

## **Head 241 – Department of Public Enterprises**

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### **1. Financial Statements**

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#### **1.1 Opinion**

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The audit of the financial statement of the Department of Public Enterprises for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 including my comments and observations on the financial statements of the Department of Public Enterprises was issued to the Accounting Officer on 29 June 2020 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 of 2018 and the Annual Detailed Management Audit Report of the Department in terms of Section 11 (2) of the National Audit Act was issued to the Accounting Officer on 15 October 2020. 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 financial statements prepared in terms of provisions of the State Account Circular No. 271/2019 dated 03 December 2019 give a true and fair view of the financial position of the Department of Public Enterprises as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

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

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities 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 opinion.

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

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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 Accounting Officer determines 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 alternations as required for such systems to be effectively carried out.

#### **1.4 Auditor's Responsibilities for the Audit of the Financial Statements**

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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 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 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 appropriate in the circumstances in providing a basis for the stated 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 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 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

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I express the following matters in accordance with Section 6 (1) (d) and Section 38 of National Audit Act, No. 19 of 2018.

- (a) Financial statements are consistent with the preceding year,
- (b) The recommendations made by me on financial statements in previous year had been implemented.

## 2. Financial Review

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### 2.1 Revenue Management

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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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(a) Revenue Code 20.02.03 – Levy <ul style="list-style-type: none"><li>(i) A revenue of Rs. 63,900 million had been estimated for the year 2019 and the actual income was only Rs. 22,833 million. It was 36 per cent of the estimated revenue.</li><li>(ii) The decrease in the actual income compared to the estimated levy pertaining to 8 institutions ranged from 50 per cent to 83 per cent.</li></ul>	Estimates should be made as accurate as possible.  -Do-	Although the levy income estimate has revised to Rs. 41,066 million and submitted to the Department of Fiscal Policy, that revised estimate was unable to get approved by the parliament due to the political situation prevailed at that time and the Easter attack occurred in that year .  <u>National Savings Bank/ Peoples Bank</u> The expected contribution from those institutions could not be obtained since it is essential to take lead in actions to maintain minimum capital requirements as BASEL III directed by the Central Bank of Sri Lanka. Moreover, the expected income could not be able to collect due to liquidity issues of the other institutions and the effect of the Easter attack.

(iii) Estimated Levy income of 02 institutions was Rs. 100 million and 1,700 million and since the actual income was Rs. 250 million and Rs. 2,300 million respectively, increase in the actual income compared to the estimated levy income was 150 per cent and 35 per cent respectively.

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Under prevailing operational and financial performance conditions, it was possible to collect more income than estimated.

(iv) Revenue estimates of Rs.10,000 million, Rs.50 million, Rs.75 million, Rs.190 million, Rs.12 million, and Rs.15 million had been made for Bank of Ceylon, State Mortgage and Investment Bank, State Pharmaceutical Manufacturing Corporation, State Pharmaceutical Corporation, National Institute of Business Management and Postgraduate Institute of Management respectively, and no income had received during the year.

The Department should pay attention on ensuring that the government receives economic benefits from public enterprises.

It could not be able to collect any levy from these institutions due to capital adequacy issues and liquidity issues.

(v) Sri Lanka Rupavahini Corporation, Ceylon Electricity Board and Ceylon Petroleum Corporation had not made any contribution to the Levy income for more than 3 years.

It is appropriate to make practical recommendations to enhance the efficiency of loss making institutions.

No revenue is expected from these continuous loss making institutions.

(b) Revenue Code 20.02.04 – Dividend

(i) The actual income had exceeded the estimated dividend income in relation to 9 institutions and as a percentage, it ranged from 31 per cent to 180 per cent.	Estimates should be made as accurate as possible.	Actions are being taken to collect more income than estimated under the prevailing operational and financial performance conditions.
(ii) Although dividend income had not been estimated for 02 institutions, a sum of Rs. 14 million had been received from those two institutions.	Information required to prepare estimates should be obtained in a timely manner.	Even though it was not included in estimates due to none availability of relevant information at the time of preparation of dividend income estimates, actions were taken to collect dividend income from respective companies.
(iii) The estimated dividend income in relation to 2 institutions was Rs. 2,508 million and the actual income was Rs. 1,725 million, thus the decrease in actual income than the estimated income was 31 per cent.	Strategies should be recommended in order to avoid liquidity issues.	Expected income could not be able to collect due to liquidity issues in these institutions and the impact of the Easter attack.
(iv) Five institutions had made no contribution to dividend income during last few years.	-Do-	-Do-
(v) Dividend income amounting to Rs. 3 million, Rs. 15 million, Rs. 25 million, Rs. 50 million, and Rs. 75 million had been estimated for the year 2019 for Lankaputhra Development Bank, Paranthan Chemicals, Chilaw Plantation Company, Lanka Sugar Company Ltd, and Lanka Thripasha Limited respectively and no contribution had been made to	-Do-	-Do-

income during the year. Further, it was observed that Lankaputhra Company had contributed more than Rs. 118 million to dividend income in the years of 2016, 2017 and 2018.

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| (c) Even though according to the annual estimates in 2019, the Director General of the Department of Public Enterprises was indicated as the revenue accounting officer for none-tax revenue codes of 20.02.05.00 and 20.03.02.20, revenue estimates had not been prepared for those codes. | Actions can be taken to remove the codes from the estimate, if estimates are not able to prepare. | Comments were not provided. |
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## 2.2 Expenditure Management

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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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(a) The deference between the initial expenditure estimate and revised expenditure estimates pertaining to 2 recurrent Objects during the year under review was 65 per cent and 180 per cent respectively.	Estimates should be prepared as accurate as possible.	Additional provisions for those objects were taken due to unexpected increase in official travels, increase in stationery prices and increase in demand.
(b) A sum of Rs. 2 million had been provided for Object code no. 1409 by initial estimate and allocations of Rs. 1,582 million had been made through 3 supplementary estimates and F.R. 66 transfers. As a percentage, it was 79100 per cent of initial expenditure estimate.	-Do-	1409 Other expenditure – Additional provisions of Rs. 1582 million was made for the payment of dormant accounts in National Savings Bank and that provision remained due to non-receipt of imprest for making the payments.

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| (c) The deference between the initial expenditure estimate and the revised expenditure estimate pertaining to 02 capital Objects was 695 per cent and 1249 per cent during the year under review.  | -Do- | Additional provisions have been obtained for that Object due to increase in prices of furniture and office equipment, and increase in demand with the arrival of new officers. Moreover, a provision of Rs. 250 million has been made in order to encourage innovations through a budget proposal in 2019. Inclusion of this provision through a budget proposal has also reasoned. |
| (d) The allocations for Object no. 1502 (retirement benefits) had not been made through initial estimate during the year under review and 17 per cent of the provision of Rs. 76 million made through supplementary estimate had remained. It was further observed that the approval in terms of F.R. 68 had not been obtained for new formation of this Object. | -Do- | These provisions which are not included in initial estimate have been allocated to pay compensations for workers of Pugoda Textiles in the middle of the year.  |
| (e) The total net provision pertaining to 4 capital Objects was Rs. 57 million and savings were Rs. 53 million. Accordingly, percentage of savings ranged from 56 per cent to 100 per cent.  | -Do- | The provisions have remained due to none commencement of renovation works during the year even funds are allocated, none completion of procurement activities, no requests, and carrying out no training programmes as expected.  |

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

The following observations are made.

Reference to Laws, Rules and Regulations	Audit Observation Non-compliance	Recommendation	Comments of the Accounting Officer
(a) Establishment Code of the Democratic Socialist Republic of Sri Lanka			
(i) Section 14.1.3 of Chapter XII	An officer who had completed his postgraduate obtaining 02 years of paid foreign leave from 2011-2013 had gone abroad after 6 years for a doctorate with paid study leave for another 3 years and the approval had not been obtained according to the Establishment Code.	Actions should be taken in accordance with the Establishments Code.	That officer has entered into an agreement for a compulsory service period of 10 years after completing the doctorate.
(ii) -Do-	Even though an officer had applied for paid study leave for a postgraduate course from 01 January 2019 to 14 February 2021 and had gone abroad for academic purposes, it had not yet been approved as per the Establishments Code even by December 2019.	-Do-	Agreed. By the letter of Ministry of Finance dated 08 September 2020, the respective Ministry has been requested to approve the leave.
(iii) Section 4 of Chapter XV	Two officers had been granted paid leave to participate a 56 day training programme regarding Human Resources Planning and Development held in India on 25 June 2018 to 20 August 2018 and agreements	-Do-	Agreed. Officers were informed to take actions in this regard in the future. It is kindly informed that respective officers have served beyond the



	for that programme had not been signed in accordance with the Establishment Code.		minimum compulsory service period.
(b) Asset Management Circular No. 01/2017 dated 28 June 2017 - Section 06	Even though it was mentioned that every government institution should submit accurate information on all assets under their control to the Comptroller General by 30 November 2017, actions had not been taken accordingly.	Actions should be taken according to the Circular.	Agreed. Actions will be taken in the year 2020.
(c) Public Enterprises Circular No. PED/55 dated 14 December 2010 - Paragraph 07	In terms of the Circular, it is mentioned that the Board Secretary should also function as the secretary to the Audit Committee. However, it was observed that executive level officers in some institutions act as Board Secretaries. As such, whether the persons holding the post of Committee Secretary would act impartially / independently was questionable in audit.	If there are any deficiencies in the existing circulars, they should be identified and revised and the activities of the institutions should regularly be monitored.	Circulars are issued to strengthen the good governance of public enterprises. This circular has been issued to improve and safeguard the functioning and independence of the Audit Committees. Auditors (internal / external) should report, if they are not functioning properly.

## 2.4 Balances in Advance Accounts

----- <b>Audit Observation</b> -----	----- <b>Recommendation</b> -----	----- <b>Comments of the Accounting Officer</b> -----
The outstanding loan balances of two officers for more than 05 years were Rs. 332,459 and Rs. 75,845 respectively as at 31 December 2019.	Every effort should be made to recover the money due to the Government.	Documents are being arranged to file a case against one officer. The other officer was summoned by the Attorney General's Department and it was informed that the address had been left out.

**3. Operational Review**  
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**3.1 Failure to perform the functions**  
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The following observations are made.

<b>Audit Observation</b> -----	<b>Recommendation</b> -----	<b>Comments of the Accounting Officer</b> -----
(a) The action plan prepared by the Department of Public Enterprises for the year 2019 had planned the activities expected to be implemented throughout the year under three main objectives. The activities to achieve the Department's tasks of studying and analyzing the proposals mentioned in the Cabinet Memorandums had not been included in the Annual Action Plan.	Actions should be taken to prepare the action plan covering all functions.	Agreed. Actions have been taken to include them in Action Plan for the year 2020.
(b) The following activities included in the action plan of the Department had not been implemented as at 31 December 2019.		
(i) Granting Approvals for Administrative Manuals submitted by government owned enterprises as mentioned in 1.3 of the Action Plan.	It is the responsibility of the Department to implement the activities included in the plan.	Agreed.
(ii) Preparation of an approved procedure for categorization of State Owned Enterprises (SOEs)	It is appropriate to focus on re-classification.	Although there is such a proposal, the previous classification is used as it appears that there is no need for such a proposal.

(iii) Conducting awareness programs on Companies Act, Good Governance Guidelines, Audit and Management functions.	The shortcomings / weaknesses of the institutions could be minimized by conducting such programmes.	Actions will be taken to hold these programmes in the year 2020.
(iv) Issuance of Dividend Policy, Bonus Policy, and Good Governance Guidelines, Circulars and Guideline for the preparation of Administration Manuals which were scheduled to be completed in the first quarter of the year 2019.	Issuance of guidelines streamlines the activities of institutions.	Agreed.
(v) Formulation of Revenue Policy scheduled to be completed in the second quarter.	Taking actions as planned is the responsibility of the Department.	Accepted. Actions will be taken to complete in the year 2020.
(c) Even though the Department had been assigned to report to the Cabinet once in six (06) months regarding the expected level and the achieved level of performance of the institutions which were entered into agreements stating the reasons when actual performance defers from the expected level, it had not been included in the Annual Action Plan.	The mission and all the functions of the Department should be included in annual action plan.	Actions have been taken to include in Action Plan for the year 2020.
(d) An activity of preparation of Guideline of Golden Share Holding Policy for subleasing, revising	The responsibility of the Department is to take actions to achieve the	Agreed. The draft of the relevant guidelines has been forwarded to the Plantation Management Monitoring Division by the letter dated 02.12.2019

management agreements and entering into agreements with other parties regarding lands of state-owned plantation companies had been included in Action Plan of the Department in 2019. However, the Department had failed to complete that work as scheduled during the year 2019.

expected targets during the year.

and it is kindly informed that it was finally decided to submit a Cabinet Memorandum.

### 3.2 Management weaknesses

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 The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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(a) As stated in the performance report for the year 2018 prepared in the year 2019, actions taken by other institutions / government had been mentioned, instead of making the recommendations of the Department for the performance of the state-owned commercial enterprises. Furthermore, it was observed that there were instances where the recommendations required to be implemented were not directly and clearly stated and there were instances where the same recommendations were given by the Department in the year 2017 and 2018.	Recommendations on performance of public enterprises should be practical, timely and appropriate.	When preparing performance report for this year, actions will be taken in this regard.

(b) Even though the Department of Public Enterprises has issued a circular and guideline regarding Statement of Corporate Intent under Circular No. PED 01/2019 dated on 26 September 2019 with a view to enhance the performance of operational, financial and service functions of state owned commercial enterprises, the follow up actions on compliances with the circular and actions for motivating to enter the relevant agreements had not been taken by the Department.

It is appropriate to follow up on the extent to which the circulars have been adapted.

Agreed. The follow up actions on entering into Statements of Corporate Intent with the public enterprises as per the circular no. PED 01/2019 were not taken since there was no a finalized procedure on performance evaluation of public enterprises through new Statements of Corporate Intent for the year 2019 as the new government came to the power.

(c) Considering the submission of Annual Reports of 280 state owned public enterprises identified as at 31 December 2019, the following observations were made.

(i) Although the Department of Public Enterprises had followed up on submission of annual reports to Parliament by the Public Enterprises within the stipulated time frame, 61, 74 and 98 enterprises had submitted Annual Reports in the years of 2017, 2018 and 2019 respectively, and reports that were not submitted by the institutes under supervision were 77 per cent, 74 per cent and 65 per cent, respectively.

Action should be taken to obtain the annual reports of public enterprises without delay.

Agreed. Further actions will be taken to supervise the submission of the annual reports of public enterprises to Parliament through observations provided by Ministry of Finance for the Cabinet Memoranda submitted by the respective enterprises regarding the tabling of their annual reports in parliament and by direct addressing of the public enterprises.

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| <p>(ii) The Sri Lanka State Plantation Corporation and the Janatha Estates Development Board had not submitted any annual report for 6 years from the year 2013 to 2018 and the Sri Lanka Export Credit Insurance Corporation had not submitted annual reports for 5 years from the year 2014 to 2018.</p>   | <p>-Do-</p>  | <p>Agreed.</p> <p>Although the Sri Lanka State Plantation Corporation and Janatha Estates Development Board have been continuously informed in writing to submit the annual reports within the stipulated timeframe, those institutions have not taken appropriate actions in this regard.</p> |
| <p>(iii) According to the Annual Report of the Ministry of Finance 2019, it was observed in audit that considering the years of 2016, 2017 and 2018, 9, 20 and 37 institutions out of the 280 public enterprises mentioned above, had not submitted their Annual Reports to Parliament respectively.</p>   | <p>-Do-</p>  | <p>Agreed.</p> <p>Relevant Officials were informed to expand the supervision functions on submission of annual reports.</p>  |
| <p>(d) 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, had not specifically identified the responsibilities, role, and measures relating to supervision of the subsidiaries of the public enterprises under their supervision even by the end of the year 2019.</p> | <p>According to the vision of the Department, necessary actions should be taken to ensure the supervision of subsidiaries of public enterprises.</p> | <p>Agreed.</p> <p>A guideline on supervision / management of subsidiaries has been drafted, and action will be taken to implement the policy, once it is approved for implementation.</p>  |

(e) Clear instructions on the financial and asset management of the subsidiaries had not been issued by the Department of Public Enterprises as identified for the follow-up process of the workshop held with the top management of subsidiaries. Further, clear definitions on extent to which subsidiaries should apply the Public Enterprises Circulars had not been made even by 31 December 2019.

The department should fulfil their responsibility regarding the management of the financial assets of subsidiary companies.

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