

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the State Ministry of Production, Supply and Regulation of Organic and Natural Fertilizer 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 containing my comments and observations on the financial statements of the State Ministry of Production, Supply and Regulation of Organic and Natural Fertilizer was issued to the Chief Accounting Officer on 15 August 2022 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 Chief Accounting Officer on 28 September 2022 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 Production, Supply and Regulation of Organic and Natural Fertilizer as at 31 December 2021, 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 on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities 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 for the Financial Statements

The Chief 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 in terms of 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 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 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 State 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.

- (a) The financial statements are consistent with the preceding year.
- (b) The recommendations made by me relating to the financial statements of the preceding year, had been implemented.

1.6 Comments on Financial Statements

1.6.1 Property, Plant and Equipment

The following observations are made.

Audit Observation -----	Comment of the Chief Accounting Officer -----	Recommendation -----
(a) A difference of Rs.13,603,139 was observed due to the fact that even though the property plant and equipment which is in the statement of financial position was shown as Rs.27,338,987, total assets which are in the statement of non-financial assets (ACA 6) were shown as Rs.13,735,847.	Although the total assets which are in the statement of non-financial assets (ACA 6) was Rs.13,735,847, it has been recorded as Rs.27,338,987 in the statement of financial position by mistake. Steps will be taken to correct the difference of Rs.13,603,139 .	Steps should be taken to correct the difference.
(b) The value of non-financial assets had been overstated by following amount due to an expenditure of Rs.132,710 incurred for a newspaper advertisement in setting up the National Fertilizer Management System had been shown as an intangible asset in the statement of non-financial assets.	An expenditure of Rs.132,710 incurred for a newspaper advertisement in setting up the National Fertilizer Management System has been accounted as intangible assets since it was incurred for setting up the management system.	Steps should be taken to properly account the expense.

1.6.2 Balance of Imprest

Audit Observation

Even though Rs.5,852,092 had been shown in the statement of imprest account as per the Treasury books as at December 31 of the year under review, no balance has been shown as per the books of the Ministry on that date. The reason for this was not explained in the said statement.

Comment of the Chief Accounting Officer

The balance of Rs.5,852,092 had been shown in the statement of imprest account as per the Treasury books as at December 31 of the year under review. No balance has been shown as per the books of the Ministry due to the fact that the balance has been remitted to the Treasury. The balance had been remitted to the Treasury on 03 January 2022.

Recommendation

Steps should be taken to remit the year-end imprest account balance to the Treasury on due date.

1.6.3 Non – compliance with Laws, Rules and Regulations

The instances of non - compliance with the provisions of the Laws, Rules, Regulations observed during the sample audit test checks carried out are analyzed below.

Reference to Laws, Rules and Regulation	Amount (Rs.)	Non – compliance	Comment of the Chief Accounting Officer	Recommendation
(a) Financial Regulation of the Democratic Socialist Republic of Sri Lanka F. R. 396	276,063	Action had not been taken regarding the overdue cheque as per the regulations.	Out of the overdue cheque worth of Rs. 276,063, the cheque worth of Rs. 2,260 had been realized so far. The value of the cheque to be received further is Rs. 273,803	It should be done according to the regulations.

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| <p>(b) Public Finance Circular No. 01/2020 dated 28th August 2020 by amending Financial Regulation 756(6) of the Democratic Socialist Republic of Sri Lanka.</p> | <p>The board of survey report had not been submitted to the Auditor General before March 31.</p> | <p>The committee of board of survey had been completed and submitted the report on 02 February 2022. The board of survey report will be submitted.</p> | <p>The board of survey report should be submitted to the Auditor General on the due date.</p> |
| <p>(c) Financial Regulation 1646 of the Democratic Socialist Republic of Sri Lanka.</p> | <p>Although the original copies of the monthly summary of vehicle travels and running charts should be forwarded to the Auditor General before 15th day of the following month, running charts and monthly summary related to the 22 vehicles used between months of April to December had not been submitted for audit by 07 April 2022.</p> | <p>All the running charts related to the year 2021 had been handed over and transport division had been informed to submit the running charts for the month before the 15th of the next month.</p> | <p>It should be done according to the regulations.</p> |

2. Financial Review

2.1 Expenditure Management

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Out of the net provision of Rs.35,554,150,000 which allocated to the Ministry during the year under review, Rs.13,926,785,924 had not been utilized during the year under review and that percentage is 39 percent.	Provision was remained save due to the Covid 19 situation only essential services were being carried out and the consolidation of Expenditure Heads 425/426 by Gazette No.2235/45 dated 2021/07/07.	Accurate estimation should be prepared and the provisions made should be fully utilized.
(b) The provision totaled to Rs.11,885,000 of 06 recurrent expenditure objects and 05 capital expenditure objects had been entirely remained due to non-identification of essential expenditure objects and not making provisions.	Restriction on foreign travel due to Covid 19, Since it is a new ministry there is no need for repairs due to the use of new machines and machinery, Savings due to the consolidation of Expenditure Heads 425/426 by Gazette No.2235/45 dated 2021/07/07, No any rent payments requested by ministry of Agriculture for building space had been used by the State Ministry of Fertilizer.	Accurate estimation should be prepared and the provisions made should be fully utilized.
(c) Provision ranging from 11 to 99 percent of the net allocation in 10 capital expenditure objects and 20 recurrent expenditure objects had been remained due to not making accurate forecasts when preparing estimates. The total net provision approved for aforesaid capital and recurrent expenditure objects was Rs.35,503,495,000 and out of that, a sum of Rs.13,912,863,724 i.e. 39 percent had been remained.	Savings due to the consolidation of Expenditure Heads 425/426 by Gazette No.2235/45 dated 2021/07/07, non-filling of vacancies, non-working of overtime due to covid 19 situation, non-availability of permanent junior staff, non-repairs, non-submission of bills, non-implementation of staff training programs due to covid 19 situation.	Accurate estimation should be prepared and the provisions made should be fully utilized.

3. Operational Review

3.1 Management Weaknesses

The following observations are made in the Advances to Public Officers' Account.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Although the maximum limit of debit balance of the Advances to Public Officers' Account bearing object code 42601 is Rs.20,000,000, However a balance of Rs.4,602,727 was observed which exceeded the approved limit due to maximum debit balance had been Rs.24,602,727	The maximum debit balance is created as follows. By money 4,373,912 11 By cross 20,228,815 entries 12 <hr/> <u>24,602,727</u> <hr/>	Advances to Public Officers' Account should be done that the approval limits are not exceeded.
(b) A difference of Rs. 213,021 is observed between the advance balance of the Advances to Public Officers' Account as per the Books of the Ministry and advance balance as per the list of individual balance. And the accounts had been prepared by including incorrect credits in the reconciliation statement without making the necessary adjustments to find out the reason for the change.	The amount of Rs.213,021 stated as unsettled advance balance had been identified and settled. Further the balance to be settled Rs.9244 will be settled in August 2022.	The reasons for the change should be found and necessary adjustments should be made.

4. Human Resource Management

Audit Observation

Although 15 of senior level posts, 217 of secondary level posts and 04 of primary level posts are vacant in the State Ministry of Production, Supply and Regulation of Organic and Natural Fertilizer, The necessary steps had not been taken to recruit them.

Comments of the Chief Accounting Officer

The Ministry of Public Administration had been informed and sent letters from time to time requesting to fill the vacancies of senior level posts. Last letter had been send on 2022.03.25. The requirement for primary level posts had been informed to the Department of Multipurpose Development (December 2021). The requirement of Management Assistant had been updated through the PACIS software on 2022.03.02 and requested. The requirement of Development Officers had been informed to the Ministry of Public Administration at the beginning of this year.

Recommendation

Recruitment of employees should be done in relation to the vacant post. If the posts are not required the approved cadre should be revised.