

**1. Financial Statements**

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**1.1 Qualified Opinion**

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The audit of the financial statements of the State Ministry of Prison Management and Prisoners Rehabilitation Affairs 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 Prison Management and Prisoners Rehabilitation Affairs was issued to the Accounting Officer on 17 May 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 31 May 2022 in terms of Section 11(2) of the Audit Act. 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 Prison Management and Prisoners Rehabilitation Affairs 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**

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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 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 and the Accounting Officer for the Financial Statements**

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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**

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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 judgments 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 Department'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**

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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) Except the observation shown in paragraph 1.6.1 (c) and 1.6.2 the recommendations made by me on the financial statements of the preceding year had been implemented.

## 1.6 Comments on Financial Statements

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### 1.6.1 Non-compliance of Financial Statements with Circular Provisions

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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
Although the value was Rs. 6,603,739 of acquisition of physical assets as shown in ACA-6 the cash expenditure for investment activities had been overstated by Rs. 314,153,597 and cash expenditure for operational activities have been understated by Rs.314,153,597 because of the aggregating amount of Rs. 320,757,336 expenditure under operational activities to the value of acquisitions of physical assets under investment activities in the cash flow statement,	The value of Rs.320,757,336 shown as total cost of public investments in Form No. ACA 2 (ii) is shown under construction or purchase of physical assets and acquisition of other investments in the cash flow statement.	To be correctly accounted as per circular provisions.

### 1.6.2 Accounting Deficiencies

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Following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) Non-financial assets had been overstated by Rs. 4,706,999 due to the value of Rs.4,706,999 of tyres purchased by the Bureau of Commissioner General Rehabilitation was accounted as non-financial assets	Instructions had been given to the relevant officers to take necessary actions to correct the value of non-financial assets by removing the value of Rs.4,706,999 tyres from it which was shown under non- financial assets.	Non-financial assets should be correctly identified and accounted.

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| (b) | Action had not been taken to capitalize and account the completed building construction of Rs.246,200,000 of the Bureau of Commissioner General Rehabilitation as at 31 December 2021.  | All the payment vouchers relating to the constructions have been duly entered in the accounting system and the payments have been made, but they are not capitalized and instruction had been given to relevant officers to account immediately. | -do-                       |
| (c) | A sum of Rs. 7,690,560 as rent advances and Rs. 19,327,232 as work advances had been paid for the building which was the Bureau of Commissioner General Rehabilitation is situated during the year under review. However, rent and work advance account and reserve account have been understated by Rs. 27,017,792 in the statements of financial position, due to these rent and work advances were not recorded under financial assets in the financial statement. | I will take action to inform the officers of the bureau about how to deal with in making such payments in the future.  | To be correctly accounted. |
| (d) | Action had not been taken to check physically and confirm and account the value of Rs.287,982,491 non-financial assets shown in the statement of financial position.  | I will make necessary adjustments for non-financial assets as soon as the board of survey is completed as per the Public Finance Circular No. 01/2020.   | -do-                       |

### 1.6.3 Certification of Chief Accounting Officer

Chief Accounting Officer should certify the following matters in terms of provisions set out in Section 38 of the National Audit Act. No. 19 of 2018. However, it had not been so done.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) The chief accounting officer shall ensure that effective internal control system is developed and maintained for the financial control of the Ministry and carry out periodic reviews to monitor the effectiveness of such system and accordingly make any alternations as required for such system to effectively carry out. Although such reviews should be carried out in writing and a copy of the same should be presented to the Auditor General but no statement had been furnished.	The progress is reviewed the institutions attached to this ministry monthly. Financial progress, progress of procurement activities, progress in development projects and internal control issues of organizations in generally are been discussed there.	Actions should be taken in accordance.
(b) Although the Chief Accounting Officer and the Accounting Officer should ensure that there is an effective system for the proper execution of internal audit functions, the said requirement had not been fulfilled due to the audit observations indicated in paragraph 4.1 of the report.	-Do-	- Do-

#### 1.6.4 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.

Reference to Laws, Rules and Regulations -	Non – compliance	Comments of the Accounting Officer	Recommendation
(a) Financial Regulations 1641 and 1642 of Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	Vehicle number KQ – 5420 was repaired by spending Rs. 51,000 but actions had not been taken with regarding the accident according to the financial regulations.	Agreed	Actions should be taken as per regulations.
(b) Paragraph 02 (i) of Asset Management Circular No. 02/2017 dated 21 December 2017	Although the vehicles used without the right of registration should be registered in the name of the institution on the consent of the registered institution, actions had not been taken with regarding to 15 vehicles assigned by the defunct ministry as per the circular provisions.	Necessary arrangements are being made to change the registration.	Actions should be taken as per circular provisions.
(c) Paragraph 02 of Budget Circular No. 07/2019 dated 04 December 2019	Although it is emphasized that it is the responsibility of the Chief Accounting Officer and the Accounting Officer to apply proper cost control criteria and ensure that the costs are controlled by those criteria. Goods valued of Rs. 61,801,989 were purchased in a situation where it is not possible to identify the dates when rehabilitation centers can be started during the year under review.	Actions had been taken to purchase the basic needs relating to start the rehabilitation work as soon as possible under the procurement process after taking over the relevant centers until implementing the taking over of the buildings to start the new centers. Action had been prepared to start the rehabilitation work immediately after the completion of taking over activities.	- Do-

(d) CGIR/2021/02-02 letter of the Commissioner General of Inland Revenue dated 09 April 2021 and Guideline 5.4.12 of the Procurement Guideline 2006	Action had not been taken to notify the Inland Revenue department on or before 15 of next month at the end of a quarter with regarding to the VAT amount of Rs. 162,898 which were paid in purchasing of goods and services from the external parties during the year under the review.	Action will be taken to send the revised reports which were failed to report by omission to the Inland Revenue Department.	Actions should be taken in accordance with the arrangements.
(e) Para 13.2 Part I of Public Finance Circular No. 01/2020 dated 28 August 2020 and Financial Regulations 770(4) (a)	Actions had not been taken to dispose 03 disposable vehicles belonging to the Bureau of Commissioner General Rehabilitation according to the circular during the year under review.	Actions to be taken with regarding these vehicles have been taken immediately.	- Do-

## 2. Financial Review

### 2.1 Expenditure Management

Following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) The entire net provision of Rs.3,000,000 was saved without utilizing provision of a recurrent expenditure object and 03 capital expenditure objects.	The entire net provision has remained without utilizing due to limitation of expenditure requirements and non-appointment of a full-time minister as per Cabinet decision 21/1596/304/134 dated 31.08.2021	Financial allocation should be properly planned and estimated.

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| <p>(b) More than 50 percent savings were seen in 07 recurrent expenditure objects and 03 capital expenditure objects. Further, it was observed that there were savings in a range of 66 percent to 91 percent even after making transfers under financial Regulation 66 to 04 expenditure objects.</p> | <p>Savings was made as expenditure requirements were limited due to non-appointment of a full-time minister as per Cabinet decision 21/1596/304/134 dated 31.08.2021, and being frugal. Further, provision has been remained as per the planned development activities have not been carried out due to the fact that the Kandakadu Rehabilitation Center has been converted into a Covid hospital under the Ministry of Health.</p> | <p>- do</p> |
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**2.2 Liabilities and Commitments**

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 Following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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<p>(a) The value of Rs.4,569,561 liabilities was understated related to 02 expenditure objects belonging to the Bureau of Commissioner General Rehabilitation in the statement of liabilities and commitments included in the financial statements.</p>	<p>Bureau's overtime allowances, ration and fuel bills (Army Commander), house rent bills and vehicle bills cannot be included in the appropriation account related to the month of December as they will be given in January or February of the following year.</p>	<p>Liability value should be accurately accounted.</p>
<p>(b) The value of Rs. 346,210,705 liabilities to external parties for the construction of buildings by the Bureau of the Commissioner General Rehabilitation had not been settled in the statement of commitments and liabilities as at 31 December 2021.</p>	<p>Instructions had been given to the concerned institution on how to account the liabilities so that such deficiencies do not occur in the future.</p>	<p>- do</p>



**2.3 Advance issuing and Settlement**

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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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<p>Actions had not been taken to settle receivable distress loan balances amounting to Rs. 229,320 over 05 years from 2 suspended officers and a distress balance amounting to Rs. 10,000 over 2 years from a deceased officer but no arrangements have been made to settle the balances.</p>	<p>Legal action has been taken to recover the distress loans and festival advances due to the government from the suspended and resigned officers. I will make necessary arrangements to settle the loan amount of the deceased officer during this year.</p>	<p>Loan balances should be recovered within the prescribed period.</p>

**3. Operating Review**

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**3.1 Procurement**

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Following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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<p>(a) The Ministry had spent Rs.9.5 million to acquire capital assets and although Suppliers should be registered for procurement of items of small value or purchases of items used frequently, for which advertising may be uneconomical according to the 3.4.3 (a) of procurement Guide line of 2006, suppliers had not been registered for the year 2021.</p>	<p>Suppliers were not registered as the allocation allocated to the State Ministry for purchasing and other procurement activities was limited. Accordingly, action had been taken to call quotations from the list of suppliers registered in the rainbow colored pages of the telephone directory.</p>	<p>Action should be taken as per procurement guidelines.</p>
<p>(b) The transparency and regularity of the evaluation and selection process was not ensured due to non-submission of required specifications to suppliers for the selection of the supplier of Carpeting and installation of work</p>	<p>I will prepare the specifications and conduct the procurement in accordance with the instructions in the procurement guidelines in</p>	<p>do</p>

station valued at Rs. 1,227,889 in making recommendations on considering only the lowest price, as per 1.2.1 (f) of procurement guidelines of 2006. future.

### 3.2 Asset Management

----- Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
The cost of repairing the cab bearing PH-1288 was Rs.2,290,015 which was involved in an accident on 01 July 2018. A sum of Rs.1,698,894 from this was received from the National Insurance Trust Fund. The remaining amount of Rs. 591,120 was an expense to the Ministry in the year under review and no further action was taken regarding that loss.	There was a loss to the cab number PH-1288 which belonged to the then Ministry of National Integration, Reconciliation and Official Language in the year 2018.	Actions should be taken with regarding to the expenditure incurred by the Ministry.

### 3.3 Management Inefficiencies

Following observations are made.

----- Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
(a) Repairs were not recommended by the technical engineer, vouchers valued at Rs. 1,394,835 had been approved and made the payments in respect of 3 vehicles on 31 December 2021.	Although the vehicles were repaired, there was a delay in getting the recommendation of technical engineering.	Payment vouchers should be approved after recommendation by Technical Engineer.
(b) The contract was awarded with the relevant institution for the partitioning of the office building for an amount of Rs.8,380,420 before obtaining the valuation report of the building which is the Bureau of the Commissioner General of Rehabilitation situated and entering into the agreement with the owner of the building. Further, a sum of Rs. 3,924,480 had to be paid an excess rent of Rs. 163,520 for a	An agreement was made to get the building for a monthly rent of Rs.2,563,520 since the owner of the building did not agree to the valuation amount and could not find another building in Battaramulla area, and building is used maximum of the necessity.	Agreements should be entered after obtaining a valuation report.

period of 02 years due to the fact that it was contracted for a rental value higher than the estimated rental value of Rs. 2,400,000 .

(c) While the bureau had advertised the building requirement as 15,000 to 16,000 square feet, the 14,524 square feet building and ability to purchase at a monthly rental of Rs. 2,454,556 where the office of the Procurement Commission is located a building of 19858 square feet at Rs. 2,563,520 and a sum of Rs. 108,964 had to been overpaid monthly due to rent addition to that, had been lost the economic benefit of acquiring the building with fixed assets, computer network and partitioning. As result of an extra rent of Rs. 2,615,136 for 2 years and an additional cost of Rs. 10,642,740 had to be paid for partitioning and computer networking due to the ministry did not take proper decisions within the prescribed period.

(d) Approval was given for the preparation of the Bureau of Commissioner General Rehabilitation Bill By the decision of the Cabinet of Ministers No. AMP/17/2509/745/016 dated 22 November 2017 and since the Bureau was requested to re-submit the Bill to the Cabinet with the Attorney Generals clearance by the Cabinet Decision No. AMP/21/0564/330/029 dated 28 April 2021, the work has not been completed with regarding to the Bill until the end of the year under review.

Although the owner of the building which the office of the Procurement Commission is situated has informed that he can supply by Rs. 169 each and 14524 sq.ft.at Rs. 2,454,556 for a monthly rent, and it has informed by another letter that 12599 square feet at the same price, and the remaining 1925 square feet were valued and that amount will be given after that.

It is reported that the relevant draft has been forwarded to the Attorney General by the Legal Draftsman and these activities are being coordinated by the Office of the Commissioner General of Rehabilitation.

Public expenditure should be properly managed.

It should be expedite the preparation of the Bill of the Bureau of the Commissioner General of Rehabilitation.

#### 4. Good Governance

##### 4.1 Internal Audit

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
An internal auditor had not been appointed in terms of Section 40 (1) and Section 40 (2) (1) of the National Audit Act No. 19 of 2018.	Although the Ministry of Public Services, Provincial Councils and Local Government has been notified stating the need for staff to establish an internal audit unit, but no officer has been assigned in the year 2021. I hereby inform that the work of the internal audit unit can be started as soon as the staff including the chief internal auditor is provided.	Actions should be taken as per the provisions of the Act.

##### 4.2 Audit and Management committee

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
Meetings were to be held at least once in a quarter and 4 times in a year but only one meeting was held as per paragraph 5.3 of Management Audit Department Circular No. DMA/01-2019 dated 12 January 2019.	It has not been possible to hold audit and management committee meetings since the position of Chief Internal Auditor was vacant, in the year 2021.	Action should be taken as per the circular.

## 5. Human Resource Management

----- Audit Observation -----	Comments of the Accounting Officer -----	----- Recommendation -----
Although the approved cadre of the Ministry was 150, the actual cadre was only 62 and Rs. 45,436,136 had been spent during the year under review.	No. of 58 secondary level approved posts (Development Officer posts) of Ministry cadre have been suppressed vide DMS/1148-ii and letter dated 31.12.2021 of Director General of Management Services Department.	Staff requirements should be done forecast correctly.