

Head 295 - Department of Commerce

1. Financial Statement

1.1 Qualified Opinion

The audit of the financial statements of the Department of Commerce 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 Department of Commerce was issued to the Accounting Officer on 21 June 2021 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 05 July 2021 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 prepared give a true and fair view of the financial position of the Department of Commerce as at 31 December 2020 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

My opinion is qualified based on the matters appear in Paragraph 1.6 of this report. 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 opinion.

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

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 is the responsibility of the Accounting Officer.

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 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

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 furthermore;

- Appropriate audit procedures were designed and implemented to identify and assess the risk of possibility of quantitative misrepresentations occurred in financial statements due to fraud or errors in providing a basis for the expressed audit opinion. More than the impact of quantitative misrepresentations due to misrepresentation, the effect of fraud is strong because of malpractice, forgery, intentional evasion, misrepresentation, or evasion of internal controls can lead to fraud.
- Although it is not intended to express an opinion on the effectiveness of internal control, obtained an understanding of internal control in order to plan appropriate audit procedures occasionally.
- Evaluate whether the transactions and events underlying the structure and content of the financial statements are appropriately and fairly consisted in financial statements including disclosures..
- Evaluated whether the transactions and events underlying the structure and content of the financial statements are appropriately and fairly consisted in and presentation of financial statements including disclosures 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

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

- (a) The financial statements are in consistent with those of the preceding year,
- (b) The recommendation made by me in relation to the financial statements for the preceding year had not been implemented.

1.6 Comments on Financial Statements

1.6.1 Cash Flow Statement

The following observations are made.

| Audit Observation | Comments of the Accounting Officer | Recommendation |
|---|---|---|
| ----- | ----- | ----- |
| (a) Cash Flow Generated from Operational Activities ----- | | |
| (i) Even though the other Departments that collect revenue on behalf of Revenue Accounting Officers should state those revenues as non-revenue receipts in the cash flow statement, the non-revenue receipts of Rs.38,318,501 as per consolidated trial balance , the cash generated from the fees, surcharges, fines and revenue of license etc. amounting to Rs.35,251,116 had been shown as cash inflows. | A value of Rs. 35,251,116 has been stated as non-revenue receipts in the cash flow statement prepared by the Department because of inclusion of only cash receipts in the cash flow statement deducting value of cross entry receipts from the total value of other receipts as per the consolidated trial balance. It is stated that the notes have been made to prepare accounts on a gross basis, including cross-entry receipts also in preparing cash flow statements in future. | Financial statements should be prepared in accordance with Guideline No. 06 issued by the Department of State Accounts. |

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| <p>(ii)</p> | <p>Even though the value of personal emoluments and operating expenses was Rs. 85,286,391 as per the consolidated trial balance, a sum of Rs.31,681,381 had been overstated by stating that value in the cash flow statement as Rs. 116,967,772 .</p> | <p>The reasons for occurring the difference were reduction of cross-entries from personal emoluments and operating expenses and indication of the value of donations and contributions to be shown under subsidies and transfers under personal emoluments and operating expenses due to a mistake and it is stated that it was noted to prepare accounts on the gross basis including cross-entries and to enter data under the accurate classification in preparing cash flow statements in future.</p> | <p>Action should be taken to enter the data under the accurate classification in preparing the cash flow statement.</p> |
| <p>(iii)</p> | <p>Even though the value of subsidies and transfers expenditure as per consolidated trial balance was Rs.38,043,981, a sum of Rs. 37,091,887 had been understated by stating that value in the cash flow statement as Rs. 952,094 .</p> | <p>As a result of stating of the values of donations and contributions amounting to Rs.37,091,887 as personal emoluments and operating expenses when data was entered into the cash flow statement a difference of Rs. 37,091,887 has taken place and it is stated that notes were made to prevent such errors in future.</p> | <p>-do-</p> |
| <p>(b) Cash Flow Generated from Investment Activities</p> | | | |
| <p>(i)</p> | <p>Even though the recovery of the advances was Rs. 2,447,779 as per the consolidated trial balance, a sum of Rs. 2,255,537 had been adjusted to the cash flow</p> | <p>As a result of inclusion of only the cash recoveries in the cash flow statement by removing recovery of advances made by cross entries from the value of recovery of advances as per</p> | <p>Financial statements should be prepared in accordance with Guideline No. 06 issued by the Department of State Accounts.</p> |

statement in less because of that value was mentioned as Rs. 192,242 in the cash flow statement.

the consolidated trial balance, there is a decrease from the value you have shown. It was noted to include all the recoveries consisted with cross entries to the cash flow statement in future.

(ii) Even though the value of advance payment as per the consolidated trial balance was Rs. 3,140,090 , the advance payment amounted to Rs. 293,350 had been understated because of stating that amount as Rs. 2,846,740 in the cash flow statement.

A difference has occurred by inclusion of the expenditures such as the expenditure on Capital assets rehabilitation and improvement under capital expenditure and expenditure on capacity development under investment activities and it is stated that it was noted to include data under the accurate classification in future.

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(iii) Even though a sum of Rs. 1,526,211 had been mentioned as purchases of assets and other investment acquisitions in the cash flow statement, the acquisition of assets for the year under review was only Rs. 1,181,127 as per the consolidated trial balance.

Due to the entering of expenditure on capital assets rehabilitation and improvement under capital expenditure and expenditure on capacity development, under investment activities, as per the combined balance check consolidated trial balance, there has been a difference and it is stated that it was noted to include data under the correct classification in future.

Actions should be taken to enter the data under the correct classification in preparing the cash flow statement.

(c) Cash Flow Generated from Financial Activities

Even though a sum of Rs. 358,500 had been stated as deposits under cash flow generated from financial activities, thus that value was Rs. 384,350 as per the consolidated trial balance, the difference was Rs. 25,850 .

The deposit receipts are shown in the cash flow generated by financial activities by only including the cash receipts with removing the cross-entry receipts and it is stated that the difference you have pointed out has taken place because of removing the cross entry receipts.

Financial statements should be prepared in accordance with Guideline No. 06 issued by the Department of State Accounts.

1.6.2 Statement of Advances to Public Officers Account

Audit Observation

A difference of Rs. 291,366 was observed in between the balance in the Department books and the balance in the Treasury computer printouts in the advances to public officers account as at 31 December 2019 . Due to failure to take the necessary action to resolve the difference during the year under review, a difference of Rs. 278,943 had remained furthermore.

Comments of the Accounting Officer

The difference remained in between the Treasury books and the Department books was not for the accounts of the base year and it was observed that it has not matched since before 2005 . The accounts are being reconciled again from 2007 for that by now and based on that, the balance is being resolved . Further, because of seeking of all documents relevant to computer records related to account reconciliations are being carried out , arrangements have been made to correct the accounts for the future years on the progress of all this work.

Recommendation

Actions should be taken to resolve the un-reconciled balances expeditiously.

1.6.3 Failure to Maintain Documents and Books

| Audit Observation | Comments of the Accounting Officer | Recommendation |
|--|---|--|
| Register of Securities | | |
| A Register of Securities consisting of the details of the officers and employees who have to keep securities had not been prepared in accordance with Financial Regulation 891 (1) . | It is stated that the steps will be taken to maintain a Register of Securities in accordance with Financial Regulation 891 (1) in future. | A Register of Securities for the officers who had to keep securities should be maintained in a manner of including information consisted in Financial Regulation 891 (1) . |

2. Financial Review

2.1 Expenditure Management

| Audit Observation | Comments of the Accounting Officer | Recommendation |
|--|---|--|
| Although it is the responsibility of the Accounting Officer to prepare the estimates as completely and accurately as possible in terms of Financial Regulation 50 (II) , due to not doing so, the provisions totalled to Rs. 3,264,224 had been underutilized for 03 expenditure objects ranging from 58 per cent to 96 per cent . | Provisions have been made available for expenditure objects in a manner that they are sufficient to achieve the planned functions and objectives and the provisions had been saved because of cancellation of many programmes during the year under review due to the spread of the Covid-19 virus. | The estimates should be prepared as completely and accurately as possible. |

2.2 Certifications to be made by the Accounting Officer

Even though the Accounting Officer has to certify in the following matter as per the provisions of Section 38 of the National Audit Act No. 19 of 2018, actions had not been taken accordingly.

Audit Observation

The Chief Accounting Officer and Accounting Officer should ensure that an effective internal control system for the financial control of the Department is being carried out and to conduct 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 submit a copy to the Auditor General, the statements that such reviews were made had not been furnished to audit.

Comments of the Accounting Officer

The Department maintains an effective internal control system for financial control and the changes needed to maintain the system effectively are carried out timely and it is stated that a written copy of these activities will be submitted to the Auditor General.

Recommendation

Actions should be taken in accordance with the Provisions of Section 38 of the National Audit Act No. 19 of 2018 .

2.3 Non-compliance with Laws, Rules and Regulations

| Reference to Laws, Rules and Regulations | Observation Non-compliance | Comments of the Accounting Officer | Recommendation |
|---|--|---|---|
| Paragraph 05 of Part ii of Public Finance Circular No. 01/2020 dated 28 August 2020 | Review of the fees charged for services provide by government institutions once in a three years and amend to a maximum of 15 per cent and the Treasury approval should be obtained. Nevertheless, actions had not been taken to revise the fee charged on the approval of lending institutions under the Mortgage Act amounting to Rs.100,000 after the year 2003 . | Actions have been taken to obtain the approval of the Secretary of the Ministry through the relevant Line Ministries to amend the fee of lending institutions amounting to Rs.100,000 under the Mortgage Act in terms of the Circular. Relevant fees will be revised as soon as the approval is received. It is stipulated to revise the relevant fees as soon as the approval is received. | It should act in accordance with the circular provisions. |

2.4 Issuance and Settlement of Advances

The following observations are made.

| Audit Observation | Comments of the Accounting Officer | Recommendation |
|---|---|--|
| (a) Any charge had not been made during the year under review with regard to the distress loan balances totalled to Rs. 174,257 due from 05 officers as at 01 January 2020 . | Because these officers were employed in Foreign Embassies their loan installments are not recovered by the Department of Commerce and Conducted by Embassies. Credits to the Department of Commerce through monthly account summaries are being carried out by the Foreign Ministry . The balance could not be updated due to the fact that the Foreign Ministry has not been credited to the account of the Department of Commerce up to now. It is informed that the details of loan installments will be recorded in the books as soon as they are received. | Action should be taken to settle the arrears. |
| (b) A sum of Rs. 12,138 had been overcharged from six officers as per the Advances to Public Officers' Account "B" and although 02 years have passed for that, actions had not been taken to settle until the date of audit. | Since two officers included in these loan installments are currently attached to the Foreign Service, as soon as they report to work in the Department, actions will be taken to refund the extra money recovered and it is informed that the arrangements will be made to refund the overcharges of the three officers who are currently serving in the Department . | Arrangements should be made to settle overcharged debts. |

3. Operating Review

3.1 Delays in Execution of Projects

The following observations are made.

| Audit Observation | Comments of the Accounting Officer | Recommendation |
|--|--|---|
| ----- | ----- | ----- |
| <p>(a) Even though it had been planned to issue relevant regulations, internal circulars and guidelines related to the implementation of the Anti-Dumping and Countervailing Duties Act No. 02 of 2018 and the Safeguard Measures Act No. 03 of 2018, those activities had not been completed by the end of the year under review.</p> | <p>Relevant regulations have been sent to the Attorney General's Department for approval after properly editing by the Legal Draftsman's Department. Internal circulars and guidelines have already been prepared and finalized taking the advice of the competent authorities from time to time and it is to be sent to the Attorney General's Department for approval.</p> | <p>Arrangements should be made to issue regulations, internal circulars and guidelines related to the implementation of laws.</p> |
| <p>(b) Issuance of Tariff Quota Certificates including approval of related documents, other services related to issuance of Certificates of Origin and setting up and implementing a system for Registration of Companies for the implementation of Electronic Queue Management System had not been carried out even by the end of the year.</p> | <p>Since steps have been taken to implement the basic functions of the electronic queue management system</p> | <p>Actions should be taken to achieve the planned tasks within the stipulated time frame</p> |

3.2 Management Weaknesses

Audit Observation

The Approval Committees on Credit Agencies which should be appointed by the Minister had not been appointed as scheduled before the expiry of the approval for the extension of time again with regard to the 05 institutions that submitted new applications for obtaining approval as lending institutions and 02 institutions approved by the Director General of Commerce last year as lending institutions for a period of one year only under Mortgage Act.

Comments of the Accounting Officer

Approval Committees on Credit Agencies has been appointed by the Minister through the Extraordinary Gazette Notification No. 2220/56 dated 25 March 2021. Its first meeting was held on 29 April 2021 and arrangements are being made to hold future meetings expeditiously to consider the suitability of the candidates.

Recommendation

Actions should be taken to grant the relevant approvals to the lending institutions expeditiously.

4. Good Governance

Audit Observation

The Accounting Officer should appoint a suitable Auditor to carry out the internal audit of the Department in terms of Section 40 (1) and Section 40 (2) (1) of the National Audit Act No. 19 of 2018 . Nevertheless, actions had not been taken to appoint an Internal Auditor even by the year under review as per the provisions of the Act. Further, the Line Ministry had not even conducted an internal audit.

Comments of the Accounting Officer

An application has been submitted to the Department of Management Services in accordance with Financial Regulation 71 requesting the approval of an internal audit post for this Department.

Recommendation

Internal audit should be carried out in a timely manner.

5. Human Resources Management

Audit Observation

Even though the approved staff as at 31 December 2020 was 152, the actual cadre was 114 . Accordingly, there were 38 vacancies including 03 Special and First Grade posts and 06 Deputy / Assistant Director of Commerce posts.

Comments of the Accounting Officer

Six out of 11 senior level vacancies have been published in the gazette for recruitment and the relevant examination is scheduled to be conducted by the Department of Examinations. The Director General of Combined Services has been requested to fill the vacancies for the posts of Primary, Secondary and Tertiary level.

Recommendation

Arrangements should be made to fill the existing vacancies for essential posts.