

Head 402 – State Ministry of Rural and School Sports Infrastructure Improvement

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the State Ministry of Rural and School Sports Infrastructure Improvement 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 Rural and School Sports Infrastructure Improvement was issued to the Accounting Officer on 07 October 2021 in terms of Section 11(1) of the National Audit Act, No.19 of 2018. The Annual Detailed Management Audit Report relevant to the Ministry was issued to the Accounting Officer on 07 October 2021 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. This report will be tabled in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be 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 State Ministry of Rural and School Sports Infrastructure Improvement 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 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 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 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 it was a new State Ministry established during 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 Non-compliance of Financial Statements with Circular Provisions

Audit Observation	Comments of the Accounting Officer	Recommendation
It was observed that although the Cash flow statement (ACA-C-form) should be prepared on a gross basis as per Guideline No. 06 of Public Finance Circular No. 02/2020, it has been prepared by the State Ministry on a net basis.	I kindly inform you that the cash flow statement will be prepared on a gross basis in future.	Accounts should be prepared correctly in accordance with the circular instructions.

1.6.2 Receipts of Revenue

Audit Observation	Comments of the Accounting Officer	Recommendation
Collected revenue of Rs. 2,716,902 was not recorded in ACA 3 format as cash received from the Treasury in accordance with paragraph 7 (ii) of Guideline No. 5 relating to paragraph 10.1 of Public Finance Circular 02/2020.	The collected revenue will be included in the prescribed format as per the relevant circulars in future.	Financial Statements should be prepared in accordance with circulars.

1.6.3 Comparison Statement of Government Advance "B" Account

Audit Observation	Comments of the Accounting Officer	Recommendation
Distress loans amounting to Rs. 611,184 had not been recovered from 05 officers during the year under review according to the member	Necessary action will be taken to recover the loan balance or remove it from the books.	Action should be taken to recover the loan installments as required.

credit register and the reasons for non-payment of these loans, non-payment period, reasons for non-payment of loans were not included in the time analysis register of the outstanding loan balances. Further, these loan balances were included in the loan balance register to be collected from the current employees in the financial statements of the Ministry. Although these loan balances were transferred in the year 2018, the officials had not taken action to make adjustments in the non-performing accounts of the Ministry.

1.6.4 Property, Plant and Equipment

----- Audit Observation	Comments of the Accounting Officer	Recommendation
(a) National Institute of Sports Science and Sports Medicine which was under the Ministry of Youth and Sports Head No. 194 under the Appropriation Act 2020 was transferred to the State Ministry. Non- financial assets amounting to Rs. 221,331,725 and work in progress amounting to Rs. 231,690,858 in relation to those institutions had not been taken over by this State Ministry until the date of audit (21 April 2021) and no action had been taken to include those values in the financial statements.	The Department of State Accounts of the Treasury will be notified and action will be taken to account during this year.	Action should be taken to take over non-financial assets immediately and enter the asset value correctly in the financial statements.

- (b) It was observed that 821 inventory items transferred from the Presidential Secretariat to the State Ministry in the year 2019 had not been included in the inventory registers in accordance with Financial Regulations Nos. 751 and 804 according to the Board of Survey reports of the year under review.
- Appropriate values have been obtained for a portion of inventory items and an appraisal committee has been appointed to assess the remaining items. After that, the value of these assets is entered into the books.
- Proper management and accounting should be done.

2. Financial Review

2.1 Expenditure Management

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) The total net capital allocation to the State Ministry was Rs. 940,099,000 and only Rs. 554,799,270 had been utilized by the end of the year under review. Accordingly, Rs. 385,299,730 or 41 percent of the net capital allocation had been remained.	Provisions have been remained due to unprecedented spending forecasts and the Covid epidemic.	Estimates need to be properly prepared in accordance with Financial Regulations.
(b) Rs. 132,024,592 which was the outstanding funds after utilization due to over-provisioning for 02 capital expenditure subjects and 10 recurrent expenditure subjects under operation 1 was in the range of 12 percent to 94 percent of those expenditure subjects.	-Do-	-Do-
(c) The total net provision of Rs. 4,125,000 provided for 03 capital expenditure subjects and 02 recurrent expenditure subjects had been remained.	Provisions have been remained due to non-travel abroad, non-repair of building machinery, non-purchase of vehicles and non-transfer of funds under F.R. 66 and 69.	-Do-

- (d) After utilizing the provisions, Rs. 265,206,216 ranged from 10 percent to 98 percent of the net allocation for those subjects was saved due to over-provisioning for 09 capital expenditure subjects and 09 recurrent expenditure subjects under the development programme 2. The Institute of Sports Medicine and the Sports Academy have added 02 programmes that do not reflect an accurate view. The above answers under (c) and (d) are applicable. -Do-

2.2 Incurring Liabilities and Commitments

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Although an any unreported liability in the year 2020 should not be settled in the year 2021 in according to paragraph 3.4 of Guideline No. 06/2020 of Public Finance Circular No. 02/2020, a total of Rs. 4,455,999 had been paid in the year 2021 for receiving goods and services in the year 2020 with non-compliances. Those expenses were not included as liabilities in the financial statements for the year under review.	The new State Ministry did not have adequate information on the amount scope of payments. A proper arrangement will be made to record the liabilities in the future.	When approaching liabilities, should be required comply with Financial Regulations.
(b) It was observed that had been approached to liabilities of Rs. 2,712,405 after utilizing the net provision for 09 expenditure items during the year under review in violation of F.R. 94 (1) paragraph.	As a new State Ministry, the Department of Budget has prepared estimates based on their estimates. As those provisions were not sufficient to cover all the expenses, the expenditure in the year 2021 had to be exceeded in excess of the remaining provisions.	-Do-

2.3 Certification to be done by the Chief Accounting Officer/ Accounting Officer

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>The Chief Accounting Officer should ensure that an effective internal control system is implementing for the financial control of the State Ministry in accordance with the provisions of Section 38 of the National Audit Act No. 19 of 2018 and the effectiveness of the system should be reviewed from time to time and necessary changes should be made to keep the system effectively and a review should be made in writing and a copy submitted to the Auditor General, but no such review statements were submitted to the audit.</p>	<p>I kindly inform you that in addition to the Audit and Management Committee meetings, regular staff and management meetings were held under the chairmanship of the Accounting Officer and the Chief Accounting Officer in order to maintain effective financial control and internal control.</p> <p>Copies of the relevant review reports will be forwarded to the Auditor General in future.</p>	<p>Should be act in accordance with the provisions of the Act.</p>

2.4 Issuance and Settlement of Advance

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>According to the Advance "B" control account; a balance of Rs. 827,141 had to be recovered from 05 officers who suspended, retired, left the service and deceased.</p>	<p>Necessary steps are being taken to recover those loan balances.</p>	<p>- Arrangements should be made to recover the outstanding loan balances without delay.</p>

2.5 Deposit Balances

Audit Observation	Comments of the Accounting Officer	Recommendation
Deposits of a sum of Rs. 9,440,409 for more than 2 years and a sum of Rs. 65,653 for more than 05 years had not been dealt with in accordance with Financial Regulations 571.	Deposit balances exceeding two years will be dealt in accordance with F.R. 571.	Should be dealing with previous deposits in accordance with Financial Regulations.

3. Operational Review

3.1 Assets Management – Utilization of Vehicles

Audit Observation	Comments of the Accounting Officer	Recommendation
16 Vehicles received from the Ministry of Youth and Sports and other ministries will be utilized by the State Ministry and it was observed that no action has been taken to take over the vehicles to the State Ministry.	Necessary steps will be taken to transfer the ownership of the vehicles to the Ministry expeditiously.	Action should be taken to take over the ownership of the vehicles without delay and the cost of vehicles should be accounted in properly.
In addition, the cost of 03 vehicles that had been taken over by the State Ministry as at 31 December 2020 had not identified and action had not been taken to include that in the financial statements.	The Ministry does not have formal evidence regarding the cost calculation of 3 vehicles and cost will be re-assessed and included in future financial statements.	

4. Achievement of Sustainable Development Goals

The following observation is made.

Audit Observation	Comments of the Accounting Officer	Recommendation
Although the State Ministry and the National Sports Academy which is one of its affiliates had established to achieve the Sustainable Development Goals, the necessary steps had not been taken and no progress had been made. Also, the Institute of Sports Medicine under the State Ministry had achieved the required 65 percent progress by taking necessary action to fulfill only one of the established objectives to achieve the Sustainable Goals.	Five projects carried out in a short period of 04 months after the establishment of Ministry did not measure the long term impact required to achieve the Sustainable Development Goals as it was impractical to take as a percentage of success. There were obstacles to carry out many projects identified and implemented in the year 2020 as planned due to the Covid-19 epidemic situation.	Action should be taken to achieve the required objectives in order to make the necessary progress to achieve the Sustainable Development Goals.

5. Good Governance

5.1 Internal Audit

The following observation is made.

Audit Observation	Comments of the Accounting Officer	Recommendation
An Internal Auditor had not been appointed for the audit activities of the State Ministry in terms of Section 40 of the National Audit Act No. 19 of 2018 and the State Ministry had not prepared an internal audit plan for the period from 01 September 2020 to 31 December 2020.	There has been no successful internal audit of the State Ministry and the institutions under it and an Internal Auditor has been appointed from June 2021.	Action should be conduct an internal audit according to a plan and appoint an Internal Auditor without delay.

6. Human Resources Management

----- Audit Observation	Comments of the Accounting Officer	Recommendation
<p>There were total number of 62 vacancies including 15 senior level vacancies, 10 tertiary level vacancies, 29 secondary level vacancies and 08 primary level vacancies in the State Ministry and its affiliated Institute of Sports Medicine and National Institute of Sports as at 31 December 2020. It was observed that there were staff vacancies, including the post of Director General, Administrative Officer and Nurse, which is important for the performance of the Institute of Sports Medicine and 10 lecturer posts of the National Institute of Sports Science.</p>	<p>Filling of vacancies is beyond the control of the Ministry and necessary action will be taken upon request.</p>	<p>Immediate action should be taken to recruit the vacant staff.</p>