

Head 437 - State Ministry of Aviation and Export Zones Development

1. Financial Statements

1.1 Unqualified Opinion

The audit of the financial statements of the State Ministry of Aviation and Export Zones Development 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 summery report containing my comments and observations on the financial statements of the State Ministry of Aviation and Export Zones Development was issued to the Accounting Officer on 01 June 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 Accounting Officer on 28 July 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, the financial statements give a true and fair view of the financial position of the State Ministry of Aviation and Export Zones Development 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 Unqualified Opinion

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 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.

- (a) The financial statements are consistent with the preceding year.
- (b) The recommendations I had made regarding the financial statements related to the preceding year had been implemented.

2. Financial review

2.1 Revenue Management

The following observations are made .

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) According to Paragraph No. 02 of the Treasury Operations Circular No. TOD/REV/M2/01 dated 26 May 2020, estimates of revenue expected to be collected in the year 2021 should be prepared as realistically and accurately as possible in accordance with Financial Regulations 85(1), (2) and submitted to Director General of Treasury Operations. However, the estimates of revenue from embarkation levy expected to be collected by the Civil Aviation Authority of Sri Lanka and remitted to the Treasury during the year under review had not been prepared and submitted to the Department of Treasury Operations on the due date.	It was noted to prepare estimates for future years.	The estimates of revenue from embarkation levy should be prepared and submitted to the Director General of Treasury Operations on due date.
(b) In terms of Financial Regulation 85(2)(a) records of revision from the basic income estimate of Rs. 19 billion to Rs. 4 billion had not been maintained.	It was noted to proceed as indicated from the year 2022.	If the basic income estimates are subsequently revised, the same should be reported to the Director General of Economic Affairs and Fiscal Policy and the revised reports should be maintained.
(c) Half-yearly reports of arrears of revenue or a blank report in the absence of arrears of revenue had not been submitted to the Auditor-General in terms of Financial Regulation 128(2)(c).	As mentioned in 2.1 (b) above	Half-yearly reports on arrears of income should be submitted to the Auditor General on due date.

2.2 Expenditure Management

The following observations are made .

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) The provision of Rs.6,000,000 allocated for 06 expenditure subjects in the Ministry's Program No. 01 had been saved 100 percent. Moreover, the provision left in the year 2021 for 06 other expenditure subjects in Program No. 01 was Rs. 1,044,819,642 . It ranged from 55 per cent to 95 per cent of the allocated amount for those expenditure subjects.	The covid pandemic situation was the main reason for the saving of provisions.	Arrangements should be made to achieve the expected functions through proper utilization of the provisions.
(b) An amount of Rs. 2,085,964,000 had been allocated for the Ministry's programs for the year 2021, of which an amount of Rs. 116,928,632 or. 53.5 per cent, had not been utilized.	Due to the covid pandemic situation, office activities cannot be conducted as normal ,staff attendance is limited , vacancies cannot be filled as expected, delaying the relocation activities to the new building premises were the reasons for that.	As mentioned in (a) above
(c) In relation to the year 2021, under the Ministry's Program No. 2 Export Zone Development, Rs.1,900,000,000 had been allocated but only Rs.859,000,000 had been spent, which was only 45 percent of the net allocation. Also, Rs.53.6 million, which was an outstanding amount to be paid to the Road Development Authority related to the construction of the runway at Batticaloa Airport, which was an expenditure not related to this provision, had been accounted under this expenditure head as instructed by the Treasury. Also , the Ministry had not obtained any additional source documents or written evidence for the provision release letter related to this payment.	The covid pandemic situation was the main reason for the saving of provisions. The Road Development Authority had submitted this request to the Ministry on 18 December 2020. Payments were made based on the approval received from the Department of National Budget. Copies of vouchers and related documents related to this payment will be obtained from the Ministry of Highways.	Arrangements should be made to achieve the expected functions through proper utilization of the provisions. Also, it should be done as much as possible not to make payments related to the previous years that were not planned in the year and if such payment had to be made, all the relevant source documents should be obtained.

2.3 Certifications of Accounting Officer

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>In terms of provisions of section 38 of the National Audit Act, No. 19 of 2018, the Accounting Officer should 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. Such reviews should be carried out in writing, and a copy thereof should be presented to the Auditor General, but no statements had been furnished to the Audit that the reviews had been carried out.</p>	<p>Arrangements have been made to appoint an internal auditor on a acting basis by the year 2022 and it will be possible to send the relevant reports from the year 2022.</p>	<p>Should act according to the arrangements.</p>

2.4 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.

Laws , Rules and Regulations	Observation Non-compliance	Comments of the Accounting Officer	Recommendation
<p>(a) Finance Regulations 104(3) and 104(4) of the Democratic Socialist Republic of Sri Lanka</p>	<p>In the year 2021, 04 accidents had occurred to 03 vehicles of the Ministry and a period of 03 months to 09 months had been spent for the appointment of the relevant inspection committees and for providing the initial report and the final report .</p>	<p>Late delivery of the car for repairs, delay in specific decisions regarding insurance and the corona pandemic situation at that time resulted in delay in appointing inspection committees and giving reports.</p>	<p>According to the financial regulations, if an accident occurs and it takes more than 07 days to submit a full report, the initial report should be submitted immediately and the full report should be given within three months. Also , the relevant inspection committees should be appointed immediately after any accident.</p>

- (b) Paragraph 03 of Public Finance Circular No. 02/2020 dated 28 August 2020
- All the heads of ministries should prepare the annual action plan related to the financial year within the three-year medium-term budget framework to implement the approved budget estimates for their institutions, but the ministry had not prepared an action plan for the years 2020 and 2021.
- Due to non-establishment of a Planning Division in the Ministry the preparation of an action plan for the Ministry have not been done.
- All the Ministries should prepare the annual action plan for the given financial year.

3. Operational review

3.1 Asset Management

Audit Observation

According to paragraph 02(ii) of Asset Management Circular No. 02/2017 dated 21 December 2017, 03 vehicles under the Ministry had not been formally taken over by 31 December 2021.

Comments of the Accounting Officer

Vehicle taking over is in progress.

Recommendation

Necessary arrangements should be made to formally take over the vehicles.

3.2 Management Deficiencies

The following observations are made.

Audit Observation

- (a) At an occasion a vehicle sent for the term service, in addition to the service of vehicle, repairs of the vehicle had also been carried out by the same institution without obtaining prior approval and a payment of Rs.77,926 had been made.

Comments of the Accounting Officer

It has done to keep the vehicle in perfect running condition. However, the concerned institution was informed not to do so without prior approval in the future.

Recommendation

Vehicle repairs shall not be carried out without prior approval of the Ministry.

- (b) There were cases where certain vehicle services of the Ministry were performed by other agencies outside of the approved agency.
- The State Minister Coordinating Secretary has reported that due to the nature of the State Minister's duties, the term service had to be done by another agency. This service agency was a registered term service agency of the Hambantota District Secretariat and apart from the representative agency, services are usually obtained from the registered agencies of the Hambantota District Secretariat in emergency situations.
- Vehicle services should be done by the agency that has given written approval.

4. Good governance

4.1 Internal Audit

Audit Observation

According to Finance Regulation 134(2), internal audit programs should be carefully prepared to audit the financial affairs of the Ministry in order to be able to carry out a systematic, adequate and efficient inspection of the financial affairs of the Ministry, in which the Auditor General shall inquire and obtain advice. However, the Ministry has not prepared an internal audit plan for the years 2020 and 2021.

Comments of the Accounting Officer

An internal auditor had not been appointed for this ministry in the year 2021 and an internal audit division had not been established. Thereon, the preparation of the internal audit plan had not been done. But in the year 2022, an internal auditor has been appointed on the acting basis.

Recommendation

An internal audit plan should be prepared annually to carry out internal audit activities.

5. Human Resource Management

Audit Observation

As of 31 December 2021, there were 26 vacancies in the Ministry's approved cadre compared to the actual cadre, which included 07 senior level vacancies, one tertiary level vacancy and 10 secondary level vacancies.

Comments of the Accounting Officer

Out of the 26 vacancies in the Ministry as at 31 December 2021, 10 vacancies have been filled by April 2022 under the following positions.
Senior level - 5
Secondary Level – 5
Necessary arrangements are being made to obtain officers for other vacancies as well.

Recommendation

Vacancies for essential posts should be filled in time.