

Head 158 – Ministry of Public Enterprise Development

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ministry of Public Enterprise Development 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 and a summary of significant accounting policies and other explanatory information, 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 to be 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 Ministry of Public Enterprise Development was issued to the Chief Accounting Officer on 06 May 2019 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018 and the Annual Detailed Management Audit Report related to the Ministry was issued to the Chief Accounting Officer on 27 May 2019 in terms of Section 11 (2) of the National Audit Act No. 19 of 2018. This report will be tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution to be read in conjunction with Section 10 of the National Audit Act No. 19 of 2018.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Ministry of Public Enterprise Development as at 31 December 2018, and of its financial performance and its 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 responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibility of the Chief Accounting Officer in relation to 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 provisions in Section 38 of the National Audit Act, No.19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Ministry is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable the preparation of annual and periodic financial statements.

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 Ministry 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'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, 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 Ministry'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 and Regulatory Requirements

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

- (a) Since there was no need for the preparation of financial statements for the preceding year, it could not be stated that the financial statements presented was consistent with the preceding year.
- (b) Since there was no requirement for the Ministry 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) Financial Performance Statement

The following accounting deficiencies were observed in the Financial Performance Statement presented to Audit.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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Payment of advances had been understated by Rs. 20,000 and receipts of advances had been understated by Rs. 791,560 in the Financial Performance Statement presented for the year ended 31 December 2018.	In terms of Paragraph 3.5 of the State Accounts Circular No. 267/2018 of 21 of November 2018, Financial Statements should be prepared based on figures appearing in the Final Treasury Accounting Statements.	It has been stated that debits and credits in the Financial Performance Statement are reconciled with the Advance Account.

(b) Financial Position Statement

The following accounting deficiency was observed in the financial position statement.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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A vehicle valued at Rs. 2,750,000 owned by another Ministry had been included in the Financial Position Statement without transferring the vehicle.	The attention is focussed on the formal transfer of the title of the vehicle.	The vehicle was carried by a Minister who had functioned as the State Minister of Finance when he was appointed as the State Minister of the Ministry and

it has been informed to transfer the title of the vehicle.

(c) Cash Flow Statement

The following accounting deficiencies were observed in the Cash Flow Statement.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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i Deposit receipts and payments had not been included in the cash flow generated from operating activities.	Action should be taken in terms of the State Accounts Circular No. 267/2018 of 21 November 2018.	-
ii Receipts and payments of the Public Officers' Advance had not been stated in the net cash flow generated from investment activities.	- do -	-
iii An amount of Rs. 5,999,073 had been indicated as financial activities even though the Ministry had not engaged in financial activities.	- do -	-

(d) Non-maintenance of Registers and Books

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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A Security Register containing information of all officers, for whom it is required to give security had not been maintained.	A Security Register has to be maintained as per the FR 891 (1).	A Security Register had not been maintained.

(e) **Non-compliance with Laws, Rules and Regulations**

The non-compliances with provisions of Laws, Rules and Regulations that were observed at audit test checks are analysed below.

Reference to Laws, Rules and Regulations -----	Observation ----- Non-compliances	Recommendation -----	Comments of the Chief Accounting Officer -----
(i) Public Finance Circulars -----			
Circular No. 05/2016 of 31 March 2016.	The Report on the Survey of Goods for the year 2017 had been submitted to Audit on 20 February 2019 with a delay for 10 months. The Survey of Goods for the year 2018 had not been conducted even by 31 May 2019.	The accuracy of the assets mentioned in the annual financial statements should be substantiated by a Survey of Goods.	The Survey Boards for the year 2018 have been appointed by letter of 11 March 2019.
(ii) Public Administration Circulars -----			
Circular No. 30/2016 of 29 December 2016.	A test on fuel burning in relation to vehicles owned by the Ministry had not been carried out in terms of provisions of Circulars.	A test on fuel burning should be carried out in terms of provisions of the Circulars.	Action will be taken to carry out this test expeditiously.

2. Financial Review

2.1 Expenditure Management

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(a) Fruitless Provisions		

Provisions, amounting to Rs. 5,000 million made for an object had been saved fully without being utilized.	Annual expenditure estimates should be prepared for accomplishing the provisions stated in FR 50.	The General Treasury had been informed to re obtain the amount of provision on 06 October 2018.
(b) Making Excess Provisions		

The balance after the utilization of provisions allocated for an object was 82 per cent out of the provisions made due to the allocation of excess provisions of Rs. 215 million for the object.	Annual expenditure estimates should be prepared for accomplishing the provisions stated in the FR 50.	An amount of Rs. 62.91 million out of Rs. 66.88 million, which was the provisions transferred, had been incurred for repairing the Official residence of the Minister.

2.2 Entering in to liabilities and commitments

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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As per the Paragraph 4.11 of the State Accounts Circular No. 266/2018 of 19 October 2018, liabilities and commitments amounting to Rs. 32 million reported to the Department of State Accounts had been mentioned in the register of liabilities. However, the value of liabilities had been mentioned as Rs. 41 million	Action should be taken regarding commitments and liabilities in terms of provisions of the State Accounts Circular.	A value equal to the liabilities provided by the Department of State Accounts had been brought to accounts.

in the register of liabilities of the Ministry. Accordingly, liabilities amounting to Rs. 9 million had been understated in the statement of commitments and liabilities.

2.3 Issuing and settling of advances

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(a) Even though ad hoc sub imprest issued in terms of the FR 371 (5) should be settled within 10 days after the completion of the purpose for which it is granted, ad hoc sub imprest totaling Rs. 318,000 issued in 9 instances had been settled after a delay of a period ranging from 21 days to 263 days.	Action should be taken to settle advances within 10 days after the completion of the purpose for which it is granted in terms of the FR 371 (5).	It has been stated that delays had occurred and action would be taken to prevent the occurrence of such delays in the future.
(b) A sum of Rs. 152,043 out of ad hoc sub imprest totaling Rs. 245,000 issued in 07 instances had been saved and re-settled in cash due to the grant of ad hoc sub imprest without doing a proper forecasting. Those savings were in the range of 51 per cent to 83 per cent out of the sub imprest issued.	Issuance of ad hoc sub imprest based on a systematic estimate.	It has been notified that they agreed with the observation and instructions were issued to realistically prepare estimates in the future.

3. Operational Review

3.1 Performance

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(a) Even though Provisions of Rs. 9 million had been made for functions such as the capacity development, restructuring of the Ceylon Ceramics Corporation, restructuring of BCC	The anticipated task should be accomplished by the utilization of provisions made.	Proposals had not been submitted for structuring of the BCC Lanka Limited and Ceylon Ceramics Corporation (CCC), Awareness

- Lanka Limited, awareness programmes, valuation of lands and property as per the Progress Report of the Ministry for the 3rd quarter of the year under review, the role had not been accomplished.
- (b) Even though Provisions of Rs. 25 million had been made for surveying the estates of the State Plantation Corporation and Janatha Estates Development Board under the programme of valuation of Lands and Property, the Financial progress was only Rs. 1,494,000.
- The provisions made should be utilized.
- Programmes had not been conducted and Programmes on valuation of property had been assigned for the supervision of another Ministry.
- Surveying activities had been delayed due to the lack of sufficient number of Surveyors.

3.2 Weaknesses in the implementation of projects

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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<p>Even though the State Resources Management Corporation Limited had been established on 10 June 2011 under the Companies Act No. 7 of 2007, a Board of Directors had not been appointed. However, this Corporation had carried out functions such as the collection of revenue from the institutions which are under the administration of the Corporation and granting financial sponsorship for such institutions under the administration of the Corporation. However, the Corporation had been taken under the purview of the Ministry at the end of the year 2015 with a view to strengthening the institutions that were being operated at a loss and to make them effective enterprises. Even though Provisions amounting to Rs. 31 million had been made by the Ministry from the year 2016 to the year 2018, starting of its functions and the appointment of the staffs had not been accomplished even by May 2019. Further, a sum of Rs. 2 million had been incurred solely in the year 2016.</p>	<p>Necessary arrangements should be expeditiously made to get a Cabinet Decision in relation to the Corporation.</p>	<p>A Board of Directors had not been appointed and a Senior Assistant Secretary of the Ministry has been appointed for the supervision with the termination of the period of service of 8 persons recruited on contract basis. Even though the approval of the Department of Management Services had been granted for the Staff, a Cabinet Memorandum had been prepared for the re-establishment of the Corporation as per the proposal of the Ministry of Finance. It could not be submitted to the Cabinet of Ministers due to various reasons.</p>

3.3 Human Resources Management

The following observation is made.

Audit Observation

A sum of Rs. 3,973,258 had been incurred for training the Staff of the Ministry. Eighty two (82) per cent of the expenditure, a sum of Rs. 3,263,241 had been incurred for the training of the Executive Officers. Courses had not been conducted for the non –executive staff as scheduled. Opportunities for local and foreign training had been provided to the same group of officers in several instances as training requirements had not been identified and a methodology for selection had not been adopted in the selection of officers for training.

Recommendation

Arrangements should be made to design plans to provide systematic training opportunities and accordingly, continuous training opportunities should be provided to the Staff with the objective of accomplishing the roles of the Ministry.

Comments of the Chief Accounting Officer

Training opportunities requested by the Non-executive Officers have been provided. A Committee has been appointed to adopt a proper methodology in the future.