

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ministry of National Policies and Economic Affairs 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 Ministry of National Policies and Economic Affairs was issued to the Chief Accounting Officer on 15 August 2019 in terms of Section 11 (1) of the National Audit Act, No. 19 of 2018, and the Detail Annual Management Audit Report relating to the ministry in terms of Section 11(2) of the National Audit Act, was issued to the Chief Accounting Officer on 30 August 2019. 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 basis for Qualified Opinion section 1.6 of my report, the financial statements give a true and fair view of the financial position of the Ministry of National Policies and Economic Affairs 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 (SLAuS). 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 the Chief Accounting Officer for the Financial Statements

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 such internal control as management determine 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 annual and periodic financial statements to be prepared.

As per subsection 38 (1) (c) of the National Audit Act, the Chief Accounting Officer shall ensure that an effective internal control system for the financial control of the Ministry exists and carry out periodic review to monitor the effectiveness of such systems and accordingly make any alteration as required 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 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 ministry’s internal control.
- Evaluate the structure and content of the financial statements containing the disclosures and the transactions and events underlying the financial statements in a timely and reasonable manner.
- 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 Reports of other Legal requirements

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

Since the financial statements were first presented, a comparison with the preceding year cannot be made. Further, owing to that the recommendations were not made on the previous year financial statements in this report.

1.6 Comments on Financial Statement

1.6.1 None compliances with circular requirement of Financial Statements

Even though accounts should be prepared according to the state account circular No.267/2018 dated 21 of November 2018, the instances of deviations of that requirement as follows.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
(a) According to the Para 3.2 of the Circular, when preparing financial statements income, expenditure and other ledger values had not been reported nearest rupee value.	Actions are made according to circular guidance.	Actions will be taken to prepare financial statement in the future, calculating the nearest rupee value.
(b) According to the Para 6 of the Circular, opening balances and assets purchased during the year had been presented without classification.	-Do-	Comments were not made
(c) According to the Para 7(VI) of the Circular, imprest reconciliation had not been presented with the financial statement.	-Do-	-Do-

1.6.2 Statement of Financial Position.

The following observations are made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
(a) Amounted to Rs.148.8 million vehicles acquired in the year 2017 had been shown as proceeding year purchases.	Accounts are prepared accurately acquired year itself.	Vehicles were vested to this ministry by the Department of Custom Sri lanka in the years 2017 and 2018.
(b) Amounting to Rs.10 million given to purchase computers for Employees Provident Fund had been shown under the opening balance of office	Identifying ministry own assets, account should be made.	It is informed; actions are taken to remove this amount from the opening balance of office equipment in the future.

equipment of the
Ministry.

1.6.3 Lack of Audit Evidence

Following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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(a) Physical verification reports were not submitted as at 31 December 2018 so that to confirm the worth of Rs.827.76 million passenger vehicle.	Passenger vehicles should be annually physically verified.	Due to the plenty of duties, it is difficult to park one place in one day for vehicle surveys.
(b) Although Rs 21.47 million in relating to youth affairs division and Rs.15.77 million in relating to National Center for Leadership Development had not been shown in the statement of nonfinancial assets, relevant detail schedules were not presented.	Detail schedule should be maintained.	Comments were not made

2. Financial Review

2.1 Expenditure Management

The following observations are made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
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(a) Owing to excess provision made for recurrent and capital expenses percentages of 13.65 and 59.43 respectively were remaining after utilizing.	Expenditure budgets should be prepared realistic manner as much as possible.	With the dissolution of the parliament in October in 2018, expenses relating to the projects were not made.

- (b) Total provision of two recurrent objects Rs.3 million had been transferred to another object. Expenditure budgets should be prepared in realistic manner as much as possible. Actions have been made to transfer the required voted provisions by the approval of the treasury because of not rendering expected expenditure.
- (c) In addition to the budgeted provision of Rs.16.5 billion for 22 objects, amounted to Rs.4.6 billion supplementary provision had been made and that provision was comparatively a range of 5 to 621 percentage of the budget. -Do- Recruitment of trainee graduates and payments for them and expenses for routine services of the ministry vehicles for representatives of the parliament and a two year advance payment for new office building.

2.2 Reconciliation of Advance to Public Officers Account

The following observation is made in this connection.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
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Rs.852,241 vacated officers, Rs.132,622 interdicted officers, Rs.319,030 retired officers, Rs.11,810 deceased officers and Rs.915,551 transferred officers and Rs.1,076,581 of officers who are on no pay leave had not been settled and that balances for more than 5 years.	Settlement of debt balances should be accelerated.	Owing to lack of completed information regarding these officers in the ministry at the point of take over the debt this ministry was not given those details.

2.3 Deposit Balances

The following observations are made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
(a) Even though, according to the Ficial Policy circular No. 01/2015(04) of 20 July 2015 end of the each months remaining balance of deposit account should be taken in to relevant revenue items in the first week of the following month, amounted to Rs.2,916,832 income was existed in a deposit account relevant to the National Center for Leadership Development by the date of 31 December 2018.	Action should be taken according to the circular guidance.	Amounted to Rs.2,906,352 was credited to the government revenue and action had been taken to pay amounted to Rs.10,480 to the relevant parties in February 2019 relating to external program of National Center for Leadership Development in Embilipitiya.
(b) Although amounted to Rs.5.26 million deposits and amounted to Rs.21 million rental advances had been paid and accounted going against the relevant circular guidance. Also, steps had not been taken to account identifying the payments made before 2018.	-Do-	According to Para. (i) (1) No 250/2016 of state account circular, when it pays advance the entire amount had been debited to the vote 1404.
(c) A sum of Rs.77 million of retention relevant for construction of youth corps centers had been keep held in a deposit account for more than one year.	Relevant measures should be made to accelerate building works of the centers.	Relevant balance had not passed two years as at 31 December 2018.

3 Operational Review

3.1 Not Performing the Activities.

The following observation is made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
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Although amounted to Rs.41, 768 million had been provided for 15 development projects, and its financial progress was only 45 percent. Out of them, physical progress of nine projects were less than 58 level of percentage.	Expenditure budget should be prepared correctly and provision should be utilized effectively.	Answers were not presented.

3.2 Activities contrary to the Key Functions

The following observation is made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
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23 vehicles belong to the ministry had been used for project monitoring activities which are out of the key activities, and amounted to Rs.8.7 million had been spent relating to that vehicles during the year under review.	Resources of the Ministry should be used to achieve its objectives.	Answers were not presented

3.3 Not Achieving the Desired output level

 The following observation is made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
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Under the national budget 2018 economic target such as, Per-capita Gross National Production, Gross Real Domestic Production, and total Investment, Domestic Savings with the percentage of Gross domestic Production had not been achieved.	Functions of Ministry should be planned So that to achieve economic target.	Answers were not presented

3.4 Not Obtaining Desired Result

 Following observation is made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
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Although amounting to Rs.199.18 million had been spent as allowances for the Graduates Trainees in 2018, presented criteria and marks had not been prepared to fulfill the expectations of the training project. Formal training programs had not been formulated. Further, relevant registers and information were not presented for the requirements.	Policies, project formulation Relevant to the recruitment of Graduates Trainees should be systematic	Answers were not presented

3.5 Local Funded Projects

 The following observation is made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
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<p>The progress reports of the Central Project Management Unit started with the aim of promoting a rapid economic transformation in Sri Lanka had not been prepared. Reports showing expected performance and goals for past three years also had not been prepared. Further, the provision of Rs.34.86 million had been made and 80 percent of that had not been utilized.</p>	<p>Reports showing expected performance and goals should be prepared.</p>	<p>Action will be taken to prepare reports showing expected performance and goals for the future time period.</p>

3.6 Assets Management

 The following observations are made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
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<p>(a) Although functions of the ministry have been deducted by nine functions, the number of drivers and vehicles has not been amended.</p>	<p>Resources should be distributed in accordance with amendments of functions of the ministry.</p>	<p>Answers were not presented</p>
<p>(b) It was confirm that there was no special saving in the allocation for vehicles as per the financial statements of the year 2018 and According to the information submitted to the audit. Only 15 vehicles and 3 reserved vehicles</p>	<p>Internal control systems of the pool of vehicles should be formulated effectively.</p>	<p>Answers were not presented</p>

had been provided fuel. As a result worth of Rs.533.7 million of 73 vehicles had not been managed effectively.

3.7 Keeping of Securities by Government Officers

 The following observation is made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
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The officers who were liable to submit security in terms of F.R. 880 (1) had not been kept.	Financial Regulations should follow	Answers were not presented

3.8 Management Inefficiencies

 The following observation is made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
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Monthly rent of 21 official residents belong to center for leadership development had been collected according to economic rent of Department of valuation's value of the year 2013 and actions had not been taken to amend the rent making new assessment. Further information had not been made regarding two official residents and three other had not been used. A formal approval or procedure had not been	Procedure of providing Official residents on rent basis should be systematic.	Answers were not presented

followed when providing official residents.

4. Achieving Sustainable Development goals

The following observation is made

Observation	Recommendation	Comment of the Chief Accounting Officer
----- Although the Sustainable Development Goals have set target for six major development projects for the 2018 annual estimate, the fair work does not reveal the progress of achieving the Sustainable Development Goals by obtaining accurate data to achieve those goals.	----- Action should be taken to fulfill Sustainable Development Goals.	----- Answers were not presented

5. Good Governances

5.1 Providing Services to the Public

The following observation is made.

Observation	Recommendation	Comment of the Chief Accounting Officer
----- Ministry is not using box of complains for accepting public comments and not review the progress by registering complains. A system is not using to accept complaints through the website of the ministry.	----- A mechanism to accept public complaints is made.	----- Answers were not presented

5.2. Internal Audit

 The following observation is made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
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As per the approved internal audit program 16 key activities had been planned to activate. Out of them capacity development, performance evaluation and implementing development project had not been performed.	Performed the audit as planned.	Timely changes of the politics caused to change the office premise so capacity development activities had not been performed as planned.

5.3 Audit and Management Committee

 The following observation is made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
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Only three audit and management committee meetings had been held for the year under review.	Actions are taken to hold four meetings at least.	Fourth meeting was not held as planned.

6. Human Resources Management

 The following observations are made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
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(a) Although there were 60 vacancies in the approved carder	Actions should be taken to fill the vacancies or revise the	Answers were not presented

as at 31 December 2018, annual approved cadre according to per capita expenditure had impact of the vacancies to increased by 52 percent performance of the ministry. compared to 2017.

- (b) Although Provision of Rs.10 million had been made for the staff training requirement , the financial progress as at 31 December was 21 percentage .Furthermore, although the staff training requirement were identified as a main activity, its performance progress was not submitted
- Provision should be made according to identified training requirements.
- Answers were not presented