

Head 149 - Ministry of Industry

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ministry of Industry for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 Industries in terms of Section 11 (1) of the National Audit Act No. 19 of 2018 was issued to the Chief Accounting Officer on 23 June 2021. Annual Detailed Management Audit Report related to the Ministry in terms of Section 11 (2) of the Audit Act was issued to the Chief Accounting Officer on 11 August 2021. This Report is presented to the Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka 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 paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Ministry of Industry as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements are further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of the Chief Accounting Officer and the 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 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 and its materiality depends on the influence on economic decisions taken by users on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design 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, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Evaluate the overall presentation, structure and content of the financial statements including 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 Requirements

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

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

1.6 Commenting on Financial Statements

1.6.1 Statement of Financial Position

The following deficiencies were observed in the accounting of the property plants and equipment

| Audit observation | Comments of the Chief Accounting Officer | Recommendation |
|---|--|---|
| (a) According to the Treasury printout, the total value of non-financial assets as at 31 December 2020 was Rs.1,652,136,442 but in the Financial Position Statement it was Rs. 1,671,411,554 a difference of 19,275,111 was observed. | Due to the value of Rs. 19,275,111 credited by the Public Accounts Department through the Final Accounts Summary 2020, According to Treasury books, a decline has been reported. | Accurate values should be included in the preparation of financial statements. |
| (b) The value of the books in the Ministry Library had not been valued and identified as an asset and had not been taken into financial statements. | A committee will be appointed soon to assess the value of assets and take into the account future. | The assets of the Ministry should be valued and disclosed through financial statements. |
| (c) Although the lease agreement of 3 cars worth Rs. 18,940,000 under the financial leasing scheme had expired by 31 December 2020, It had not been identified as an asset and had not been taken into financial statements. | Further action will be taken to take over the vehicles and account for them as assets of the Ministry. | When preparing financial statements, the assets of the Ministry should be disclosed through financial statements. |

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| <p>(d) Three cars valued at Rs. 13,400,000 registered in the name of the Ministry of Industry had not been identified as assets and had not been taken into financial statements.</p> | <p>We will look into them in the future and take action to account them as an asset</p> | <p>Assets of the Ministry should be disclosed through financial statements.</p> |
| <p>(e) Although the value of the buildings constructed by the Ministry should be disclosed in its financial statements, the value of the 14 administrative buildings constructed in 30 industrial zones since 1997 is Rs. 105.878 million had not been capitalized by the Ministry.</p> | <p>The Ministry is constructing industrial zones on land belonging to another government office and also constructing access roads, drainage systems, street lamps and road systems.</p> | <p>Capital expenditure should be included in financial statements</p> |
| | <p>After consulting with the government offices to which each industrial zone belongs, the necessary actions will be taken to obtain the advice of the Department of Public Accounts of the Treasury and in future transfer those assets as assets of the Ministry or to the relevant Divisional Secretariat.</p> | |

1.6.2 Advance Account Balances

The following deficiencies were observed in accounting of balances of advance accounts at the end of the year.

| Audit Observation | Comments of the Chief Accounting Officer | Recommendation |
|--|---|--|
| <p>-----</p> <p>(a) Advance receipts in the Financial Performance Statement were recorded as Rs. 45,298,859 and according to the Treasury printout it was Rs. 34,729,454. Accordingly, advances in the financial performance statement had increased by Rs. 10,569,405.</p> | <p>-----</p> <p>Following the approval of the Budget Estimates as scheduled at the end of the year, the CIGAS Computer Program has made the necessary adjustments as per the instructions of the Department of Public Accounts and Budget of the Treasury (Head No. 149) to keep the receipts and payments relevant to this Ministry in that Expenditure Head. That the final accounts of 2020 have been prepared according to the values obtained by comparing the monthly receipts and payments relevant to this Ministry on a monthly basis with the relevant treasury balances.</p> | <p>-----</p> <p>The values to be included in the accounts should be accurately identified and prepared the financial statements.</p> |
| <p>(b) Although the advance payment in the financial performance statement was Rs. 27,597,007 and according to the Treasury printout it was Rs. 52,431,306. Accordingly, the advance payments of Rs. 24,834,299 had been understated in the financial performance statement.</p> | | |

1.6.3 Imprest Adjustment Account

| Audit Observation | Comments of the Chief Accounting Officer | Recommendation |
|--|---|---|
| <p>-----</p> <p>According to the Imprest Adjustment Account, the expenditure incurred by the main ledger of other Ministries under FR208 was Rs. 828,973,502 but according to the Treasury Books /</p> | <p>-----</p> <p>The scope of the Ministry and the head of expenditure allocated to it are in accordance with the clear instructions given by the Department of Public Accounts and the Department</p> | <p>-----</p> <p>The Imprest adjustment Account should be prepared by entering the correct values.</p> |

Financial Statements it was Rs.828,105,532 and a difference of Rs.867,950 was observed.

of National Budget and the relevant accounts have been prepared comparing the expenditure related to this expenditure head with the Treasury Balance.

1.6.4 Non- maintainance of Registers and Books

Sample audits observed that the Ministry had not maintained some of the following documents and some of the documents had not been maintained properly and up to date.

| Audit Observation | Comments of the Chief Accounting Officer | Recommendation |
|--|---|---|
| ----- | ----- | ----- |
| <p>(a) Records of Losses</p> <p>-----</p> <p>The records of losses had not been updated in accordance with Financial Regulations 110</p> | <p>Although a records of losses has been maintained, it has not been updated and updates are currently underway</p> | <p>In accordance with the provisions of the Financial Regulations, a records of losses should be maintained in accordance with the format under which it is made.</p> |
| <p>(b) Records of liabilities</p> <p>-----</p> <p>Records of liabilities had not been maintained according to Financial Regulation 214</p> | <p>Under the currently operational CIGAS computer program, all vouchers will be included in the initial stage as commitments and payments will be made and a list of existing liabilities can be created by CIGAS when required. Accordingly, there is no need to maintain a physical liability record so that the existing payments can be checked on a daily basis.</p> | <p>Liabilities should be recorded in a records liabilities so that liabilities can be checked regularly.</p> |

2. Financial Review

2.1 Expenditure Management

| Audit Observation | Comments of the Chief Accounting Officer | Recommendation |
|---|--|---|
| ----- There were 11 unacceptable reasons for auditing the samples of savings from net provisions provided under Expenditure Heads for the year under review and the savings ranged from 100 per cent to 35 per cent. | ----- Unlike in other years due to the Corona disaster, the smooth running of the office as planned this year, the launch of new projects, the continued implementation of existing projects and the lack of time and insufficient funds have led to savings. | ----- Accurate expenditure estimates must be prepared in accordance with Financial Regulations 50. |

2.2 Entering in to Liabilities and Commitments

| Audit Observation | Comments of the Chief Accounting Officer | Recommendation |
|--|--|---|
| ----- | ----- | ----- |
| (a) As at 31 December 2020, the Liabilities and Commitments Statement stated that the liabilities were Rs. 57,028,645 and according to the Treasury printout it was Rs.252,454,006. Accordingly, liabilities amounting to Rs. 195,425,541 understated. | In fact, as there is no longer such a liability for payment, the Department of Public Accounts will take further action to revise the Treasury balance to the actual liability value as stated in the final account. | Correct values should be included in the financial statements and the deposit of the institution should be compared with the treasury print outs. |
| (b) The value of Rs. 1,755,530 held by the Ministry in year 2021 for the year 2020 had not been stated in the register of liabilities. | Most of the payments mentioned in this list are essential expenses incurred for electricity, water and postal telecommunication services till the end of the year 2020 and according to financial regulation 115 these payments had been made on the basis of the ability to cover the relevant expenses up to 31 March 2021 | All liabilities for other entities should be stated in the register of liabilities. |

2.3 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with the provisions of the laws, rules and regulations observed during the cause of audit test checks are analyzed below.

| Observation ----- | Comments of the Chief Accounting Officer ----- | Recommen- dation ----- |
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| Reference to Laws, Rules and Regulations ----- | Non-compliance ----- | |
| (a) 104 (1) - 104 (4) of the Finance Regulations of the Democratic Socialist Republic of Sri Lanka | Although investigating officers have been appointed for 08 and 01 vehicle accidents which caused losses in 2019 and 2020 respectively, no report has been submitted so far. Also, no officer had been appointed until 31 March 2021 in connection with the losses caused to five vehicle accidents in the year 2020. | At present, six committees have been appointed to investigate according to financial regulation 104 and that duties have been assigned accordingly and that a planned program will be formulated to prevent these situations in the future. |
| (b) Public Administration Circulars ----- | | |
| (i) Circular No. 30/2016 dated 29 December 2016 | After each fuel testing, a fuel test should be done again after a period of 12 months or after 25,000 kilo meters of running or after the engine repaired, but this has not been done since the date of issue of the circular. | Fuel testing could not be carried out due to insufficient funds and testing has already commenced. |
| | | Finance Regulations must be followed. |
| | | The circular must be followed. |

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| (ii) Circular No. 9/2009 (1) dated 17 June 2009 | Although the circular was stated that the arrival and departure of the staff of the Minister should be confirmed by the fingerprint machine, the audit has not been observed any information that the staff of the Minister had done so. | The staff of the Minister has been instructed to record the arrival and departure of the fingerprint machine. | The circular must be followed |
|---|--|---|-------------------------------|

3. Operational Review

3.1 Failure to obtain the desired output level

| Audit Observation | Comments of the Chief Accounting Officer | Recommendation |
|---|---|--|
| ----- | ----- | ----- |
| <p>There were 913 plots of land in 32 industrial estates under the Ministry and as at 31 December 2020, 627 plots of them were industries of investors engaged in various investments, 104 plots for common facilities and 66 plots of land proposed to be given to investors and 118 plots of land, that is 13 percent of the total plots of land remained idle without being given to the industrialists.</p> | <p>On 24 January 2020, an advertisement was published in three newspapers in all three languages regarding vacant plots of land in the industrial estates and so far 62 plots of land have been allotted.</p> <p>At present there are only 73 vacant plots of land in the industrial estates and the majority of those plots are in the industrial estates of the Northern and Eastern Provinces. Demand for this specialty has grown significantly..</p> | <p>Actions should be taken to select suitable investors, provide lands and start industries.</p> |

3.2 Assets Management

| Audit Observation | Comments of the Chief Accounting Officer | Recommendation |
|--|--|--|
| ----- Five vehicles belonging to the Ministry have been idle for a period of 1-3 years without any repairs. These 5 vehicles also included 3 moter vehicles purchased in the years 2012 ,2013 and 2014. | ----- This is due to the fact that the estimate was not approved by the insurance company, there were not enough provisions and the companies had to close down due to Covid 19 status and The letter dated 07.04.2021 has directed the Mechanical Engineers to submit a report regarding the inactivity of vehicles less than 10 years have elapsed. | ----- Vehicles Should be repaired immediatly and modern vehicles should be used with caution. |

3.3 Losses and Damages

| Audit Observation | Comments of the Chief Accounting Officer | Recommendation |
|---|---|---|
| ----- So far were not recoverd amounting Rs. 3,787,120 regarding 9 incidents that occurred in the year 2019, declaration had not been in the Losses and damages statement according to financial regulation 106 and 113. | ----- The total value of the estimates for the 09 cases mentioned in the damage list prepared in connection with the vehicle accidents that occurred in the year 2019 is Rs. 3,787,120. Of these, the PD-6293 is estimated at Rs. 3,227,231 and has not been repaired due to the delay in approving the insurance compensation. That the other vehicles had been repaired and put into operation | ----- At the end of the year, all uncollected losses must be disclosed in the statement of losses and omissions. |

3.4 Management Weaknesses

| Audit Observation | Comment of the Chief Accounting Officer | Recommendation |
|---|---|--|
| <p>-----</p> <p>(a) Under the “Nanwamu Lanka national programme”, training programs are conducted to select beneficiaries based on appropriate criteria such as unemployment and poverty and cover all districts of the country and procure goods and machinery required for their businesses by the District Secretariats. After handing over to the District Deputy Director of Ceylon Industrial Development Board, the Deputy Director along with other institutions involved in the program to distribute the goods to the beneficiaries. However, Rs. 16,772,403 had been expended as administrative, training and the items worth Rs. 55.8 Mn purchased the year 2019 and before March 2020 for distribution to Badulla, Matale and Kandy District beneficiaries it had been more than a year since they had been taken to the Board Head Office, but they had not been distributed to the beneficiaries and they also had their warranties overdue and had been stored in a mess in several warehouses.</p> | <p>-----</p> <p>Although allocations have been made in the 2019 Budget, letters have been sent to the District Secretaries on 03/12/2019 instructing them to make purchases related to this program after the 2019 Presidential Election, but the Ministry of Finance has instructed to the district secretariat to suspend all projects implemented by the District Secretariats by the letter No. BD / GPS155 / 09/01 / HA / 2019 dated 20.11.2021. Only Badulla, Kandy and Matale District Secretariats and two divisional Secretaries of Batticaloa District had been finished the procurements. However, it is planned to distribute the relevant equipment to more suitable entrepreneurs through the Cabinet Memorandum No. 2021/12 dated 26.03.2021 on these purchased items.</p> | <p>-----</p> <p>Action should be taken to distribute these items to the beneficiaries as soon as possible.</p> |

(b) According to Cabinet decision No. අම/16/1424/723/039, about Rs. 120 million had been spent to purchase the machinery required to set up the Center for Excellence in Robotics Technology (CERA) and to renovate the Ceylon Industrial Development Board building. Although the executive officer recruited to operate this center has been paid a total of around Rs. 11 million as salaries and allowances at the rate of Rs. 725,000 per month for the period from September 2017 to October 2018 and it had not been registered as a company, recruited the required staff and commenced operations at the center. Due to the failure of this project, this center which was under the Ministry of Industries was transferred to the Ministry of Science and Technology by the 2013/14 Gazette Notification dated 28 December 2018 and again had been assigned under the Ministry of Industries from August 2020. Despite this situation, it was decided to move the existing machinery of this center to Trace City, Colombo 10 as per Cabinet Decision No. 20/1725/320/025 dated 16 November 2020.

This project has been under this Ministry since the year 2016. This Ministry worked from the year 2016 to October 2018 but this project was removed from our purview as it was transferred to the Ministry of Cooperatives and Investment Trade by the Extraordinary Gazette Notification dated 04.11.2018. Returned to this Ministry on the 25 December 2018. However, as per the Extraordinary Gazette on the 28 December 2018, this project has been assigned to the Ministry of Science and Technology Research and all the documents in our possession were forwarded to the Ministry of Science and Technology Research and further proceedings were forwarded to that Ministry and A request was also made to the Secretary to the President on 7 March 2019 to carry out the unfinished activities of that project at that time.. Referred to the purview of the Ministry of Industries by the Extraordinary Gazette Notification dated 25.09.2020. Following the transfer of CERA to this Ministry on 25.09.2020, the Hon. Minister has submitted a Cabinet Memorandum in this regard. Necessary steps are being taken to establish CERA as a limited company under the General Treasury as per the decision of the Cabinet of Ministers. The building has been selected for this project as it was not in use and close to the University of Moratuwa. However, this is an independent project implemented under the

Action should be taken to implement the project without letting the money spent be wasted.

Coordinating Secretariat for Science, Technology and Innovation (COSTI) and used only the buildings within the Ceylon Industrial Development Board premises. Passwords have been used for the software, but it is not certain that they are unusable because they are owned by COSTI. The Cabinet of Ministers has decided to relocate CERA to Trace City (Trace City) from the Industrial Development Board premises with a view to developing CERA independently in accordance with Cabinet Decision No. අමප/20/1725/320/025 of dated 01.12.2020. Renovated buildings can be used by the Ceylon Industrial Development Board for its activities

4. **Human Resource Management**

The following shortcomings were observed

| Audit Obsevation | Comments of the Chief Accounting Officer | Recommondation |
|--|---|---|
| ----- | ----- | ----- |
| (a) As at 31 December 2020, there were 12 vacancies at the senior level, 34 vacancies at the secondary level, 02 vacancies at the tertiary level and 12 vacancies at the primary level with a total of 60 vacancies in the Ministry staff. The staff required to carry out the activities of the Ministry without any hindrance had not been identified and action had not been taken to fill those posts. | The Ministry of Public Administration has been informed to take action to attach officers to the senior level, tertiary level and secondary level vacancies in this Ministry and to remove the unnecessary posts and to approve the staff by my letter MIC / ADM / 03 / Cadre dated 11.09.2020 And in the letter dated 06.01.2021 to the Department of Management Services in detail. That the relevant approval has not been given by the Department of Management Services so far | Action should be taken to fill the essential posts. |

(b) 277 Development Officers attached to the Ministry have been given to the National Enterprise Development Authority which has been transferred to the Ministry by the Extraordinary Gazette Notification dated 06 October 2020. However, although the Ministry paid salaries and wages for these officers, this staff was not included in the approved staff of the Ministry and the National Enterprise Development Authority.

The National Enterprise Development Authority has been transferred to this Ministry through the Extraordinary Gazette Notification No. 2187/27 dated 06.10.2020. Accordingly 277 officers of the Development Officers' Service attached to that institution have been attached to this Ministry. The Department of Management Services has been informed in my letter No. MIC / ADM / 12/04/06 dated 10.12.2020 to include these posts in the approved staff of the Ministry of Industries as well. The letter requested the approval of 82 more posts to be attached to that institution.

Action should be taken to include these Development Officers in the approved staff of the Ministry or the National Enterprise Development Authority.