

Head - 439 State Ministry of Batik, Handloom and Local Apparel Products.

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the State Ministry of Batik, Hand Loom and Local Apparel Products 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 including my comments and observations on the financial statements of the State Ministry of Batik, Hand Loom and Local Apparel Products in terms of Section 11(1) of the National Audit Act, No.19 of 2018 was issued to the Chief Accounting Officer on 07 May 2021. The Annual Detailed Management Audit Report was issued to the Chief Accounting Officer on 23 June 2021 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. The report of the Auditor General 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 will be tabled in Parliament in due course.

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 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) and Section 38 of the National Audit Act, No. 19 of 2018.

There was no need to prepare the Financial Statements for the preceding year due to the establishment of a new Ministry during the year under review.

1.6 Comments on Financial Statements

1.6.1 Statement of Financial Performance

| Audit Observation | Comments of the Chief Accounting Officer | Recommendation |
|---|---|--|
| ----- | ----- | ----- |
| (a) Amounted to Rs.169,001,318 had been stated in the Imprest Adjustment Account as debits to the Ministry Head of expenditure by the other Ministries /Departments and Public Enterprises and a difference of Rs.245,464 had been observed due to the fact that it was stated in the notes ACA2(ii) as Rs.168,755,856 in the Financial Statements. | The amount of Rs.245,464 in the notes ACA2(ii) of the Financial Statements had been recorded as expence as per cash book and therefore this error was occurred and that the expenditure incurred by the Ministry / Department under the Financial Regulation 208 should be corrected as amounted to Rs.169,001,318. | Expenses incurred by The Ministries/ Departments under Financial Regulations 208 should be accounted accurately. |

- (b) The notes containing the basis for reporting along with the Financial Statements had not been disclosed. When reporting the Financial Statements in future it will be recorded. The basis of the preparation of the financial statements should be submitted along with the financial statements.

1.6.2 Reconciliation Statements on Advances to Public Officers Account

| Audit Observation | Comments of the Chief Accounting Officer | Recommendation |
|--|---|---|
| ----- | ----- | ----- |
| According to the Treasury books the balance in terms of the Financial Regulations 427(2) relating to the Advances to Public Officers was amounted to Rs.3,061,402 while the balance according to the individual accounts of the Ministry was amounted to Rs.3,142,936 and a difference amounted to Rs.81,534 was observed. | That It was settled in the year 2021. | Resons for the differences should be sumitted through the reconcilations. |

1.6.3 Non-maintenance of Registers and Books

It was observed during audit test checks that the Ministry had not maintained the following registers while certain other registers had not been maintained in the proper and updated manner.

| Audit Observation ----- | Comment of the Chief Accounting Officer ----- | Recommendation ----- |
|--|---|---|
| <p>(a) Personal Emolument Register</p> <p>A Personal Emolument Register, had not been maintained in terms of Financial Regulation 453.</p> | <p>That documents could not be updated and maintained systematically due to insufficient of the officers, ignorance and unskilled of the staff and by now the shortcomings are being updated and corrected.</p> | <p>A Personal Emolument Register according to the specific format should be maintained in terms of Financial Regulation 453.</p> |
| <p>(b) Audit Query Register</p> <p>An Audit Query Register had not been maintained in terms of Financial Regulation 452 (1).</p> | <p>- Do-</p> | <p>In terms of Financial Regulation 452 (1), the Audit Query Register should be maintained in an updated manner.</p> |
| <p>(c) Departmental Appropriation (Votes) Ledger.</p> <p>A Departmental Appropriation (Votes) Ledger had not been updated in terms of Financial Regulation 447.</p> | <p>-Do-</p> | <p>A Departmental Appropriation (Votes) Ledger inclusive of provisions in Financial Regulation 447 should be maintained in Form General 138</p> |

(d) **Register of Loans and Advances**

The Register of Loans and Advances had not been prepared in terms of Paragraph 05 of the State Accounts Circular No.256/2017 dated 05 July 2017.

-Do-

In terms of Paragraph 05 of the State Accounts Circular No.256/2017 dated 05 July 2017, the Register of Loans and Advances should be prepared based on Form C.C.10 and Form A.

(e) **Records of Losses**

A Record of losses had not been maintained in terms of Financial Regulation 110.

-Do-

In terms of the provisions in Financial Regulation 110, a Record of losses should be maintained in the Form appended.

(f) **Record of Liabilities**

A Record of liabilities had not been maintained in terms of Financial Regulation 214.

-Do-

In terms of Financial Regulation 214, liabilities should be recorded in a Record of Liability to ensure regular examination of such liabilities.

1.6.4 Lack of Audit Evidence

| Audit Observation ----- | Comment of the Chief Accounting Officer ----- | Recommendation ----- |
|--|--|--|
| Due to not reporting the acquisition of assets during the year to the Treasury to include under the summary reports of non-financial assets (SA 80) in the treasury prints ,any information were not included in the summary report of the non-financial assets (SA 80) in the treasury print. | Assets that acquired in the year 2020 had not been reported to the Treasury and it was corrected by accounting as the opening balances of the year 2021. | Assets acquired during the year should be reported to the Treasury |

2. Financial Review

2.1 Incurring of Liabilities and Commitments

The following observations are made.

| Audit Observation | Comments of the Chief Accounting Officer | Recommendation |
|--|--|--|
| (a) An expenditure totaling Rs.933,988 incurred in year 2021 relevant to the year under review had not been identified as liabilities in the Financial Statements in the year under review. | It was unable to identify the Expenses amounted to Rs.933,988 by 31 December 2020 and it was unable to record as liabilities. | All liabilities relevant to the year should be recorded in the statement of the liabilities. |
| (b) Although amounted to Rs.3,892,515 had been entered in to the liabilities for the year under review, Due to not reporting that value to the treasury any information were not included in the Treasury monthly liabilities/summary report of the reserves (SA90). | That this was happened due to non adequate of provisions in this Ministry in year 2020 to report the liabilities to the Treasury | All liabilities entered should be reported to the treasury. |

2.2 Irregular Transactions

| Audit Observation | Comments of the Chief Accounting Officer | Recommendation |
|--|---|--|
| <p>A sum allocated for specific purposes in the Annual Estimates of Expenditure approved by Parliament along with the Appropriation Act and estimates of expenditure approved by resolution passed in parliament should not be varied without appropriate authority. However, out of the total net provision of Rs.83,200,000 made as development assistance under the expenditure object No.439-2-3-4-2202 and 439-2-3-5-2202 for the economic empowerment women through handloom, garments and small scale garment factories, However, fixed assets of Rs.726,580 had been procured for the use of the Ministry.</p> | <p>Considering that there was not enough time to spend the balance of these projects on another project and there was not enough money in the Ministry Expenditure Head to purchase the equipment and there was a shortage of this equipment, Fixed assets were purchased and the equipment is being duly entered to the inventory and currently being used for office.</p> | <p>A sum allocated for specific purpose by resolution passed in parliament should not be varied without appropriate authority.</p> |

2.3 Management of Expenditure

| Audit Observation | Comments of the Chief Accounting Officer | Recommendation |
|---|---|--|
| <p>Although the provision in the year under review for the acquisition of the Financial Assets under the expenditure object No.2102 and 2103 was amounted to Rs.1,480,000 and during the year assets amounted to Rs.2,368,130 had been acquired exceeding that limit expenses amounted to Rs. Rs.888,130 had been incurred.Value amounted to Rs.2,100,000 assets included under the codes 6112202 and 6112204 in the Report of the Non –Financial Assets had only been reported in the Statement of the Financial Position.</p> | <p>That the value of the property plant and equipment shown as amounted to Rs.2,100,000 under the non - financial assets in the statement of the financial position as at 31 December 2020 and in that value it contains the asset amounted to Rs.700,000 out of the assets amounted to Rs.945,464 and the balance was not accounted for and will be accounted for as assets in 2021.</p> | <p>All the assets acquired during the year should be included in the Financial statements.</p> |

3. Operating Review

3.1 Non- performance of Functions

| Audit Observation | Comments of the Chief Accounting Officer | Recommendation |
|---|---|--|
| <p>An amount of Rs.20,000,000 had been provided to the Handloom and Textile manufacturing division for the economic empowerment of women through small scale garment factories under the expenditure object No.439-02-03-05-2201 for the last quarter of the year 2020. Out of a sum of Rs.15,860,200 had been spent in November on the repair of the textile centre and purchase of the equipment. Also out of the sum amounted to Rs.20,000,000 provided for provincial level activities under the expenditure object No.439-2-3-4-2202 for the handloom and textile industry amounted to Rs.8,838,551 had been spent for such activities such as purchasing of machines, electrical wiring of the Halpe textile centre in Uva Province and repairing of the textile sales centre in Monaragala. Furthermore in relating to the activities a follow up had not been carried out by the Ministry</p> | <p>Such difficulties such as non - availability of staff the closure of the Ministry due to covid outbreak, restrictions on staff attendance ensure that duties were carried out properly and steps will be taken to address those short comings in next years.</p> | <p>The implementation of the subjects and functions of the institutions under the Ministry and the relevant policies, programs and projects should be follow up and evaluated.</p> |

3.2 Annual Performance Report

| Audit Observation | Comments of the Chief Accounting Officer | Recommendation |
|--|---|---|
| An annual performance report should be prepared and submitted along with the annual accounts which was submitted to the Auditor General in terms of the section 15 (3)(c) of the National Audit Act No.19 of 2018 and in terms of the paragraph 10.2 of the Treasury Secretary's Public Finance Circular No.02/2020 Dated 28 August 2020, However the Ministry had not been done so for the year 2020. | The reports could not be submitted properly due to non-availability of the required staff, closure of the Ministry and the Covid epidemic and the nonattendance of employees. However necessary actions will be taken to rectify these shortcomings in next years and submit reports on time. | Actions should be taken in accordance with the Audit Act and the circulars. |

3.3 Procurements

The following observations are made.

| Audit Observation | Comments of the Chief Accounting Officer | Recommendation |
|--|---|--|
| (a) Camara Accessories worth of Rs.711,580 and Computer and Printers worth of Rs1,388,500 had been procured during the year under review and the instructions in the Paragraph 2.8.1(a), 2.5.1(c), and 6.3.6 (a) of the Procurement guidelines had not been followed by the Ministry for that Procurement. | According to the procurement guidelines 2.8.1(a) the officers nominated for the technical evaluation committee for the procurement of equipment proposed for the needs of the Ministry should not have sufficient knowledge to observed the technical capabilities of the equipment and there were practical issues to contact more knowledgeable officers due to the way the office functioning in the epidemic condition. Further this procurement process took place in December 2020 when the covid-19 epidemic intensified in the country and the office was functioned with minimum staff, In such cases certain matters may not be mentioned in the file but the procurement process was agreed upon by all the members of the technical evaluation committee and procurement committee. | Actions should be taken in accordance with the procurement guidelines. |

- (b) Although the Procurement Committee should be appointed by the Chief Accounting Officer in terms of the Paragraph 2.7.4 of the Procurement Guidelines, However in this State Ministry the Chief Accountant appointed the Procurement Committee by including her name. A procurement committee had been appointed for works supplies and services signed the secretary of the ministry by the letter No .MBHL/ FIN/PRO/01 Dated 19.11.2020. The procurement committee should be appointed by the Chief Accounting Officer in terms of the guidelines.
- (c) In terms of the 5.2.1(a) of the procurement guideline the bidding documents shall furnish all relevant information necessary for a prospective bidder to prepare a bid for the Goods or Services or Works to be offered in response to the invitation to bid, However, the bid documents for procure of Rs.1,388,500 computers had not been prepared as said. Necessary information was included in the bid documents of the procurement of machinery equipment . All information necessary to the bidders to prepare the bids should be included in the bid documents in terms of the guideline.

3.4 Assets Management

The following observations are made.

| Audit Observation | Comments of the Chief Accounting Officer | Recommendation |
|--|---|---|
| <p>Under the expenditure object of rehabilitation and improvements of capital assets Rs.798,340 and under the expenditure object of vehicle maintenance Rs.1,005,103 totaling Rs.1,803,443 had been spent during the year for the 11 vehicles deployed for the operations of the Ministry. The ownership of these vehicles had not been taken over and included in the financial statements of the Ministry in terms of the No.06/2020 of the Budget circular.</p> | <p>That this Ministry is a new Ministry establish on 13.08.2020 and these vehicles are deployed for the duties of the Honorable Minister and the Ministry and therefore various maintenance and other recurrent expenses had been incurred under the expenditure object No.2003 and 1301. That the ownership of the vehicles will be taken over and will include to the financial statements.</p> | <p>The ownership of the vehicles should be taken over and included in the financial statements in terms of the circulars.</p> |

4. Human Resources Management

| Audit Observation | Comments of the Chief Accounting Officer | Recommendation |
|--|--|--|
| <p>The Management Services Department had been approved 62 number of employees for twenty two posts, the actual cadre was 29 as at audited date of 10 March 2021 and 33 vacancies were existed for 11 posts, In that senior level posts of Assistant Secretary, Director, 02 posts of Assistant Director/ Deputy Director, Accountant and Internal Auditor vacancies were existed.</p> | <p>Cadre vacancies had been reported to the Ministry of Public Services, Provincial Councils and Local Government from time to time, but due to insufficient of the officers the Ministry has not yet recruited the officers and the Ministry of Public Services, Provincial Councils and Local Government agreed to fill the vacancies in the future.</p> | <p>Top management should take action to recruit approved and adequate cadre to achieve the objectives of the organization with out compromising.</p> |