

Head-158- Ministry of Public Enterprise, Kandyan Heritage and Kandy Development

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kandyan Heritage and Kandy Development for the year ended 31 December 2019 comprising the statement of financial positions at 31 December 2019 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 Kandyan Heritage and Kandy Development was issued to the Chief Accounting Officers on 28 May 2020 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 July 2020 in terms of Section 11 (2) of the National Audit Act No. 19 of 2018. This report is tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution 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 the Paragraph 1.6 of this report, the accompanying financial statements prepared in accordance with the provisions in the State Finance Circular No.271/2019 dated 03 December 2019 give a true and fair view of the financial position of the Kandyan Heritage and Kandy Development as at 31 December 2019, 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

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibility of the Chief Accounting Officer for the Financial Statements

The Chief Accounting Officer and 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 such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Sub-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 annual and periodic financial statements to be prepared.

In terms of Sub-section 38 (1) 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 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, they could reasonably be expected to influence the economic decisions of users taken 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 scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit 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 appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, 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

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 and Regulatory Requirements

I express the following matters in accordance with Section 6 (1) (d) and Section 38 of National Audit Act, No. 19 of 2018.

- (a) The financial statements were consistent with the preceding year.

- (b) The recommendations I made in the preceding year on observations stated in Paragraph 1.6.1(b) of this report had not been implemented in the presentation of financial statements for the year under review .

1.6 Comments of the Financial Statements

1.6.1 Statement of Financial Position

The following observations are made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
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(a) Three vehicles worth Rs.64,500,000 registered under the Ministry of Higher Education and Highways were being used by the Ministry since March 2018. Nevertheless, the Ministry had not taken steps to transfer their ownership to the Ministry and include in the Fixed Assets Movement Report.	Ownership of the vehicles should be transferred and included in the Fixed Assets Movement Report.	Action will be taken to include the relevant value in accounts in the future.
(b) In terms of State Finance Circular No.250/2016(1) dated 03 August 2016, the initial deposit of Rs.22,351,352 paid in the year 2015 for the building premises established by the Ministry had been written off as an expenditure of that year.	This should be disclosed in the financial statements.	This will be accurately accounted for in the year 2020.

1.6.2 Cash Flow Statements

The following observations are made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
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(a) Even though the recovery of advances of the public officers was Rs.2,816,973, it had been stated at Rs.409,020 in the cash flow statement.	According to the Advances to Public Officers Account, all the receipts and payments made in cash should be included in the cash flow	Only Rs.409,020 was received as loan instalments and interests.

- statement.
- (b) Advance payment of Rs.5,054,375 had not been recorded under the investment activities.
- According to the Advances to Public Officers Account, all the receipts and payments made in cash should be included in the cash flow statement under the investment activities.
- This has been adjusted under the difference of deposits and other liabilities.

1.6.3 Non-maintenance of books and registers

The following observations are made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
(a) No security register containing details of officers required to give security had been maintained.	A security register should be maintained in accordance with Financial Regulation 891 (1).	A security register has not been maintained.
(b) A Personal Emoluments Register as per the Financial Regulation 453 had not been updated.	A Personal Emoluments Register in Form Treasury and Audit 17 should be maintained as per the Financial Regulation 453	Not replied.

2. Financial Review

2.1 Expenditure Management

The following observations are made

Audit Observation	Recommendation	Comments of the Chief
(a) Although provisions totalling Rs.197,650,000 had been made for 08 Objects, only provisions totalling Rs.69,885,524 had been used thus saving Rs.127,764,476 unspent. It had ranged from 25 per cent to 100 per cent of the total net provision made.	Provisions should be used efficiently.	Not purchasing the supplied goods, not carrying out renovations of capital nature and managing expenditure as per the National Budget Circular No.5/2019.

- (b) Although provisions totalling Rs.50,650,000 had been made for 04 Objects, no expenditure whatsoever had been incurred for those Objects. Although a supplementary estimate of Rs.50,000,000 had been approved in September 2019 for the implementation of development programmes for the Kandiyani heritage development under the above Object No.158-1-2-3-2202, any development activity had not been implemented giving reasons as time constraints.
- Optimal use of the allocated provisions should be ensured.
- Expenditure had to be managed in accordance with the National Budget Circular No.5/2019 and there were time constraints to implement the projects.

3 Operating Review

3.1 Operating Review

The following observations are made

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(a) Since the State Resources Management Corporation established under the Ministry had not executed any function within a period of five years, it had been vested in the Ministry of Finance, Economic and Policy Development by the Gazette (Extraordinary) No.2153/12 dated 10 December 2019.	The objectives expected from the statutory bodies functioning under the Ministry should be achieved.	Not replied
(b) Although one of the functions of the Ministry was to restructuring the Ceylon Ceramic Corporation, despite lapse of 05 years, restructuring process could not be carried out due to not completing the selection of suitable investors. Restructuring had not been implemented for the B.B.C company.	Priority activities should be expeditiously carried out by paying strict attention on the affairs of the Ministry.	That the restructuring is in progress.

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| <p>(c) According to the Cabinet decision No.අ ට ප/17/2758/733/047 dated 12 January 2018, restructuring activities of the Sri Lanka State Plantation Corporation, Janatha Estate Development Board, Elkaduwa Plantation Corporation, Sri Lanka Cashew Corporation and Galoya Plantation Corporation should have been implemented forthwith. Even though the Cabinet approval had been so granted as a policy, those activities had not been carried out up to the end of the year under review. Further, expenditure of Rs.3,004 million had been incurred on salaries and holiday pays of the institutions to be restructured.</p> | <p>Public services should be accomplished promptly by expediting the duties assigned to the Ministry.</p> | <p>Funds were procured on the approval of the Treasury and the Cabinet of Ministers.</p> |
| <p>(d) Even though Rs.25 million had been allocated by the annual budget to ease the surveying activities and identification of land boundaries relating to the restructuring programmes of the plantation companies, any of those activities had not been carried out during the year under review. Similarly, instructions had been given only to find out surveyors and mark boundaries and surveying on any land had not been completed.</p> | <p>Expected public services should be accomplished by expediting the duties assigned to the Ministry.</p> | <p>Lands at 07 perches were surveyed for the employees of the Plantation Corporation and Rs.1.5 million was paid for that purpose.</p> |

3.2 Weaknesses in the Implementation of Projects

The following observations are made

Audit Observation	Recommendation	Comments of the Chief
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<p>(a) A supplementary estimate of Rs.1,047,000,000 had been approved for the social development and economic infrastructure development activities of the</p>	<p>Funds which are further remained payable should be settled.</p>	<p>Not replied.</p>

areas belonging to the Upcountry and the Kandy District. A sum of Rs.473,309,109 of the above sum had been spent for the implementation of 1106 projects. Provisions for the payable liabilities of Rs.237,472,608 had not been approved up to 31 August 2020.

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| (b) | Out of 1303 projects approved under this project, 950 projects representing 73 per cent had been proposed to be implemented in Kandy District. The number of projects approved for remaining 05 districts was 353, thus representing only 27 per cent as a percentage. | The fields to be covered by the provisions made under the project should be properly identified. | When inviting proposals, majority of proposals were made centering around the Kandy District. |
| (c) | Plans had been drawn to implement 13 projects to improve the places of historical value in the Upcountry area and thereby, boost the tourist attraction. Nevertheless, only 04 of those projects had been implemented. Any of those projects had not been completed and plans had been drawn to implement only one project in the Nuwara-Eliya district where there is high tourist attraction. Nevertheless, that project had not been implemented. | Expected objectives should be achieved by expeditiously implementing the planned projects. | Two projects were abandoned to save expenses as per the National Budget Circular and one project was not implemented in consultation with the Archeology Department. |
| (d) | Even though provisions of Rs.3,200,000 had been released to implement 02 projects within Badulla district, provisions had been taken over again due to non-implementation of the projects. | Feasibility of the implementation of projects should be ascertained prior to release of provisions. | One project was not implemented with the objective of managing expenditure as per the instructions laid down in the circulars of the National Budget Department, Ministry of Finance and the General Treasury and the other project was not implemented according to the letter of the District Secretary. |
| (e) | Due to lack of recommendations of the Chairman and the Director of the Inter Statutory Board for the Protection of Kandyan Heritage, the Ministry had suspended the implementation of 03 projects with the approved provisions of Rs.1,265,000 and those had been eliminated from the Action Plan. As a result, provisions had been taken over by the Treasury. | Necessary recommendations should be obtained prior to release of the provisions. | Due to not making necessary recommendations for the projects, provisions were taken over. |

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| (f) Even though provisions of Rs.2,500,000 were released for 02 projects related to the development of other religious places, since those places had not been registered, Divisional Secretariats had taken back the provisions. | Feasibility of implementation projects should be ascertained prior to release of provisions. | the These provisions are applicable to the other religious places. Since those places had not been registered before 2010, provisions were taken over again. |
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3.3. Uneconomic Transactions

Audit Observation	Recommendation	Comments of the Chief
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For the live telecast of the <i>Kandy Haritha New Year Festival</i> conducted highlighting traditional folk events related to the Kandian heritage, a sum of Rs.1,809,500 had been paid to the Independent Television Network and the Kandurata Sevaya.	Government funds should not be used for the activities extraneous to the objectives of the Ministry.	Propaganda activities were carried out with the objective of socializing unique cultural folk event of the Upcountry.