

Report of the Auditor General on Head 310 – Government Factory – Year 2016

The audit of the Appropriation Account, Commercial Advance Account, Stores Advance Account and the Reconciliation Statements including the financial records, books, registers and other records of the Head 310- the Government Factory for the year ended 31 December 2016 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 General of the Department of Government Factory on 04 August 2017. 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 audit coverage as possible within the limitations of staff, other resources and time available to me.

1.2 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 Account, Commercial Advance Account, Stores Advance Account 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 Finance 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.

2. Accounts

2.1 Appropriation Account

Total Provision and Expenditure

The total net provision made for the Government Factory amounted to Rs.142.32 million and out of that, Rs.128.34 million had been utilized by the end of the year under review. Accordingly, the savings out of the net provision of the Government Factory amounted to Rs.13.98 million or 9.82 per cent. Details appear below.

Expenditure	As at 31 December 2016			Savings as a Percentage of the Net Provisions
	Net Provision	Utilization	Savings	
	Rs. Millions	Rs. Millions	Rs. Millions	
Recurrent	90.63	76.97	13.66	15.07
Capital	51.69	51.37	0.32	0.62
Total	142.32	128.34	13.98	9.82

2.2 Advance Accounts

2.2.1 Advances to Public Officers Account

Limits Authorized by Parliament

Limits authorized by Parliament for the Advances to Public Officers Account, Item No.31001 of the Government Factory and the actual amounts are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
27.00	26.11	21.00	28.59	120.00	82.09

2.2.2 Stores Advance Account

Limits Authorized by Parliament

Limits authorized by Parliament for the Stores Advance Account, Item No.31002 of the Government Factory and the actual amounts are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
80.00	76.99	80.00	113.80	40.00	33.35

2.2.3 Commercial Advance Account

(a) Limits Authorized by Parliament

Limits authorized by Parliament for the Work Done Advance Account, Item No.31003 of the Government Factory and the actual amounts are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
315.00	307.50	320.00	352.15	180.00	126.92

(b) Financial Result

Financial results of the Work Done Advance Account, Item No.31003 of the Government Factory had been as follows.

Advance Account Activity	Financial Results			
	2016		2015	
	Profit/(Loss) excluding Hypothetical Charges	Profit/(Loss) including Hypothetical Charges	Profit/(Loss) excluding Hypothetical Charges	Profit/(Loss) including Hypothetical Charges
	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
Work Done Advance Account	9.60	9.40	4.29	4.09

2.3 Imprest Account

The balance of the Imprest Account No. 7002/0000/00/0043/0016/000 of the Government Factory as at 31 December 2016 amounted to Rs.39.08 million.

2.4 Audit Observation

The Appropriation Account, Commercial Advance Account, Stores Advance Account and the Reconciliation Statements for the year ended 31 December 2016 of the Government Factory have been prepared satisfactorily subject to the Audit Observations appearing in the Management Audit Report referred to in paragraph 1.1 above. The material and significant Audit Observations out of the Audit Observations included in the said Management Audit Report appear in paragraph 3.

3. Material and Significant Audit Observations

3.1 Non-update of Registers and Books

The Register of Losses had not been updated by the Government Factory in terms of the Financial Regulation 110.

3.2 Appropriation Account

Incurring of Commitments exceeding Provisions

Contrary to Financial Regulation 94(1), commitments of Rs.1,048,390 had been incurred exceeding the savings, after the utilization of provisions made for 03 Objects.

3.3 Advances to Public Officers Account

The following deficiencies were observed in respect of the Reconciliation Statement as at 31 December 2016 relating to the Advances to Public Officers Account, Item No. 31001.

- (a) According to the Reconciliation Statement presented to Audit, the balances that remained outstanding as at that date totalled Rs.3,063,057. Even though those outstanding balances remained over periods ranging from 01 year to 14 years, the follow-up action on the recovery of those outstanding balances had been at a weak level.
- (b) Information on unadjusted amount of Rs.20,109 shown in the Control Account on Advances, had not been made available to Audit.

3.4 Work Done Advance Account

The following deficiencies were observed during the course of audit test checks in respect of accounts submitted for the year ended 31 December 2016 relating to the Work Done Advance Account, Item No. 31003.

- (a) Action had not been taken in the year under review to rectify the erroneous accounting of a sales invoice valued at Rs.7,846,000 issued in the year 2014 as receipts of advances in the year 2015. It had been indicated as unsettled advances in the financial statements of the year 2016.
- (b) The value of returned items had been overstated by Rs.971,849 in the Stores Advance Account in the preceding year, thus indicating an overstatement in the profit of that year. Action had not been taken even in the year under review to rectify that error.
- (c) According to the financial statements, the debtors balance as at the end of the year under review amounted to Rs.666,387,583 and according to the schedules submitted along with the account, it had been Rs.514,524,039. As such, schedules for debtors valued at Rs.151,863,544 had not been made available.
- (d) Even though the Value Added Tax adjusted quarterly should be remitted to the Commissioner General of Inland Revenue in terms of the State Accounts Circular No.248/2016 of 06 January 2016, the Factory had retained the Value Added Tax of Rs.162,753,536 to be remitted to the Commissioner General of Inland Revenue by 31 December 2016 without so remitting.

- (e) The balance of Rs.24,032,253 in the Depreciation Reserve Fund No.6000/0000/00/0008/0046/000 relating to the Work Done Advance Account in terms of Financial Regulation 509, had remained inactive over a period of many years without updating.

3.5 General Deposit Account

Action in terms of Financial Regulation 571 had not been taken even by the end of the year under review on 11 Tender deposits valued at Rs.15,000 remaining over a period of 2 years in the Factory.

3.6 Internal Audit

The Department had not established an Internal Audit Unit.

3.7 Performance

According to the Action Plan for the year 2016, thirteen Projects valued at Rs.510 million had been planned to be fully completed in the year under review. Out of that, only 04 Projects had been completed. Five projects had completed 50 per cent and 04 projects had completed less than 45 per cent. It was observed that the performance of the year 2016 had been at an extremely low level as a whole.

3.8 Human Resources Management

Approved Cadre and Actual Cadre

The position on the cadre as at 31 December 2016 had been as follows.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
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(i)	Senior Level	31	20	11
(ii)	Tertiary Level	10	03	07
(iii)	Secondary Level	197	114	83
(iv)	Primary Level	552	321	231
	Total	790	458	332
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