

Head 414 – State Ministry of Samurdhi, Household Economy, Micro Finance, Self Employment and Business Development

1. Financial Statement

1.1 Qualified Opinion

The audit of the financial statements of the State Ministry of Samurdhi, Household Economy, Micro Finance, Self Employment and Business Development 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 State Ministry of Samurdhi, Household Economy, Micro Finance, Self Employment and Business Development was issued to the Chief 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 Ministry was issued to the Chief Accounting Officer on 06 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 State Ministry of Samurdhi, Household Economy, Micro Finance, Self Employment and Business Development 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 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 judgment and maintain professional skepticism 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 .

As the State Ministry of Samurdhi, Household Economy, Micro Finance, Self Employment and Business Development has been established in the year under review, there was no need to prepare financial statements for the previous year.

1.6 Comments on Financial Statements

1.6.1 Statement of Financial Performance

The following observations are made when accounting for non-revenue receipts related to financial statements.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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(a) Treasury imprests receipt was Rs. 234,100,000 as per the consolidated trial balance and it had been stated as Rs. 526,972,639 in the statement of financial performance. .	Treasury imprest receipts of Rs.234,100,000 indicates the amount relating to the Ministry Head 414 from September to December of the year under review as per the consolidated trial balance of the Ministry.	Financial statements should be prepared in accordance with the Guidelines issued by the Department of State Accounts identifying all adjustments accurately.

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| <p>(b) Other receipts was Rs. 4,030,227 as per the consolidated trial balance and it had been stated as Rs. 10,848,622 in the statement of financial performance.</p> | <p>The other receipts amounting to Rs. 4,030,227 was the receipts from September to December as per the consolidated trial balance and Rs. 10,848,622 indicated in the statement of financial performance was the amount relevant for the whole year.</p> | <p>-do-</p> |
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1.6.2 Statement of Financial Position

The following observations are made.

Audit Observation -----	Comments of the Chief Accounting Officer -----	Recommendation -----
<p>(a) Actions had not been taken to assess the value of land and buildings of the Research and Training Institute at Pilimatalawa and Borella belonging to the Ministry and to include them in the financial statements.</p>	<p>Steps have been taken to assess land, buildings and other assets and include them in the financial statements.</p>	<p>Actions should be taken to assess the value of land and buildings and include them in the financial statements.</p>
<p>(b) Even though non-financial asset balance at the beginning of the year under Head 124 was Rs. 1,023,038,293 , that balance had been transferred as Rs. 1,022,750,540 when making transfers to Head 414 and other Heads on 31 August 2020 .</p>	<p>Actions have been taken to correct in 2021.</p>	<p>Arrangements should be made to report accurately.</p>

1.6.3 Imprest Adjustment Account

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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<p>(a) As the value to be paid / received to the Treasury at the end of the year according to the financial performance report and the value to be paid to the Treasury according to the cash book takes a different value, an imprest adjustment account had not been prepared to reconcile those balances in accordance with 7 (vi) of Guideline No. 6 issued by the Department of State Accounts .</p>	<p>The imprest adjustment account and the details (as a note) including way of obtaining relevant figures to that have been prepared and it was submitted to you.</p>	<p>Financial Statements should be prepared identifying all adjustments accurately in accordance with the Guidelines issued by the Department of State Accounts.</p>
<p>(b) Even though the unsettled sub-imprest balance as at 31 August 2020 amounting to Rs.612,048 had been indicated as settlement from the journal entries under Head No. 124 , a taking over had not been indicated in CIGAS Programme.</p>	<p>The difference of Rs. 612,048 shown here is the unsettled sub- imprest balance under the Ministry of Women, Child Affairs and Social Security as at 31.08.2020. Actions had been taken to settle at the end of the year.</p>	<p>-do-</p>

1.6.4 Cash Flow Statement

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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<p>(a) Imprest receipts and other receipts during the period from 01 January to 31 August 2020 under Expenditure Head No. 124 which was not entitle to the Expenditure Head of this Ministry amounting to Rs. 299,691,034 had been indicated as cash flow generated from operational activities.</p>	<p>Receipts relating to the whole year have been recorded in the cash flow statement.</p>	<p>Accurate cash flow statement should be submitted in terms of the Guidelines introduced by the State Accounts Circular.</p>
<p>(b) The imprest of Rs.12,430,496 settled under Expenditure Head No. 124 which was not entitle to the Expenditure Head of this Ministry and the unsettled imprest balance under Head No. 414 amounting to Rs. 2,241,772 totalling to Rs. 14,672,268 had been stated in the cash flow statement as the imprests settled to the Treasury.</p>	<p>This has been recorded in the cash flow statement with regard to the whole year .</p>	<p>-do-</p>

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| <p>(c) Even though the advance receipts and payments were Rs. 5,762,582 and Rs.5,228,870 respectively, it had been adjusted to the cash flow statement as Rs. 14,605,406 and Rs.9,372,330 respectively.</p> | <p>Receipts and payments stated in the advance account has been mentioned relevant to the months from September to December and the amount for the entire period from January to December has been indicated in the cash flow statement.</p> | <p>-do-</p> |
| <p>(d) Even though the deposit receipts and payments were Rs.1,011,394 and Rs.1,510,581 respectively, it had been shown as Rs.13,193,843 and Rs.4,999,220 respectively in the cash flow statement.</p> | <p>Receipts and payments mentioned in the deposit account have been stated from September to December and the amount for the entire period from January to December has been stated in the cash flow statement.</p> | <p>-do-</p> |

1.6.5 Imprest Balance

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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<p>(a) Even though the imprest receipt of the ACA-3 format submitted with the financial statements had been stated as Rs.526,100,000, the Treasury imprest receipts was Rs. 234,100,000 as per the Departmental trial balance . Even though the imprest settlement (by expenditure) was Rs. 112,122,848 as per the trial balance of the Treasury, it had been stated in the ACA – 3Format as Rs.. 521,005,249.</p>	<p>Treasury imprests receipts and settlements were included as Rs 526,100,000.and Rs.521,005,249 respectively according to the values relevant to the January to December of the year under review.</p>	<p>Financial statements should be submitted accurately.</p>

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| <p>(b) Even though the imprest balance which should be settled as at 31 December 2020 had been stated Rs. 2,241,772 in the statement of financial position , it had been stated in the Format ACA-3 in the imprest account submitted with financial statements that there was no balance to be settled as at 31 December 2020 .</p> | <p>Since the balance of imprest account amounting to Rs. 2,241,772 as at 31.12.2020, was remitted to the Treasury on 02 January 2021 , it has been shown in the statement of financial position as at 31 December 2020.</p> | <p>-do-</p> |
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1.6.6 Advance Account Balances

The following observations are made.

Audit Observation -----	Comments of the Chief Accounting Officer -----	Recommendation -----
<p>(a) The receipt of advances in accordance with Treasury computer printout SA-50 was Rs. 14,384,773 and it had been stated in the statement of financial performance as Rs.24,751,602 .</p>	<p>Advance payments which is shown as Rs.24 ,751,602 in the statement of financial performance was the amount pertaining to the entire year.</p>	<p>Financial statements should be prepared identifying all the adjustments accurately in accordance with the Guidelines issued by the Department of State Accounts.</p>
<p>(b) Advance Payments as per Treasury computer printout SA-50 was Rs. 66,838,390 and, it had been stated as Rs. 70,894,121 as per the statement of financial performance .</p>	<p>Advance payments shown as Rs.70 ,894,121 in the Treasury computer printed statement financial performance was the amount relevant for the entire year.</p>	<p>-do-</p>

1.6.7 Failure to Maintain Documents and Books

It was observed that the Ministry had not maintained the following documents properly and in an updated manner.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(i) Register of Damages and Losses		
A register of damages and losses had not been updated in accordance with Financial Regulations 110 .	It is kindly informed that the actions will be taken to update the register of damages and losses.	A record of damages should be maintained in accordance with the provisions of Financial Regulation 110 according to the format under it .
(ii) Register of Liabilities		
A Register of Liabilities had not been updated in accordance with Financial Regulation 214	The attendance of officers was disrupted due to the Covid 19 epidemic that lasted for 9 months in the year 2020 and it is kindly informed that only quantitative liabilities have been identified as much as possible and taken into account in the register of liabilities and commitments .	Those liabilities should be recorded in a register of liabilities in a manner of enabling to check the liabilities regularly in terms of Financial Regulation 214.

2. Financial Review

2.1 Expenditure Management

Audit Observation

Comments of the Chief Accounting Officer

Recommendation

The Ministry is established in a leased building and all the maintenance activities are carried out by the lessor. In spite of that, a total of Rs. 2,690,000 had been allocated for 03 expenditure objects through budgetary allocations for the rehabilitation of building constructions, improvement and maintenance. Out of this amount, a sum of Rs. 2,227,681 or 82.8 per cent had saved. Accordingly, provisions had been made for each expenditure object without identifying the requirements.

According to the revision of the Ministry, various divisions including the Grama Shakthi Division have been transferred to this Ministry. Although the action should be taken to provide the necessary facilities for such officers, due to the epidemic situation in Covid 19, resources could not be acquired in accordance with the provisions made available.

Actions should be taken to prepare the estimates accurately.

2.2 Entered into Liabilities and Commitments

The following observations are made.

Audit Observation

Comments of the Chief Accounting Officer

Recommendation

(a) The liability value of Rs. 2,906,207 with regard to the various services and supplies obtained by the Ministry on 22 occasions

Although the liabilities have been entered into within the period for which the financial statements were being

Commitments should be entered into in accordance with the circular provisions

had not been included in the statement of liabilities.

prepared on the Covid 19 epidemic situation in the country, all the commitments could not be identified. Subsequently, payments made for goods and services were then identified and payment had to be made for that.

(b) The estimated amount for building construction of Seeduwa Social Development Institute was Rs. 1,000 million and the expenditure from 2018 to 31 December 2020 as per financial statements was Rs. 589.29 million and the value of Rs.410.707 million to be paid furthermore had not been disclosed as commitments.

Construction of the building of Seeduwa Social Development Institute is an active development project for up to 03 years and due to the Covid 19 epidemic, this could not be completed. Because the values of the buildings to be constructed in future cannot be shown in the accounts, this was not included in the statement of liabilities.

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2.3 Non-compliance with Laws, Rules and Regulations

Reference to Laws, Rules and Regulations	Observation ----- Non - compliance	Comments of the Chief Accounting Officer	Recommendation
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Financial Regulations of the of the Democratic Socialist Republic of Sri Lanka 1647 (a) and Public Administration Circular No. 26/92 (1) dated 03 August 1994	Actions had not been taken to conduct a survey on 50 vehicles belonging to the Ministry.	The Format relevant to the vehicle pertaining to the Survey of the Ministry has been prepared and further activities are being done in this regard.	Actions should be taken in accordance with the Financial Regulations and circulars.

2.4 Deposit Balances

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
<p>The total of 04 deposit accounts as at 31 December 2020 was Rs. 53,441,266 and there was a deposit balance of Rs. 2,864,223 in between 1 year and 4 years in that balance .</p>	<p>Convened a limited staff in 2020 and performed essential duties and the actions which should have been taken on the balances in the deposit account disbursed for several years was avoided. Necessary steps will be taken make arrangements in future.</p>	<p>Actions should be taken in accordance with Financial Regulations.</p>

3. Operating Review

3.1 Vision and Mission

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
<p>The functions and duties to be performed by the State Ministry and 05 special priorities were introduced by Extraordinary Gazette Notification No. 2196/27 dated 06 October 2020. It was also expected to implement a special priority on expansion of local production by promoting small and medium scale manufacturers and implementation of a special</p>	<p>All the 03 specialized institutions mentioned here are state-owned companies registered under the Companies Act and have all the rights to the Treasury. It is kindly informed that at the time of the transfer of these three institutions to this Ministry, this Ministry has made all possible efforts to bring the three institutions to an active</p>	<p>Operational activities related to the functions and duties to be performed by the Ministry should be carried out.</p>

programme to facilitate long term leasehold land, credit facilities, business consulting, technical and infrastructure facilities for new entrepreneurs, small and medium scale industries, to formulate a system of providing all services by one institution and to give necessary incentives giving priority to starting value adding industries in those sectors.

The operational activities of the 03 statutory bodies entitled to control the Ministry for that purpose are the Small and Medium Enterprise Capital Company, the Small and Medium Enterprise Authority and the State Resource Management Corporation could not be commenced although 6 months have passed since the establishment of the Ministry.

level, including the preparation of final accounts for the previous 05 years. Because of the relevant facts relating to this were not observed to you, a set of photocopies of the relevant file is enclosed.

3.2 Performance

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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(a) Gramashakthi Bureau		

According to the Action Plan of the Ministry for the year 2020 a sum of	The Grama Shakthi Bureau was under the Presidential Secretariat during the first 08	Planned activities should be implemented

Rs. 325.92 million had been allocated for the Grama Shakthi Bureau and of that allocation, Rs. 320.92 million or 98 per cent was for the payment of bills related to projects carried out in the year 2019. Out of those bills, a sum of Rs. 224.22 million had been settled during the year under review.

months of the year 2020 and transferred to this Ministry after 01 August 2020 . It is kindly informed that the total amount mentioned here amounting to Rs. 320.92 million were settled based on the requests made by the government agencies for the bills to be settled by the various institutions for the agreements made in the year 2019 and the liabilities for the implemented development projects.

properly.

(b) National Institute of Social Development

A sum of Rs.16.900 million had been allocated by the National Institute of Social Development for the purchase of office equipment required for the new building in Seeduwa as per the Action Plan of the Ministry for the year 2020 and the financial progress was Rs. 6.5 million, or 23 per cent.

Initially, work on Terminal B was completed and the company was relocated to the building and only equipment related to the finished parts were purchased with the money allocated to purchase equipment for the entire building complex.

Planned activities should be implemented properly.

(c) Rural Development Training and Research Institute (Pilimathalawa and Borella)

The main objective of this Institute was to introduce a new development methodology by alleviating the poverty of the rural poor who are suffering from economic and social psychological abyss and improving rural development activities. For this, a sum of Rs. 16.02 million had been allocated from the Action Plan of the year under review for 10 activities and its financial progress was Rs. 9.07 million. A sum of Rs. 8 million had been incurred for the purchase of office equipment and renovation of buildings instead of implementing activities to achieve the primary purpose of the organization.

As the Rural Development Training and Research Institute at Borella is a very old building, its renovation works were completed in several stages and currently, only the works of final stage are in progress . Renovated hostel, 02 main meeting halls, canteen and access road to the meeting hall have already been completed. Accordingly, since the external and internal training programmes have been initiated and the desired objectives are being achieved.

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3.3 Management Weaknesses

Audit Observation

Dispose in accordance with the instructions given in the Public Finance Circular No. 2/2015 dated 10 July 2015 and despite the fact that the

Comments of the Chief Accounting Officer

The answer is not relevant to the observation.

Recommendation

Disposal activities should be done as per the instructions given in the circular.

motor vehicles that are in a non-running condition should be disposed of before 30 June 2018 in terms of Asset Management Circular No. 1/2018 dated 19 March 2018, disposal activities had not been carried out even by May 2021 in respect of 05 vehicles belonging to the Ministry .

4. Human Resources Management

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
<p>-----</p> <p>(a) Although the tertiary and secondary level and primary level posts were approved as 17 and 18 respectively due to the actual staff were 289 and 53 respectively a number of 307 had been employed exceeding the approved amount.</p>	<p>-----</p> <p>Because the staff of the Ministry is more than the above approved amount, letters of My No. SMS / ADM / 1/2 / 1-2019 dated 19 January 2021 and 11 February 2021 have been sent to Department of Management Services to get the proposed staff approved, including the existing staff and it is kindly informed that the answers were not received so far.</p>	<p>-----</p> <p>It is required to expedite the matters and resolve administrative issues.</p>

(b) This Ministry had identified the contribution of staff with specialized knowledge and skills in the relevant fields in achieving the functions, tasks, priorities and related goals within the scope of the Ministry to achieve the development objectives of the people centered government as per the Paragraph 05 of the letter of the Department of Management Services No. DMS / SM / 02 dated 04 September 2020 . Further, the revisions in staff considering those factors should have been made and although it had been requested to submit formal proposals for that, actions had not been so done.

Answers were not received.

Arrangements should be made to deploy staff with specialized knowledge and skills in the relevant fields.