

collected had been Rs.6,474,000 Accordingly estimated revenue had increased by Rs.1,474,000 or 29 per cent

**(c) Reconciliation Statement of the Advances to Public Officers Account**  
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According to the examination carried out on the Reconciliation Statement of the Advances to Public officers Account, Item No. 29701 as at 31 December 2013, the following observations are made.

- (i) The balances that remained outstanding as at 31 December 2013 totalled Rs.120,741 and the follow up action on the recovery of those outstanding balances had been at a weak level. The Department had failed to recover such outstanding balances since the periods ranging from 11 years to 30 years.
- (ii) Even though loan balances of Rs.72,260 and Rs.17,000 should have been recovered from two officers who retired and interdicted in the year 2005 respectively, adequate action had not been taken by the Department thereon.
- (iii) The Department had not maintained the loan registers and books properly in terms of the paragraph 8 of the National Budget Circular No. 118 dated 11 October 2004.

**3.4 Good Governance and Accountability**  
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**Annual Action Plan**  
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Even though an Action Plan had been prepared for the year under review, the particulars of the activities of the Action Plan and the responsible persons for implementation of the activities and the time period for the achievement of the objectives had not been specifically included therein.

**3.5 Assets Management**  
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According to the audit test check carried out in respect of assets belonging to the Department the following observations are made.

**(a) Idle and Under Utilised Assets**  
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Even though there were 03 vehicles belonging to the Department, only two drivers had been deployed in the service. Therefore one vehicle had remained underutilised for a long period. Even though there were 03 posts of drivers in the approved cadre of the Department, one post had remained vacant for a long period.

**(b) Irregular use of Assets not Transferred**  
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The approval of the Cabinet of Ministers with the concurrence of the Ministry of Transport had been obtained on 12 September 2007 to transfer the land in which the Departmental building situated. Accordingly a sum of Rs.35,510,750 had been paid to the Department of Railways on 26 June 2012 on behalf of this by the Department. But the land had not been vested in the Department even by 31 December 2013.

**3.6 Non - taking actions in accordance with the Annual Action Plan**  
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**Restructuring Programme**  
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Even though Provisions of Rs.140 million had been made during the year under review for the project of Computerization of the Registration of Companies, the project had not been implemented and as such the entire provisions made thereunder had been underutilised. In addition to that an another additional provision of Rs.2,800,000 had been made for administration expenses and a sum of Rs.1,086,000 out of that provision only had been incurred to purchase computers and relevant software.

**3.7 Performance**  
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The following observations are made on the performance of the Department

**(a) Registration of Companies and Others**  
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The performance of the Department as compared with the previous year had decreased as follows.

	Number		Difference Decrease	Percentage of the Decrease
	2013	2012		
Companies Registered	6,047	7,089	(1,042)	(15)
Examination of Files	10,847	12,729	(1,882)	(15)
Approval for Names	12,075	14,194	(2,119)	(15)
Certification of Copies	36,531	38,459	(1,928)	(5)
Registration of Forms	70,659	74,304	(3,645)	(5)
Registration of Annual Reports	29,853	33,845	(2,992)	(12)
Registration of Financial Reports	2,867	2,959	(92)	(3)
Selling of forms	4,207	4,368	(161)	(4)
Registration of Secretaries	437	622	(185)	(30)

The following observations are made in this connection.

- (i) Even though the Registration of Annual Reports for the year under review, had decreased by 3,992 or 12 per cent as compared with the year 2012, the revenue had increased from Rs. 29 million to Rs. 149 million. Even though the performance of the other all units had decreased, the revenue had increased. This had been mainly affected due to increase the charges in the year under review.
- (ii) In accordance with the provisions of the Companies Act No 07 of 2007, 62,508 companies had been registered by 31 December 2013. Out of that, companies 52,990 companies should present the Annual Reports up to 31 December 2013, but 38,906 companies had not presented the Annual Reports. Accordingly revenue of Rs.64,843,333 had not been recovered as at 31 December 2013. Necessary actions had not been taken by the Department to obtain Annual Reports from the companies which had not presented the Annual Reports.

**(b) Functions not carried out Adequately**

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**(i) Implementation of the Companies Act No. 7 of 2007**

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One of the functions of the Department is to monitor the activities of the registered companies among the statutory functions assigned to the Registrar General of Companies by the Companies Act. But the Department had failed to prepare such an active programme to achieve that. The following weaknesses were observed during audit test checks carried out thereon.

- ❖ When an establishment of a Limited Company a public notification of the incorporation of the company should be published within 30 days including specifically the Name, Number, Registered office and Address. But action had not been taken by the Department in respect of the limited companies which had not taken action accordingly in terms of the Section 9(I) of the Companies Act No 7 of 2007.
- ❖ In instances the Registrar of Companies had not been informed in respect of first issued share capital of the Limited companies. the action had not been taken in terms of the Section 51 of the Companies Act on such limited companies.
- ❖ Action had not been taken in terms of the provisions of the Section 170(1) of the Act in respect of the non-private limited companies which had not presented the financial statements.
- ❖ Actions had not been taken by the Department in respect of the limited companies which had not taken action according to the Section 9(2) of the Companies Act in changing the names of the company.
- ❖ No action whatsoever had been taken according to the Section 131(4) of the Companies Act on limited companies which had not presented Annual Reports and action had not been taken to eliminate their names

- ❖ There were several non - operating companies
- ❖ Annual Reports for preceding years had not been filed but the annual reports for after that years had been filed.
- ❖ According to the Section 102(1) of the Company's Act No. 07 of 2007 the Negative trusts established by the companies registered in Sri Lanka should be registered. But the substantial delays were observed in such activity.

**(ii) Cheetu Ordinance No 61 of 1935**  
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Registration and Monitoring of Cheetu had been assigned to the Office of the Registrar of Companies. No activity what so ever had been carried out during the year under review. The Department had replied for the audit query that this function is inactive at present.

**(iii) Societies Ordinance**  
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Hundred and sixty nine Societies had been registered during the year under review and stamp income generated from the Registration of Societies amounted to Rs.4,225. A continuous decrease was observed on the number of companies registered during the period between 2010 and 2013 and it was decreased up to 75 per cent during the year under review.

**(iv) Registration of General Contracts**  
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The all contracts which exceeded the value more than Rs.5 million should be registered under Registrar of Companies in terms of the provisions of General Contracts Act No 3 of 1987. However 4,251 General Contracts had been registered by the Department in the year under review and it was 4,414 in the year 2012. It was observed a decrease of 4 per cent in the year under review as compared with the year 2012.

**(v) Registration of Auditors and Renewal of the Registration**  
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Seventy four new auditors were registered in the year under review and income generated thereon amounted to Rs.9,900 The income received



from 84 auditors newly registered in the preceding year amounted to Rs.11,340 thus the income decreased by 12 per cent in the year under review. The renewals of the registration of auditors in the year under review amounted to 556 and the income had been Rs.12,232 and the registration of auditors amounted to 444 in the preceding year and the income had been Rs.9,768, thus the income had increased by 25 per cent. Further no programme whatsoever had been implemented on monitoring and informing of auditors.

### **3.8 Transactions of Contentious Nature**

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All expenditure made by the Registrar of Companies could be incurred by the Fund in achieving the duties and functions in terms of the Companies Act No. 07 of 2007. Nevertheless a sum of Rs.90,275,000 had been spent to purchase shares of a private company which is not come under the purview of such expenditure. The ownership of the shares had been with the Ministry of Cooperatives and Internal Trade but it was decided to wind up as the company was bankrupt. Further no benefit whatsoever had been received by the Department from this investment even by 31 December 2013.

### **3.9 Uneconomic Transactions**

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Applications had been called to recruit a suitable officer for the vacant post of Registrar General of Companies in several instances during the years 2012 to 2014 and a sum of Rs.330,870 had been spent for advertisements. A suitable officer for the above post had not been recruited even by 31 December 2013 and as such the expenditure incurred had become fruitless.

### **3.10 Management Inefficiencies**

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The following observations are made

- (i) As surplus average monthly cash balance of Rs 13 million had remained throughout in the bank current account of the company's Fund without effectively investing and as such the interest income could have been earned had been deprived.

- (ii) Due to lack of human resources the main functions of the record room of the Department could not be maintained properly in implementation of the provisions of Companies Act No. 07 of 2007.
- (iii) Even though the registration of limited companies for single shareholders had been made by the Department at present, that clause had not been clearly mentioned in the Companies Act and as such that clause should be amended. But action had not been taken to amend the Company's Act even by 31 December 2013.

### 3.11 Human Resources Management

#### ----- Approved Cadre and Actual Cadre -----

The position of the cadre as at 31 December 2013 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
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(i) Senior Level	09	06	03
(ii) Tertiary Level	03	02	01
(iii) Secondary Level	71	48	23
(iv) Primary Level	24	19	05
(v) Others(casual/Temporary/ Contract Basis)	-	-	-
Total	107	75	32
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The following observations are made

- (i) Two officers had been appointed to cover only the duties of the posts of the Registrar General of Companies and Registrar of Companies of the Department.
- (ii) Further 08 posts of Enterprises Analysis Assistant and 10 posts of Management Assistants had been vacant.
- (iii) Three posts out of 04 posts of Inspectors of Companies of the Department had been vacant. Adequate actions had not been taken to recruit the officers for the

vacant posts by the top management and this situation had adversely affected to the implementation of the provisions of the Companies Act No. 7 of 2007 and other functions of the Department.

#### **4. Head 299 – National Intellectual Property Office of Sri Lanka**

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##### **4.1 Scope of Audit**

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The audit of the Appropriation Account, including the financial records, reconciliation statements, books, registers and other records of the National Intellectual Property Office of Sri Lanka for the year ended 31 December 2013 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Director General of Intellectual Property on 04 September 2014. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and the reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

##### **4.2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Accounts and Reconciliation Statements**

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The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements in accordance with the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

##### **4.3 Audit Observation**

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According to the Financial Records and Books for the year ended 31 December 2013, it was observed that except for the effects of the general observations appearing at (a) and (b) therein and other major findings appearing in paragraphs 4.4 to 4.8 below, the Appropriation Account and the Reconciliation Statement of the National Intellectual Property Office of Sri Lanka had been prepared satisfactorily.

###### **(a) Budgetary Variance**

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As a result of the overprovision made for 2 Objects, the savings in these Objects after utilization of the provision were 30 per cent and 43 per cent of the net provision of those objects.

**(b) Reconciliation Statement of the Advance to Public Officers' Account**  
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According to the reconciliation statement of the Advance Account bearing item No.29901 as at 31 December 2013, the office was unable to recover the arrears over 4 years aggregating Rs.139,410 included in the balances of arrears recoverable as at that date.

**4.4 Good Governance and Accountability**  
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**Internal Audit**  
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An internal audit unit had not been established in the office. This work had been assigned to the audit unit of the Ministry of Industries and Commercial Affairs. This unit had not carried out adequate internal audit. One audit query per year had been issued for the years 2013 and 2014.

**4.5 Assets Management**  
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**Irregular Usage of Assets Not Acquired**  
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Approval had been obtained to construct a reparatory, a sales promotion centre and a training centre for the National Intellectual Property Office of Sri Lanka to provide facilities for promotion of allied rights of intellectual properties under the approval of the Cabinet of Ministers No. T.M.D.C/2007/25 dated 25 September 2007. The amount spent in this connection during 2008 and 2009 aggregated Rs.22,978,101. According to the Cabinet Memorandum No.CM/11/037/503/013 dated 31 January 2011, it was informed that the land concerned was to be acquired for activities relating to development activities of the tourism industry and to identify another place. Accordingly, the construction work concerned had been suspended on 31 March 2010. Action had not been taken to select another place. The above amount had been spent for the construction concerned without confirming the ownership and existence of this land coming under the ownership of Co-operative Wholesale Establishment. The SATHOSA had claimed ownership of this land and as such the sum of Rs.22,978,101 spent by the institution had become fruitless. At present, necessary action is being taken to sell the building at scrap value.

**4.6 Performance**  
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The information relating to registration of trademarks, patent licences and industrial plans during the year under review is shown in the note below.

	<b>Registration of Trade Marks</b>	<b>Registration of Patent Licences</b>	<b>Registration of Industries</b>
	-----	-----	-----
No. of applications brought forward from the previous year	28,720	1,525	963
No. of applications received during the year	8,825	516	346
	-----	-----	-----
No. of applications to be attended to during the year	37,545	2,041	1,309
No. of applications registered during the year	1,485	236	130
	-----	-----	-----
No. carried forward for the ensuing year without registration	36,060	1,805	1,179
No. of files in progress	16,400	1,730	729
	-----	-----	-----
Files on which no action had been taken	19,660	75	450
Percentage of applications on which no action had been taken	52	4	35

The following observations are made in this connection

- (a) Out of the total applications received for registration of trademarks as at end of the year under review, the number of applications on which action had not been taken were 19,660 and it was 52 per cent of the total number of applications of 37,545 received for registration during the year.
- (b) The number of patent licences to be registered during the year under review was 2,041 of these, 236 applications had been registered and the number of applications being attended to were 1,730. The number of files on action, whatsoever, had not been taken as at end of the year under review was 75 and it represented 4 per cent.
- (c) During the year under review, there were 1,309 applications awaiting registration of industrial plans brought forward from previous years and 346

applications received during the year under review. Of these, 130 applications had been registered representing 10 per cent of the entire amount. Half completed were 729 and the number of applications remaining as at end of the year under review on which no action had been taken by 31 December 2013 were 450.

- (d) The main functions of the National Intellectual Property Office of Sri Lanka are registration of trademarks, patent licences and industrial plans. However, there were delays in fulfilling these functions as mentioned above. As such, it was observed that new inventors get dissatisfied and the contributions to the economy through new inventions of new inventors could be lost. A piece rate payment method had been introduced from May 2013 to intensify registration of delayed applications and the extra expenditure of Rs.305,960 incurred on this had been borne by the Fund.

#### **4.7 Activities not adequately fulfilled**

##### **Non-compliance with the Annual Action Plan**

Certain instances of non-compliance with action plan revealed at test checks are shown below.

- (a) Although a sum of Rs.500,000 had been provided to establish 3 centers for providing intellectual property facilities, as per Annual Action Plan, those centres had not been established even by 31 December 2013.
- (b) Although a provision of Rs. 1.52 million had been made available under the Annual Action Plan, it was planned to computerize the duties of the shroff and to introduce an internal e-mail system, it was unable to achieve the objective even by 31 December 2013 computer accessories alone had been purchased for Rs.1.125 million by utilizing the provision allocated for this.

#### **4.8 Human Resources Management**

##### **Approved Cadre and Actual Cadre**

The position of cadre as at 31 December 2013 appear below.

<b>Category of Employee</b>	<b>Approved Cadre</b>	<b>Actual Cadre</b>	<b>No. of Vacancies</b>
(i) Senior Level	07	03	04

(ii) Tertiary Level	03	03	-
(iii) Secondary Level	43	24	19
(iv) Primary Level	11	10	01
	-----	-----	-----
Total	64	40	24
	=====	=====	=====

The following observations are made.

- (i) The prime post of the Director General of Intellectual Properties of National Intellectual Property Office of Sri Lanka is being vacant for the last 1 year and 3 months. A lady officer had been appointed to act in the post without action being taken to fill the vacancy. Two posts of Deputy Director and the post of Assistant Director belonging to the top management had been vacant for 4 ½ and 2 ½ year respectively.
- (ii) Out of the important posts of the Fund, 12 posts such as Intellectual Properties Technical Assistant, Intellectual Properties Research Assistant, Documentary and Data Assistant and the Intellectual Properties Officer had been vacant.
- (iii) Six posts of Government Management Assistants had become vacant since 2 years.

## 5. Head 303 -Department of Textile Industries

### 5.1 Scope of Audit

The audit of the Appropriation Account including the financial records, reconciliation statements books, registers and other records of the Department of Textile Industries for the year ended 31 December 2013 was carried out in pursuance of provisions in Article 154 (1) of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Director of Textile Industries on 11 November 2014. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

### 5.2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Accounts, and the Reconciliation Statements in accordance with the provisions in Articles 148,149,150 and 152

of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Financial and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliations Statements that are free from material misstatements whether due to fraud or error.

### 5.3 **Audit Observations**

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According to the Financial Records and books for the year ended 31 December 2013, it was observed that except for the effects of the general observations appearing at (a) to (c) and major audit findings appearing in paragraphs 5.4 to 5.8 herein, the Appropriation Account, and the reconciliation statements of the Department of Textile Industries had been prepared satisfactorily.

#### **(a) Budgetary Variance**

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Following observations are made.

- (i) Excessive provision had been made under 07 Expenditure Items. Due to that, after utilization of those provisions, savings relating to those expenditure items were in a range between 12 per cent and 100 per cent of the provision made.
- (ii) Liabilities amounting to Rs.1,133,035 had been committed in excess of the savings available after utilization of provision made under 07 Expenditure Items.

#### **(b) Reconciliation Statement relating to the Advances to Public Officers Account**

-----

Following observations are made.

- (i) The total of recoveries in arrears according to the Reconciliation statement relating to Advances to Public Officer Account - Item No.30301 amounted to Rs.637,231. The follow up action for the recovery of those balances in arrears was at a weak level .
- (ii) A lady officer who obtained a property loan under Advances to Public Officers Account had deceased during the year 2003 and the outstanding loan balance at that date amounted to Rs.108,465. Although a period of more than 10 years has lapsed, Department had failed to recover that balance even as at 31 December 2013. When granting that property loan, power of attorney had not been registered and deed of the relevant land had not been taken to Departmental custody.
- (iii) Total of loan balances outstanding as at 31 December 2013 from retired



officers amounted to Rs.528,766. Loan balances due from officers who retired more than 2 years ago included therein amounted to Rs.240,545.

- (iv) When the total loan balance shown in the classification summary of individual balances compared with control account balance, a difference of Rs.195,525 was revealed.

**(c) Winding up Advance Account**  
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While the total of unapproved accumulated working losses relating to a winding up advance account amounted to Rs. 8,236,453, action had not been taken to write-off it ever up to the 31 December 2013.

**5.4 Good Governance and Accountability**  
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**Internal Audit**  
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An Internal Audit Unit had not been established in the Department. Although the internal audit function had been carried out by the internal audit section of the Ministry of Industry and Commerce, an adequate internal audit had not been covered.

**5.5 Weaknesses in implementation of Projects.**  
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**Abandonment of Projects without Commencement.**  
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Although provision totalling to Rs. 2,500,000 had been made during the year under review to construct a project office in the Textile Industry Training School Building belongs to the Department at Nuwaraeliya, the entire provision had not been utilized up to end of the year under review.

**5.6 Performance**  
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Following observations are made.

**(a) Enrolment of Students for Textile Industry Training Schools**  
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It had been intended to make mangers, instructors and entrepreneurs required for the textile industry, by giving a complete knowledge and training relating to handloom textile industry through two free training courses to be conducted annually by the textile industry training schools established in various regions of the island. While any student had not been enrolled for the six months basic course relating to textile industry during the year under review, only 142 students had been enrolled for the one year final certificate course, out of the 200 students planned to be enrolled.

**(b) Enrolment of Students for Embroider Training Schools**

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One of the main objective of the Department is to direct the producers, to introduce innovative and competitive textile products in the field of handloom textiles to capture the local and foreign market in a manner to suit the local identity and culture. One year residential course in embroider making had been conducted for the embroider makers in the Embroider Training Schools at Getambe and Katubedda, to achieve that objective. Although it was expected to enroll 50 students in last year to train 100 students in the two schools for the academic year 2012/2013, only 13 to Getambe and 11 to Katubedda, totaling to 24 students, had been enrolled respectively. That was only 24 per cent of the target. It was observed in audit that it is a matter which needs special attention of the management.

## 5.7 Management Weaknesses

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Following observations are made.

### (a) Lands Leased.

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Audit sample checks carried out with regard to lands leased, it was observed that action taken had been contrary to the provisions in the Circular No. SEI/A/4/34 dated 21 July 1995 of the Presidential Secretariat. A sum of Rs.19,893,884 being lease rent in arrears due from following lands had not been recovered even as at 31 December 2013.

Power Scheme/Land -----	Lease Rent in Aarrear ----- Rs.
Teldeniya	2,522,000
Kalutara	1,991,962
Beruwala	2,151,319
Thalathu Oya	4,368,000
Yatinuwara	312,795
Kuruvita	5,491,690
Bibile	1,681,250
Hinguraggoda	529,600
Bandarawela	845,268
<b>Total</b>	<b>19,893,884</b> =====

### (b) Inactive Textile Schools

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Two textile schools located at Hiramadagama, Kahawatta and Shanthipura, Nuwaraeliya were inactive condition due to not taking adequate action for enrolment and retain students.

(c) **Payment of Compensation**  
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Although 34 years had lapsed as at the end of the year under review, after winding up of Textile Factories, action had not been taken by the Department to pay compensation totalling to Rs.149,291,000 to the beneficiaries. In spite of that, cheques written during November and December 2013 totalling to Rs.159 million for payment of compensation to the beneficiaries had not been given even up to 31 December 2014. However, those cheques had been shown as "Cheques issued, but not presented for Payment" in the departmental bank reconciliation statement as at 31 August 2014.

(d) **Water Consumption**  
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A sum of Rs.7,429 had been paid as surcharge due to non- payment of bills by the Department before the due date for the period from January 2013 to August.

(e) **Payment of Rates**  
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Warrant Charges amounting to Rs. 12,060 had been paid by the Department due to the delay in payment of rates for the year under review.

(f) **Electricity Consumption**  
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Following observations were made at the audit sample checks relating to electricity consumption of the Department.

- (i) A sum of Rs.2,400 had been paid as reconnection charges after disconnection due to delay in settlement of electricity bills of two hostels of the Textile Schools.
- (ii) A sum of Rs.5,002 had been paid as surcharges due to the delay in payment of electricity bills in Head Office of the Department.
- (iii) Although a part of the 4<sup>th</sup> floor of the main building of the Department had been given to the Garments Exports Section of the Ministry of Industries, a sum of Rs. 1,025,072 recoverable for the year under review had not been recovered even as at 31 December 2013.

5.8 **Human Resources Management**

**(a) Approved and Actual Cadre**

Cadre position as at 31 December 2013 was as follows.

<b>Category of Employee</b>	<b>Approved Cadre</b>	<b>Actual Cadre</b>	<b>Number of Vacancies</b>	<b>Number of Excess</b>
(i) Senior level	05	04	04	-
(ii) Tertiary Level	01	-	01	-
(iii) Secondary Level	109	99	10	-
(iv) Preliminary Level	42	25	17	-
(v) Others (Casual/ temporary/Contract)	-	07	-	07
<b>Total</b>	<b>157</b>	<b>135</b>	<b>29</b>	<b>07</b>

While action had not taken action to recruit relevant officers for the 29 vacant posts as at end of the year under review, number of employees recruited on casual, temporary and contract basis outside the approved cadre had been 07.