

Head 241 – Department of Public Enterprises

1. Financial Statements

1.1 Unqualified Audit Opinion

The audit of the financial statement of the Department of Public Enterprises for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018, 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. The summary report including my comments and observations on the financial statements of the Department of Public Enterprises was issued to the Accounting Officer on 29 May 2019 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 of 2018. The Detailed Annual Management Audit Report relating to the Department in terms of Section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Accounting Officer on 29 May 2019. This report will be tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Department of Public Enterprises as at 31 December 2018, and of its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Unqualified Opinion

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

1.3 Responsibilities of Chief Accounting Officer and Accounting Officer for the Financial Statements

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 provisions in Section 38 of the National Audit Act, No.19 of 2018 and for such internal control 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 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.

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

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 General's summery 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 Department's internal control.
- Evaluate the structure and content of the financial statements containing the disclosures and the transactions and events that underlie the financial statements in an appropriate and reasonable manner.
- That the transactions and events underlying the structure and content of the financial statements are appropriately and fairly presented when submitting financial statements as a whole.

I communicate with the 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

I express the following matters in accordance with Section 6 (d) and Section 38 of National Audit Act, No. 19 of 2018.

Since there was no requirement for the Department to prepare financial statements for the preceding year, recommendations on the financial statements had not been made.

1.6 Comments on Financial Statements

1.6.1 Accounting Deficiencies

(a) Statement of Financial Possession

Audit observation	Recommendation	Comments of the Accounting Officer
----- Although the opening balance of the Non-Financial Assets Report for the year under review as at 01 January 2018 had been shown as Rs.17,262,313.94, the balance as at 31 December 2017 according to the Movement of Non-Current Assets Report in the Appropriation Account for the year 2017 had mentioned as Rs.43,789,809. Similarly, the balance of the asset report generated by the new CIGAS program as at 01 January 2018 was shown as Rs.35,076,457.	----- Values should be compared to each other and if there are differences, the reasons should be explained numerically.	----- Only those assets acquired after 01.01.2004 should be included in the Appropriation Account. Since all assets belonging to the Department have to be included under the new CIGAS program, there may be differences between the appropriation account balance and the balance included in the CIGAS program. The opening balances were included as per the valuation provided by a Fixed Asset Valuation Committee in the year 2015. The corrected assets balance as at 31.12.2018 is also correct as per the closing balance of the report issued by the Department of Public Accounts.

1.6.2 Advance Accounts

Audit observation	Recommendation	Comments of the Accounting Officer
----- There were loan balances of	----- Action should be	----- The Attorney General's Department

Rs.408,304 from two taken to recover had informed on 18.09.2017 to close officers outstanding for the amounts that the file that relates to a sum of more than 05 years as at the should be Rs.75,845 since cannot find the end of the year under recovered to the address due to left the service and review. Government. gone abroad. Legal action had been taken to recover the loan balance of Rs.332,459 of an interdicted officer.

1.6.3 Non-compliance with Laws, Rules and Regulations

The following observations are made.

Audit observation	Recommendation	Comments of the Accounting Officer
Reference to Laws, Non-compliance Rules and Regulations		
(i) Section 13.3 of Chapter ii of Establishment Code of the Democratic Socialist Republic of Sri Lanka	An acting appointment should only be made as a temporary remedy until a permanent appointment is made. The permanent appointment should be made immediately if a position requires the service of a full-time officer. Even though the service of a full-time officer is not required, it is stated that action should be taken in accordance with Section 13.2, acting appointment to the post of Additional Director General had been granted to an officer serving as Director from 19 January 2017.	Should act in accordance with the Establishments Code. The approval of the Public Service Commission had received to appoint of the most senior officer of the Accountant Service to the acting post after the retirement of the officer who served in the post. Although a request had made as appointing a permanent officer to the post, an official had not been appointed up to now.
(ii) Public Administration Circular No.02/2018 dated 24 January 2018.	The instances which were not acted in terms of the circular are as follows. • Not signing annual performance agreements for the entire staff employed.	Should act in accordance with the circular. In accordance with the instructions you have provided, action will be taken to prepare a Human Development Plan suitable for our Department to reduce

the skills gap.

- Lack of proper methodology to identify the skills gap between the existing competencies relating to responsibilities specifically assigned to the entire staff and the competencies that must exist for the success of the duties.
- No specific Human Resource Development Plan had been prepared to the institute to minimize the competences gap.
- Every member of staff must ensure a minimum of 12 hours of training opportunity in the Human Resources Development Plan. The Department consists of 70 staff members as at 31 December 2018 and the local and foreign training opportunities had been given only to 43 staff members representing 61 per cent during the year 2018.

2. Financial Review

2.1 Revenue Management

Audit observation	Recommendation	Comments of the Accounting Officer
(a) Levy		
(i) The decrease in actual income was in the range of 55 to 93 percent relating to the estimated Levy of 06 institutions.	Estimates should be prepared as accurately as possible.	<p>The expected contribution from institutions such as the National Savings Bank, Bank of Ceylon and People's Bank cannot be achieved because it is essential to take lead in actions to maintain minimum capital requirements as BASEL III ordered by the Central Bank of Sri Lanka.</p> <p>A contribution around Rs.25 million had been given on the decrease in estimated operating income of the National Gem and Jewellery Authority.</p> <p>An around Rs.15 million could have been obtained from estimated profit income because approval cannot be able to obtain due to delay in appointment of the Board of Directors of the Lanka Export Credit Insurance Board.</p> <p>The National Transport Commission had informed through the letter dated 20.12.2018 that it had not been able to generate revenue as planned for the year 2018 due to several tenders that could have to be delayed until court orders are received.</p>
(ii) Although Rs.1,140 million,	Estimates should be	It couldn't be able to collect

Rs.211 million and Rs.300 million of income had estimated for the Regional Development Bank, State Mortgage and Investment Bank and State Pharmaceutical Corporation respectively, no income was received during the year under review. Accordingly, the Sri Lanka Rupavahini Corporation, National Lotteries Board, Ceylon Electricity Board, Sri Lanka Tourism Development Authority and Ceylon Petroleum Corporation had not made any contribution to levy in the past few years.

made as accurate as possible.

any profits from the Regional Development Bank and State Mortgage and Investment Bank due to capital adequacy issues.

(b) Dividend Income

(i) Although the dividend income had not estimated for three state-owned enterprises, the revenue of Rs.53 million had received from those institutions in the year 2018 and decrease in actual income was 83 per cent, compared to the estimated revenue due to be received only Rs.35 million from Lanka Mineral Sand Company which was estimated at Rs. 200 million.

Estimates should be made as accurate as possible.

Even though it was not included on the financial and operating situations at the time of the preparation of the Dividend Revenue Estimates, actions were taken to obtain dividend income from the relevant companies.

The Annual General Meeting had not been held due to the Board of Directors were not appointed of the Lanka Mineral sand Company. A request had made to pay interim dividends until the Board meeting will be held and a dividend income of Rs.35 million out of annual estimated revenue was received.

(iii) Seven public enterprises that had not made any contribution to dividend income in the past few years, including the year 2018, were observed.

The Department should pay attention to obtain the revenue receivable to the Government.

Kahatagaha Graphite company and Pussellawa Plantations company are the companies with the minority shareholding in the Treasury. When the dividend is declared, the

treasury will receive dividends.

Mantai Salt Company had announced a small amount of dividend in recent years and it had not been paid but I am informed that action will be taken to obtain dividends at the next Annual General Meeting by considering the matter because of a 33 million profit had been obtained in the year 2017.

Even though Sri Lanka State Trading (General) Corporation was agreed to give the declared dividend income of Rs.16 million in three installments due to the cash flow situation prevailed at the end of the year 2018, dividend income for the year 2018 was not available due to the liquidity problems had existed at that time of the institute and a part of this dividend income had received in the year 2019.

Ceylon Sugar Company had not declared dividends for the years 2015, 2016 and 2017.

Action should be taken to inspect the causes of the loss and make recommendations.

Skill Development Fund Limited has not declared a dividend due to ongoing operating losses.

The dividend income had not received to the Treasury from the Petroleum Storage Terminal Company due to the operating loss existed in the Ceylon Petroleum Corporation.

(c) According to the Fiscal Policy Action should be The revenue estimates of 2018

Circular dated 20 December 2017, Director General of the Department of Public Enterprises had been appointed as the Accounting Officer for the revenues received from divestiture proceeds. According to the sponsorship agreement signed on 29 July 2017 as a public private partnership, the revenue of Rs.44,677 million received from the leasing of the Hambantota port had been accounted for the year 2017. According to those agreements, the proceeds of US \$ 681,560,600 received in 2018 had not been included in the 2018 revenue estimates.

taken to prepare revised revenue estimates.

were prepared and presented in the third quarter of 2017 and the Director General of the Department of Public Enterprises had been appointed as Revenue Accounting Officer of this Revenue Code by the letter dated 20.12.2017.

2.2 Management of Expenditure

Audit observation	Recommendation	Comments of the Accounting Officer
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(a) There was no estimate of a capital vote and 38 per cent only had been utilized out of the provision of Rs.2 million had provided by the supplementary estimate	Estimates should be prepared as accurate as possible.	2509-The programme (Innovators to Industry Initiatives) could not be implemented due to the prevailing political situation in the year 2018.
(b) The total net provision of 06 recurrent votes was Rs.430,140,000 and savings was Rs.425,539,201. The percentage of savings ranged from 23 to 100 per cent.	Estimates should be prepared as accurate as possible.	The provisions were saved due to reasons such as not assigned official duties as expected and unrepresented of December payment vouchers during the same month, not traveling abroad as expected, transfer of officers, no maintenance work as expected, non-receipt of Imprest for reimbursing of inoperative accounts in the National Savings Bank and non-obtaining of loans by the officers as expected

and transfer of several other officers.

3. Operational Review

3.1 Vision and Mission

Audit observation	Recommendation	Comments of the Accounting Officer
<p>The Department of Public Enterprises, which operates with the Vision of to be the apex body, which ensures good governance of Public Enterprises in Sri Lanka, it was not confirmed that the role and responsibilities have been identified relating to supervision of the subsidiaries of the state-owned enterprises under their supervision</p>	<p>Responsibility for supervision in terms of Vision and Mission must be properly identified.</p>	<p>I will take immediate action to identify the responsibilities, functions and criteria of the Department under the supervision of the Auditor General relating on the supervision of the subsidiaries existed under Public Enterprises Department. A committee will be appointed with officials from other Departments of the Ministry of Finance and prepare a methodology for this.</p>

3.2 Non-achievement of Expected Output

Audit observation	Recommendation	Comments of the Accounting Officer
<p>(a) Although it is an activity of the Department to review and approve Manuals presented by the Public Enterprises with a view to enhancing the good governance by strengthening the operational activities of the Public Enterprises, that work was not performed during the year under review.</p>	<p>The Department should take action to approve Manuals to strengthen the operational activities.</p>	<p>I observe that it is a complex task to review and approve Manuals were presented. Therefore, I propose to set up a suitable mechanism and approve the Manuals submitted by the institutions.</p>

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| <p>(b) Reviewing their Corporate Plans, Action Plans and the Annual Budget 2018, with a view to monitoring the performance of public enterprises and providing plan corrections and suggestions where necessary had shown as activities. Even though there are 100 plans and budgets for review in 2018, reviewing activities were completed only half out of a hundred.</p> | <p>Action should be taken to improve the efficiency and productivity of organizations by reviewing Corporate Plan, Action Plan, Annual Budget and making recommendations</p> | <p>Although there had been a delay in reviewing Corporate Plans, Action Plans and Annual Budget 2018 were received until now carrying out with other duties assigned, the remaining reports are being currently reviewed by now.</p> |
| <p>(c) Although holding the Golden shareholder meetings was a one task according to the Annual Action Plan of the Department, those meetings had not been conducted in 2018.</p> | <p>Action should be taken to increase the performance of the institutions by holding meetings as proposed.</p> | <p>Meetings had conducted with top management of a plantation company as a Golden shareholder and the Plantation Management Supervision Division has been asked to submit a performance report of the Regional Plantation Companies required to hold a Gold Shareholder Meeting.</p> |

3.3 Management Weakness

Audit observation	Recommendation	Comments of the Accounting Officer
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<p>The Board of Directors is the authority for the operational and financial activities of public enterprises and it was observed that the performance of these institutions will be adversely affected by the absence of the Board of Directors was appointed by the Ministry of Finance for a considerable period in 08 public</p>	<p>Action should be done as much as possible for the good governance of public enterprises.</p>	<p>Please note that the Department of Public Enterprises is not in the process of appointing a Director Board of Public Enterprises and it is done by the Ministry of Finance.</p>

enterprises in the year 2018. Although the appoint activities of the Board of Directors is done by the Ministry of Finance, it was not confirmed that the Public Enterprises Department had adequately fulfilled the responsibilities as the agency overseeing the government enterprises.

4. Achievement of Sustainable Development Goals

Audit observation	Recommendation	Comments of the Accounting Officer
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<p>Every governmental agency should act in accordance with the United Nations' 2030 "Agenda" for Sustainable Development and the department was aware of it but had not identified the targets, basic data, milestones that should need to be reached by the targets, and indicators needed to measure progress.</p>	<p>All government agencies should act in accordance with the United Nations Year 2030 "Agenda" on Sustainable Development.</p>	<p>I expect to create awareness programs for the staff of the Department on the United Nations' 2030 "Agenda" for Sustainable Development and to identify the targets and progress indicators to be achieved in the future.</p>

5. Human Resources Management

Audit observation	Recommendation	Comments of the Accounting Officer
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<p>The approved cadre of the Department was 79 and the actual staff was 70 thus 09 vacancies were existed as at 31 December 2018. It consisted of 05 senior level vacancies, 02 tertiary level vacancies and 01 secondary and primary level vacancies.</p>	<p>Action should be taken to fill the vacancies or if not necessary, to revise the approved cadre</p>	<p>Requests had been made from time to time to the Ministry of Finance to fill the vacancies.</p>