

Head 408 - State Ministry of Rattan, Brass, Clay, Furniture & Rural Industry

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the State Ministry of Rattan, Brass, Clay, Furniture & Rural 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 State Ministry of Rattan, Brass, Clay, Furniture & Rural Industry was issued to the Accounting Officer on 13 August 2021 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report was issued to the Accounting Officer on 14 October 2021 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. This 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 State Ministry of Rattan, Brass, Clay, Furniture & Rural 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 is 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 Accounting Officer are 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 State 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 Accounting Officer shall ensure that an effective internal control system for the financial control exists in the State 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 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 Parliament'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 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

 According to Section 6 (1) (d) of the National Audit Act No. 19 of 2018, it cannot be stated that the financial statements are consistent with the previous year, As the State Ministry of Rattan, Brass, Clay, Furniture and Rural Industries established by the Extraordinary Gazette Notification No. 2187/27 dated 09 August 2020. Also, my recommendations have not been submitted as there was no need to submit financial statements for the last year.

1.6 Comments on Financial Statements

1.6.1 Presentation of Accounts

Audit Observation	Comments of the Accounting Officer	Recommendation
-----	-----	-----
<p>Although there were no balances for the previous year as the Ministry was established by the Extraordinary Gazette Notification No. 2187/27 dated 09 August 2020, the balances were shown in the Financial Statement for the previous year.</p>	<p>It has been reported that the balances were shown erroneously.</p>	<p>Since the establishment of the Ministry took place in August 2020, there can be no balance from the previous year.</p>

1.6.2 Cash Flow Statement

Audit Observation

Comments of the Accounting Officer

Recommendation

According to the accounts of the Ministry, although the advances recovery and payments were Rs.70,175,824 and Rs.72,301,579 respectively, in the cash flow statement it was stated as Rs.2,049,379 and Rs. 4,175,133.

It was informed that only the amounts received in cash and paid in cash have been taken into the advance account for the last 4 months in preparation of the cash flow statement.

The cash flow statement should be prepared on a gross basis according to the format to be used to prepare the financial statements.

2. Financial Review

2.1 Management of Expenditure

Audit Observation

Comments of the Accounting Officer

Recommendation

Out of the provisions of Rs.7,330,000 made for Recurrent and capital expenditure to 09 and 11 subjects respectively, a sum of Rs.5,440,606 had not been utilized as Rs.1,417,347 and Rs.4,023,259. It ranged from 34 percent to 100 percent of the net provision made.

Observations were accepted.

In preparing the annual expenditure estimate in terms of F.R. 50 (11), the estimates should be prepared as accurately as possible.

2.2 Incurring of Liabilities and Commitments

Following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
-----	-----	-----
<p>(a) In terms of Section 3.4 of Guideline No. 06 of 09 October 2020 issued by the Department of Public Accounts regarding the preparation of financial statements under paragraph 10.1 of the Public Finance Circular No. 02/2020 dated 28 August 2020, the Declaration of Obligations and Liabilities under Note No. III must agree with the Declaration of Obligations and Liabilities issued by the Treasury for each head, but there was a difference of Rs.4,272,846 between the two documents.</p>	<p>Although the liabilities of the Vidaatha Resource Centers are notified to be reported before the due date, due to non-receipt of dues and inadequate provision of expenditure items related to certain liabilities, the CIGAS program was unable to report to the Treasury before the due date. But even after that date, the Financial Statement continued to provide information on the liabilities reported to us prior to the preparation of the Financial Statements. Therefore, it shows a difference with the declaration of obligations and liabilities issued by the Treasury.</p>	<p>In terms of Section 3.4 of Guideline No. 06, the Statement of Obligations and Liabilities under Note No. III shall be tally with the Statement of Obligations and Liabilities issued by the Treasury for each head.</p>
<p>(b) Although liabilities cannot be exceeded beyond the provisions allocated for expenditure subjects under Section 94 (1) of the Financial Regulations, it was committed to liabilities of Rs.3,854,576 for 9 expenditure subjects exceeding the savings amount of Rs.217,526.</p>	<p>Provisions were made for only 4 months of the year and a large number of unpaid bills had to be paid for the Vidatha Centers from January to August of the year. It was reported that this situation has led to liabilities exceeding the remaining provisions.</p>	<p>Liabilities should not be exceeded beyond the provisions made for the subject of expenditure.</p>

- (c) Liabilities amounting to Rs. 142,612 for the year under review had not been declared in the Statement of Obligations and Liabilities under Note No. III of the Financial Statement of the Ministry.
- The Vidatha Resource Centers functioning under the Ministry have been established at the level of Divisional Secretariats island wide and there were difficulties in obtaining information as the Ministry is newly established. Accordingly, although the reporting could not be done due to non-reporting of liabilities as required, even the later identified liabilities also had to be settled on the need to maintain the relevant office activities.
- All liabilities for the year should be included in the financial statements.

2.3 Issuance and Settlement of Advances

Following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
-----	-----	-----
(a) Although action should be taken on the advice of the Attorney General as stated in Paragraph 04 in Chapter XXIV of the Establishments Code, it was not done so with regard to the total loan balance of Rs. 451,582.	It was informed that steps are being taken to check the relevant documents by contacting the officials of the previous Ministry regarding the recovery of loan balances.	Action should be taken in accordance with paragraph 04 of Chapter XXIV of the Establishments Code.
(b) According to paragraph 1.1.7 of Budget Circular No. 118 dated 11 October 2004, two months after the transfer in of officers or three months after the transfer out of an officer, there should be no unsettled loan balances between departments, but a loan balances of Rs.248,701 had not yet been settled.	It was informed that the relevant information has been obtained from the previous Ministry of Skills Development, Vocational Education, Research and Innovation and necessary steps are being taken to settle the loan balances.	Action should be taken in accordance with the provisions of Budget Circular No. 118 dated 11 October 2004.

3. Operating Review

3.1 Non- performance of Functions

Audit Observation

Although a provision of Rs.2,470,000 had been made to start a timber and timber design center, out of that only Rs. 470,125 had been utilized. Therefore, due to the epidemic situation in the country, it was not possible to proceed as planned in the year under review and by 30 June 2021, only a paper had been submitted for Cabinet approval.

Comments of the Accounting Officer

The scope of "Development of Wood Related Industries" is vested in this Ministry which is conducted by COSTI under the State Ministry of Skills Development, Vocational Education, Research and Innovation in collaboration with the University of Sri Jayewardenepura and the University of Moratuwa. Further, vouchers for the work done by those universities have been requested to be handed over to the Ministry before 28.12.2020 but had not been submitted. Also, the Ministry had informed that the payment was not made as it was problematic to perform the work within the expected time frame.

Recommendation

Delays in identifying the project by each sub-task and approving the cost and time estimates for it should be avoided.

4. Achievement of Sustainable Development Goals

Following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) According to the 2030 Agenda, the Ministry has identified four objectives to be implemented by the year 2030, but the targets to achieve those objectives have not been specified.	Although the Ministry has identified targets to achieve the objectives, it agrees that it is not possible to specify those targets. Allocations made for a short period of three months after the establishment of the new Ministry stated that the Ministry could not state the targets precisely and numerically due to the lack of sufficient data to achieve those targets.	The goals to be achieved must be clearly identified
(b) Although a base year and the status of that year should be identified as the base data to measure the progress of the identified objectives, without doing so, the annual performance report states that the progress achieved during the year under review was between 0% and 49%, so the accuracy of those progress values could not be confirmed.	Although the progress of the review year should be noted on the basis of the base year and the data of that base year to measure the progress achieved in achieving the Sustainable Development Goals identified by the Ministry, this was not possible due to the fact that the Ministry did not have a basic database on matters falling within its purview. However, it has been stated that the work of compiling the relevant data and setting up a basic database has already begun.	To measure the progress of the identified objectives, a base year and the status of that year should be identified as the base data.

5. Human Resource Management

Audit Observation

Comments of the Accounting Officer

Recommendation

Looking at the composition of the approved and actual cadre as at 31 December of the year under review, it was observed that there were 08 and 107 vacancies in the senior and secondary level posts respectively.

Requests have been made from the Ministry of Public Service, Provincial Councils and Local Government to fill the staff vacancies.

Action should be taken to fill the vacancies taking into consideration the service requirements.