

Head 407 - State Ministry of Backward Rural Areas Development and Promotion of Domestic Animal Husbandry and Minor Economic Crop Cultivation

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the State Ministry of Backward Rural Areas Development and Promotion of Domestic Animal Husbandry and Minor Economic Crop Cultivation for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 Backward Rural Areas Development and Promotion of Domestic Animal Husbandry and Minor Economic Crop Cultivation was issued to the Chief Accounting Officer on 31 May 2022 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. As per Section 11 (2) of the Audit Act, the Detailed Annual Management Audit Report related to the State Ministry was issued to the Accounting Officer on 28 June 2022. 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 accompanying financial statements give a true and fair view of the financial position of the State Ministry of Backward Rural Areas Development and Promotion of Domestic Animal Husbandry and Minor Economic Crop Cultivation as at 31 December 2021, and of its financial performance and its 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 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 Responsibility 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 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/ 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.

- (a) The financial statements are consistent with the preceding year, (if not, mention so)
- (b) The recommendations made by me on the financial statements of the preceding year had been implemented.

1.6 Comments on Financial Statements

1.6.1 Accounting Deficiencies

(a) Deposits

The following deficiencies were observed in the payment of deposits and accounting for balances relating to the financial statements.

Audit Observation -----	Comment of the Chief Accounting Officer -----	Recommendation -----
(a) Even though the retention money of Rs.25,477,120 pertaining to construct a building for the Department of Muslim Religious Affairs, which had been under the Ministry of Posts, Postal Services and Muslim Religious Affairs and was left out of the purview of that ministry since year 2019, is available in the public deposit account since year 2016, construction of building was not completed.	When we inquired about this from the Department of Muslim Religious Affairs, it has been stated that it is not possible to instruct us to release the withholding money or take any other action as the construction of the building has not been completed.	Arrangements should be made to release the deposits of a department that does not belong to the ministry from the deposit account.
(b) The cheque valued Rs. 1,400,000 written on 31 December 2021 for installation of canopies in 04 cabs was deposited in the General deposit account on 04 April 2022, and Rs. 1,300,000 of it was paid to the relevant institution on 08 April, and the balance was withheld in the General deposit account.	Even though these procurement activities were done within a limited time due to the service exigency, installation of the canopies was delayed due to the lack of goods in the market. After installation of canopy on 04 vehicles within 03 months and 10 days, the related cheque was released on 08.04.2022.	Estimates should be prepared correctly in terms of the F.R. 215(3) should be followed.

1.6.2 Lack of Audit Evidence

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
Supporting evidence related to 04 payment vouchers worth Rs.970,115 was not formally submitted.	Measures were taken to correct the supporting documents with defects and the relevant officials were informed to take action in such a way that the defects do not occur in due course.	F.R.138(8) should be followed.

2. Financial Review

2.1 Management of Expenditure

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
(a) The total net provision amounting to Rs. 3,135,000 allocated for 04 Recurrent Objects and a Capital Object had been fully saved.	The General Treasury was informed that incurring these expenses within the first 06 months was delayed because of the Covid 19 epidemic situation prevailed; and these provisions were made mandatory savings as mandatory savings should be made according to the Cabinet Papers issued by the Ministry of Finance in the last quarter.	Arrangements should be made to prepare estimates correctly as per F.R. 50.
(b) Even though a provision of Rs. 150,000,000 was given through supplementary funds in addition to the estimated provisions of Rs. 200,000,000 for development assistance programmes, provision of Rs. 248,547,930 exceeding the supplementary value was saved.	The project to develop sanitary facilities with foreign aid using the provision of Rs. 200 million was not implemented until the third quarter, and the provision was reported to the General Treasury considering as compulsory savings in terms of the circulars issued in the third quarter. Goat rearing and crop cultivation projects were implemented using a provision of Rs.150 million, and this was also caused by receipt of insufficient imprest at the end of the year.	Accurate estimates should be prepared in terms of the F.R. 50.

2.2 Incurring of Liabilities and Commitments

Following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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(a) Liabilities of Rs.862,191 were not shown in the financial statements.	Bills could not be shown as liabilities and commitments in the financial statements because of late submission.	Liabilities for final accounts should be identified correctly.
(b) Contrary to the Public Accounts Circular No. 255/2017 dated 27 April 2017, 02 expenditure subjects were bound to liabilities of Rs. 6,799,194 in excess of their allocations in the year under review.	The liability has risen due to the inability to pay the bills of Rs.15 million within that year as a result of non-availability of imprest. Rs. 8.3 million of this had been settled using the provisions of year 2020 and 2021 and the further remaining liabilities to be settled on 31.12.2021 was Rs. 6.8 million.	Circular provisions should be followed.

2.3 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with the provisions in laws, rules and regulations observed during the course of audit test checks are analyzed below.

Reference to Laws, Rules and Regulations	Observation	Comments of the Chief Accounting Officer	Recommendation
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-----	Non-compliance	-----	-----
Paragraph 4.2 of Public Administration Circular No. 30/2016 dated 29 December 2016.	Rs. 101,412 was paid to a private company for dismantling and refitting a car in order to take it to another garage for an interior repair of the vehicle.	Since an estimate of Rs.3,490,517.63 has been submitted by the agency to which it was referred for the repair, Rs.101,402 had to be paid as the car had to be assembled to get an estimate from another recognized external garage, which has special expertise for such repairs.	Circular instructions should be followed during vehicle repairs.

2.4 Issuance and Settlement of Imprests

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
The total amount of loan balances due from officers who vacate the post and were suspended was Rs.440,464 as at 31 December 2021.	It is informed measures are being taken to recover the loan balance.	Measures should be taken to recover loans, settlement of loan balances in terms of the Establishment Code and circulars.

2.5 Operation of Bank Accounts

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
The value of 02 missing cheques valued Rs.10,979 as at 31 December 2021 issued in year 2019 and 2020 was transferred to the General deposit account without proceeding in terms of F.R. 392.	The value of missing cheques were temporarily transferred to the deposit account as there is no possibility to issue new cheques or to credit to the government revenue without taking appropriate action. A formal investigation can be conducted regarding the relevant cheques and measures will be taken in this regard as soon as possible.	F.R. 392 should be followed.

3. Operating Review

3.1 Delays in the Execution of Projects

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
Even though it was planned to build 3,400 sanitation units at an estimated value of Rs.200,000,000 in Batticaloa district by the end of the year under review according to the revised action plan submitted on 31 August 2021, the goal had not been achieved.	A basic memorandum of understanding related to the implementation of this project has been signed from 19.07.2018 to 18.07.2021. As a result of the reshuffle of ministries, the project was later transferred to the State Ministry of Livestock, Farm Promotion and Dairy and Egg Related Industries. The Project Steering Committee has been reappointed, and the attention is drawn on the fact that the project will take more time since all these activities should be done in conjunction with all relevant institutions in accordance with their recommendations.	The projects should be completed within the specified time frame according to the action plan, and the desired goals should be achieved.

3.2 Annual Performance Report

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
No measures have been taken within the year under review to achieve objectives such as supporting creation of local minor economic crops related value added products and encouraging exports and improving sanitation facilities for a healthy population. The change in the scope of the ministry from time to time also had a direct impact on this.	The State Ministry of Backward Rural Areas Development and Promotion of Domestic Animal Husbandry and Minor Economic Crop Cultivation was abolished, and instead, it was established under the Line Ministry of Agriculture as the State Ministry of Rural Economic Crops Cultivation and Promotion by Special Gazette No. 2277/53 dated 28.04.2022. It was not possible to implement programmes to improve sanitation facilities as no provisions had been made under local funds to this ministry for the year 2021 in order to improve sanitation facilities.	Arrangements should be made to implement the targeted tasks as planned in order to achieve the objectives of the Ministry.

3.3 Assets Management

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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Receipt of office equipment issued to officers transferred to other institutes from the ministry on issuing orders in 07 occasions was not confirmed by the respective institutions.

Reminder letters have already been sent to obtain receiving orders.

Confirmation should be obtained through receipt orders in respect of goods issued from the Ministry to other divisions/officers.

3.4 Losses and Damage

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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(a) The final report on the loss of Rs. 78,330 due to a vehicle accident in year 2017 had not been submitted even by the end of the year under review in terms of the Financial Regulation 104(4).

The final report regarding the accident of this vehicle is currently being prepared in terms of F.R.104 (4).

The investigations should be conducted and the final reports should be submitted within the prescribed period in terms of the financial regulations.

(b) No measures had been taken to recover a loss of Rs. 923,118 incurred in 09 occasions during the year under review in terms of the F.R. 104(4) inquiry reports.

Measures are being taken by now to recover those losses.

Recommendations should be implemented as per the inquiry reports.

3.5 Management Weaknesses

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
Allocations of Rs. 23,538,980 made for 05 districts, where it was not possible to implement undu ,mung and ginger crops in practice, were sent back.	The programme was implemented effectively by providing the allocations diverted from certain districts to the districts that agreed to receive more allocations.	A project related feasibility study should be done during project planning.

4. Good Governance

4.1 Internal Audit

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
No internal auditor has been appointed within a period not exceeding 02 years from the date of commencement of the Act. in terms of sub-section 40(2) (1) of the National Audit Act No. 19 of 2018.	The Ministry of Public Services, Provincial Councils and Local Government has been notified on many occasions to fill the vacancies for this post.	Measures should be taken to appoint an internal auditor as per the Act.

5. Human Resource Management

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
Existence of senior level posts of Chief Accountant, Chief Internal Auditor, Director and Internal Auditor in 15 vacancies in the cadre as at 31 December 2021 was directly affected to the performance of the Ministry.	The number of vacancies in service levels as at 31.12.2021 was 15. The senior level posts of Chief Accountant, Chief Internal Auditor, Director and Internal Auditor were vacant as at 31.12.2021. The Ministry of Public Services, Provincial Councils and Local Government has been notified to fill these vacancies.	Arrangements should be made to recruit within the approved cadre.