

## **Head 310 – Department of Government Factory**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Department of Government Factory for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, and cash flow statement for the year then ended, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. The Summary Report containing my comments and observations on the financial statements of the Department of Government Factory was issued to the Accounting Officer on 31 May 2019 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018 . The Annual Detailed Management Audit Report of the Department was issued to the Accounting Officer on 06 June 2019 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements give a true and fair view of the Department of Government Factory as at 31 December 2018 and its financial performance and cash flow for the year then ended, in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

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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 Responsibilities of Chief Accounting Officer and the Accounting Officer on Financial Statements**

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The Accounting Officer is responsible for preparation of financial statements in a manner that reflects a true and reasonable position and determines the internal control required to enable financial statements to be prepared without inadequate false statements that may result from fraud and error in accordance with Generally Accepted Accounting Principles and the provisions of Section 38 of the National Audit Act, No. 19 of 2018.

As per 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.

The Accounting Officer shall ensure that an effective internal control system is maintained and maintained for the financial control of the Department in terms of sub-section 38 (1) (c)

of the National Audit Act and it should be periodically reviewed the effectiveness of the system and make any necessary changes to keep the system running efficiently.

#### **1.4 Auditor's Responsibility on Audit of Financial Statements**

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My objective is to express a reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue the Summary Report of the Auditor General 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.
- It is not intended to express an opinion on the effectiveness of internal control of the Department to plan appropriate audit procedures in a timely manner.
- Evaluate the structure of financial statements including disclosures and content-based transactions and events the structure that the financial statements are appropriate and reasonable.
- The transactions and events underlying the structure and content of the financial statements are appropriately and fairly when submitting financial statements as a whole.

The Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

## 1.5 Report on other legal requirements

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In terms of Section 6 (d) of the National Audit Act No 19 of 2018, I declare the following.

Since there was no need to prepare financial statements for the previous year, the financial statements for the year under review cannot be compared with the previous year. Also, the report does not make recommendations on the financial statements of the previous year.

## 1.6 Comments on financial statements

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### 1.6.1 Statement of Financial Performance

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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comment of the Accounting Officer</b>
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(a) Deposit Ledger for deposits amounting to Rs. 62,547,468 was not kept up to date institution did not verify the accuracy of the balances as it did not compare with the year-end balance of the Treasury Balance.	Deposit ledgers should be kept up to date and action should be taken to reconcile year end balances with Treasury balances.	I will accurately compare the year end balances with the Treasury balances from 2019 onwards.
(b) In the audit of the balance of assets, plant and equipment value of the year under review, amounting to Rs. 927,651,125 could not be ascertained as the fixed asset register, initial balance, acquisitions, during the year misappropriation and year end balances of the year were incomplete.	Taking action to keep the fixed asset register up to date.	Fixed Assets Acquisitions for the year are included in the Fixed Assets Register and are listed in the Non-Financial Assets for the Financial Statement of 2018. Further, the prices of scrap related to the year 2018 are being sold and proceedings are underway.
(c) According to the MF / CG / 02 / (Cir) and Ministry of Finance and Mass Media Circular dated 28th June 2017, every Government Institution shall submit	According to the MF / CG / 02 / (Cir) and Ministry of Finance and Mass Media Circular dated 28th June 2017, every	According to the MF / CG / 02 / (Cir) and Ministry of Finance and Mass Media circular dated 28th June 2017, all non-financial assets of our institution have been

accurate information of all assets under its purview to the Comptroller General. According to the information furnished by the department, the value of the assets of the department under the Comptroller General is zero but the value of the assets in the account is Rs.927,651,125. Accordingly, a change of Rs. 927,651,125 is observed.

Government Institution should submit accurate information of all assets under its purview to the Comptroller General.

accounted and soft copies of the completed forms have been sent to the email address given in the circular. We sent a soft copy of the Sigas program to include in the Treasury Account Statement via the e-mail. But in 2019 according to computerized copies of account sheets fixed asset of out institute had accounted as zero. Necessary steps have been taken to correct the accounts summaries by May.

#### 1.6.2 Balances of Advance Account – Advance “B” Account

The following observations are made.

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer -----
(a) There was a difference of Rs.369,570 between the Balance Sheet Summary and the Control Account Balance out of that, reasons for having a difference of Rs.299,615 were not submitted for Audit.	The sum of the individual Balance Classification Summary should be compared to the Control Account Balance.	The sum of the individual Balance Sheet Summary was a difference of Rs. 369,570.47 out of that, Rs. 69,955.35 had erroneously credited as excessive wages under the head 310011, and a balance of Rs. 299,615 will be reexamined in 2019 and will be included in final accounts in 2019.
(b) The total amount of loan balances to be recovered from the officers who have left the service is Rs.1,096,212 and the total of the loan balances of two dismissed officers are Rs. 261,150 Although there have been outstanding balance of payments for over five	Action should be taken to recover the outstanding debt balance promptly.	Legal action is being taken to recover the debts of the officers who left the service.

years, no action has been taken to recover the balance.

- (c) No action had been taken to recover loan balances of total of Rs. 891,395 from the retired officers and Rs. 108,350 from the deceased officers.
- (d) Due to lack of proper documentation, loan balances accumulated to Rs.32,630 had not been recovered.

Action should be taken to recover the outstanding debt balances promptly.

According to 156 (6) of the Financial Regulations, All documents relating to accounts, books, records, documents etc. shall be kept in proper order and in good custody until properly disposed.

Recovery of debts of retired officers is in progress.

The total outstanding loan balances of two persons is Rs.32,630. On October 5, 2018, the Assistant Director (Administration) submitted a report on the officers responsible for the loss of credit files and the lack of sufficient information to base the determination of responsible officers. I will kindly mention that the report will be prepared as a committee report and will be and further investigations will be taken to find out the responsible officer for missing files and also to recover the associated loan balances. Further investigated and recovered by the officer responsible for missing the files.

**1.6.3 Stores Advance Account**

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The following observation is made.

**Audit Observation**

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Action was taken to maintain the Re-Order Level and Buffer Stock Level required for the advance accounting activity for the year under review.

**Recommendation**

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Action should be taken to maintain the required stock levels.

**Comment of the Accounting Officer**

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The board has determined the level of purchase and has issued copies to the store staff.

#### 1.6.4 Work done Advance Account

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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comment of the Accounting Officer</b>
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(a) In the year under review, the surplus of the store advances account was Rs.12,171,726 and the balance had been deducted from the cost of the maintenance advances account, which had been overstated.	The correct balance in the Work done Advance Account should be mentioned.	10 per cent of the cost of purchased stock is issued to cover the cost of storing and operating the purchased stock. Accordingly, the surplus or deficiency in the storage advances account is shown as a surplus or deficiency in the storage material purchases account, which reduces the cost of materials in the cash advance account. Accordingly, excess of the advance account is justified.
(b) The debtors balance amounted to Rs. 640,594,032. According, to the provided sub – documents, the debtor balance was accumulated to Rs. 555,309,139 The schedule to the debtors amounting to Rs. 85,284,893 had not been submitted to the audit.	Schedule for all debtors to be submitted with financial statements.	Even though the debtor balance of Rs. 85,284,890.01 Which had been stayed before and after of the year 2015 and was scheduled deduct, due to disagreement on deductions, the balance was not deducted.
(c) Balance of debtors in 2008 and 2009 amounted to Rs. 66,578,654. But Borrower's balance was reduced by Rs. 29,637,100 even though no borrower had been recovered during the year under review.	Examine the reasons for the decrease in the Balance of Borrower and the correct Balance Sheet.	The balance of the debtor's balances for the years 2008 and 2009 after comparison with relevant departments, was Rs. 36,941,554 (66,578,654 - 29,637,100 = 36,941,554)
(d) The cost of remaining work must be accounted for as	Work-in-progress should be correctly	The total amount of money receivable for all

unpaid stock after the factory issues an invoice for unpaid work during the accounting period. But as for the checked sample Jobs, the cost of Rs. 92,828,431 , that was pertain to 10 work-in-progress jobs, were not accounted for remaining financial statements.

calculated and to be mention in the accounts.

the work is charged during the accounting period, had collected but the value of the work that was not able to be completed during that year is considered as a creditor and brought forward for the next year, because there is still work to be done. Since the invoice value issued for all purposes of the preparation of the last year's accounts has been accounted for as sales related to the accounting period, I am kindly informed that these cannot be considered as work in progress. Furthermore, relevant invoices will not be re-issued in the coming years for such purposes, with respect to unfinished work.

- (e) A credit invoice invalidated on August 2, 2018 amounting to Rs. 5,265,360 had cancelled, and accounted under another sales invoice of Rs. 1,005,360. Therefore, the sales Value has increased by Rs. 4,260,000.

Details of the canceled sales invoice should be accurately entered into the account.

Debt sales invoice is listed as a cash sale and the invoice canceled is not recorded in the ledger. Accordingly, I will take steps to correct those accounts next year as that amount will be seen as sales in the last account.

### 1.6.5 Lack of Evidence for Audit

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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comment of the Accounting Officer</b>
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(a) A balance of Rs. 43,758,842 was recorded for finished work for the reviewing year but board of survey Report was not submitted to audit for reference.	Should submit board of survey reports to audit.	Rs.425,550,288 is considered direct expenditure. It is formulated by adding the cost of production to the beginning of the year and deducting the year' end product. The stock at the beginning of the year is the previous year's last stock, and the report for the year's consignment has been submitted with the account. Furthermore I hereby submit a copy of it for your attention.
(b) The asset registers for fixed assets amounting to Rs.317,940,622 were not submitted for audit.	Asset registers should be submitted for audit.	Fixed asset registers or have been up dating and updated. I hope to present it with the final account for 2019.
(c) According to the bank reconciliation, unrecognized receivables of Rs. 13,665,482 and unrecognized payments Rs. 1,132,178 had been recorded, but on how these balances had identified, was not submit for Audit for reference.	Resolving the relevant balances.	Actions required to rectify the unrecognized receivables of Rs. 13,665,482 and unrecognized payments of Rs.1,132,178. Have been taken along with required cash book adjustments. Furthermore action is being taken to clear any unrecognized receivables as well as unidentified payments.



### 1.6.6 Certification to be made by the Chief Accounting Officer

Although the Accounting Officer should certify on the following matters in accordance with the provisions of Section 38 of the National Audit Act, No. 19 of 2018, it had not been acted accordingly.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments given by the Accounting Officer</b>
<p>The Chief Accounting Officer should ensure that an effective internal control system for the financial control 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 and even though such reviews should be made in writing and submitted a copy to the Auditor General, the statements that such reviews were made had not been furnished to audit</p>	<p>Actions should be taken in terms of Section 38 of the National Audit Act No. 19 of 2018</p>	<p>The effective internal control system for the financial control of the Department is currently in operation and internal procedures will be submitted as a report in future.</p>

### 1.6.7 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with the Laws, Rules, and Regulations observed during the audit test checks carried out are analyzed below.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comment of the Accounting Officer</b>
<p>Reference to Laws, Rules and Regulations</p>	<p>Non-compliance</p>	<p>Submit the required information in terms of the provisions of the circular.</p> <p>Necessary arrangements have been made to act in accordance with the Management Audit Circular No. 01/2016.</p>

(a) Department of Management Audit No.01/2016 dated 1st January 2016 paragraph 06 (i), (ii) and 07 of the circular.

During the quarter, information about new collect, including vehicle dispose, and other changes, should be sent to the Department, of management Audit but no information was sent to the Management Audit Department for review.

**(b) Procurement Guidelines -2006**

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 (i) Paragraph 4.2.1 (e)

The main procurement plan should be updated regularly over a period of not more than six months, but it was not updated.

Making necessary updates to the main procurement plan.

Only the purchases and services related to the Annual Budget Estimates are included in the main procurement plan and are revised annually. In addition, procurement schedules (PTS) for subcontractors will be prepared. Procurements are carried out according to the schedule.

(ii) Paragraph 5.4.12

Details of VAT payments should be sent to the Inland Revenue Department with a copy to the Auditor General in accordance with the Procurement

Actions need to take in order to comply with Section 5.4.12 of the Procurement Guidelines.

I am kindly informed that action will be taken in accordance with paragraph 5.4.12 of the Procurement Guidelines 2006.

Guidelines,  
otherwise but it was  
not sent.

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| (iii) Paragraph 7.8.4 (i)   | Though the technical specifications had been changed, the rail tracks had been purchased for a sum of Rs. 8,682,500. | Purchase of goods should implement according to technical specifications | Purchasing 68 meters of 10 meters instead of 75 meters of 9 meters has not changed the specifications. Infact the total length has increased by 5 meters. This was an added advantage as the length of the rails for the purpose would be reduced as the welding connections were reduced. |
| (c) According to the Public Accounts Circular No. 248/2016, the quarterly adjusted Value Added Tax should be remitted to the Inland Revenue Department. But an Value Added Tax payable amount of Rs. 236,237,870 had been hold in the accounts. |  | Payments of Value Added Tax should be made on time.                      | The Value Added Tax account is maintained accurately even though the Value Added Tax account balance is Rs.236,237,879.63. But this balance can be attributed to a different method of calculating Value Added Tax when making Value Added Tax payments.                                   |

## 1.6.8 Operation of Bank Accounts

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The following observation is made.

### Audit Observation

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Bank reconciliation has not been prepared in respect of a single bank account in terms of Financial Regulation 395.

### Recommendation

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Preparation of bank accounts should be done according to in terms of Financial Regulation 395.

### Comment of the Accounting Officer

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Bank reconciliation has not been prepared for bank account number 7042705 in terms of F.R. 395 and action will be taken to prepare the relevant bank reconciliations in due course.

## 2. Financial Review

### 2.1 Expenditure Management

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The following observations are made.

#### Audit Observation

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(a) Out of the estimated provision of Rs. 305,450,000 for the Department under review, Rs. 163,901,169 had been utilized, where as a percentage, it represent 54 per cent. Out of Rs. 204,500,000 of capital estimate, Rs. 1,63,901,169 had been utilized, and as a percentage it represents 80 per cent.

#### Recommendation

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Action should be taken to utilize the capital estimate provisions for the year.

#### Comment of the Accounting Officer

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The financial progress was Rs. 27.22 million but the physical progress was Rs. 124.71 million (procurement) it represents a percentage of 94 per cent. There were practical problems that contributed to the failure to achieve financial progress of Rs. 124.71 million or 94 per cent of progress.

(b) In the preparation of estimates for the coming year, allocations were allocated in the range of 20 percent to 100 percent over the needs of the five subjects, as costs were not and clearly identified.

Determination of allocation needs and making provisions.

There were practical problems that made it impossible to reach the expected financial and physical progress.

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| (c) Between the initial cost estimates and actual costs, savings of 20 percent to 300 percent were observed. | Taking action to prepare the expenditure estimates according to the identified need and identify the need. | FR 66 transfers were made on three occasions in 2018 with the formal approval of the General Treasury. The expenditure items that remained were allocated to required expenditures as for the FR 66 in 3 occasions. |
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**3. Operational Review**  
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**3.1 Performance**  
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The following are the observations regarding the 2018 performance report.

<b>Audit Observation</b> -----	<b>Recommendation</b> -----	<b>Comment of the Accounting Officer</b> -----
(a) Progress on Performance Report's objectives, future prospects, key performance indicators and resource utilization were not shown.	Performance Progress should be shown.	Progress on using key performance indicators and resources is indicated in the department's progress report.
(b) By the end of the year, progress had not been measured; in terms of materially and financially aspects are compared to the concerned, in the annual action plan.	Submission of physical and financial comparison according to annual action plan should be prepared.	The progress and analysis made should present in the preparation of the Annual Performance Report. Physical performance will be included in the annual performance report.
(c) The budget and actual expenditure analysis and the associated physical performance were not presented.	Should present physical performance.	The physical performance is given under the Department Progress. A separate report is presented as the Procurement Plan.

### 3.2 Assets Management

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The following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comment of the Accounting Officer</b>
----- According to the Public Finance Circular No. 5/2016, the Board of survey report for the year 2018 should be sent to the Auditor General before March 17, 2019 and notified to the Director General of Public Finance before 31st March 2019. But report on Board of survey was not submitted to Auditor general.	----- Action should be taken to send the Board of survey reports to the Auditor General on due date.	----- I am looking forward to submitting all the reports to the Auditor General before June 15, 2019, as the Board of survey for 2018 is in the final stages. According to the Public Finance circular, I hope to complete the work before 31st March next year as per 5/2010.

### 3.3 Management inefficiencies

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The following observations are made.

(a) The total amount of outstanding debtors outstanding as at December 31, 2018 amounting to Rs. 640,594,032, has been accumulated over a period of 20 years.

Take action according to the age analysis of debtor balances.

Action will be taken to send reminder letters for those debtor balances and take appropriate action in the future for those who have been notified of the outstanding debts.

(b) During the audit, it was observed that from 1995 to 2018 the Ministry of Housing, Construction and Cultural Affairs had to pay Rs. 32,550,371.85 to the Department of Government Factory.

Taking action to recover debtor balances.

Information regarding these loan balances has been sent to the Ministry and I will take action to recover those funds in future.

**4. Good Governance**

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The following observation is made.

**Audit Observation**

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No. 25/2018 dated 11 June 2018, Memorandum of Cabinet , Paper of Cabinet of the Ministry of Housing and Construction under the Reorganization of the Department of Factory to play a pivotal role in the development of the Construction Industry. Report of the Panel of Experts appointed by the Ministry of Finance and Mass Media No PED/INF/123/000/CM/389 dated 22 June 2018 MRI had not been submitted.

**Recommendation**

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Action should be taken to obtain the report of the Expert Committee immediately and reorganization activities should be planned according to the report.

**Comment of the Accounting Officer**

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The report of the Expert Committee appointed for the reorganization of the Department of State Factories to play a special role in the development of the construction industry has not been given yet.

**5. Human Resources Management**

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The following observation is made.

**Audit Observation**

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There are 330 vacancies in the department and no action was taken to fill these vacancies in the year under review. Instead, four salaried officers from the State Engineering Corporation were employed from April 2017 to December 31, 2018 for the duties of the Department of Government Factory.

**Recommendation**

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Action should be taken to fill the vacancies expeditiously or to remove any excess posts.

**Comment of the Accounting Officer**

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Letters have been sent to the Ministry and the Director of Combined Services to fill the vacancies and some recruitment has been approved. Action is being taken accordingly.