

## **Head 241 - Report of the Auditor General of the Department of Public Enterprises– Year 2017**

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The Appropriation Account a Reconciliation Statement and 03 Income Accounts relevant to the income codes in 3.1.2 and 3.2.2 of the annual budget estimates under Head and Item Number stated in the First Schedule and Third Schedule of the Appropriation Act No. 24 of 2016 as amended by the Appropriation (Amendment) Act No.32 of 2017 were presented to audit by the Department of Public Enterprises. The financial and physical performance reflected from those accounts and the reconciliation statements were audited in terms of Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

### **1.2 Responsibility on the Financial Management and Accountability of the Chief Accounting Officer, Accounting Officer and the Revenue Accounting Officer**

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The Minister of Finance is charged with the raising of Revenue and the collection of other Government monies as well as with the general oversight of all the financial operations of Government in terms of Financial Regulation 124. The Minister of Finance appoints the Chief Accounting Officers to discharge above responsibility in terms of Financial Regulation 124(2). The Head of the Department will be the Accounting Officer in respect of all financial transactions of his Department in terms of Financial Regulation 125(1)(a) and the Revenue Accounting Officer has been appointed by the Treasury. This responsibility includes designing, implementing and maintaining internal controls relevant to the maintenance, preparation and fair presentation of Accounts and Reconciliation Statements presented within the limitations imposed by Parliament in accordance with the provisions in Article 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions, Government Financial Regulations and Administrative Regulations.

### **1.3 Scope of Audit**

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The audit of Department of Public Enterprises– Head 241 for the year ended 31 December 2017 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka in respect of designing of financial and physical performance, Government expenditure, Government revenue, management of human and physical resources applying of internal control systems, compliance with laws, rules and regulations and maintenance of updated books, registers, records and reconciliation statements, preparation and presentation of accounts in timely manner, issuance of performance reports to respective parties based on the performance indicators. The Management Audit Report for the year under review was issued to the Director General of the Department on 19 September 2018. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the plans, accounts, reconciliation statements and performance reports presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

### **1.4 Audit Observation**

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The audit observations of the Department of Public Enterprises for the year ended 31 December 2017 revealed in audit appear in Management Audit Report mentioned in paragraph 1.3 above. The material and significant audit observations out of the audit observations included in the Management Audit Report appear in paragraph 2.1 to 2.8 of this report. It was observed that the accountability as the Chief Accounting Officer and the Accounting Officer has been executed, to ensure the adequacy of the financial control satisfactorily subjected to the following summarized audit observations revealed in the execution of the provisions of the Financial Regulations 128 of the Democratic Socialist Republic of Sri Lanka.

Accountability of the Accounting Officer in terms of Financial Regulation 128 (I)	Non-compliance with that Provision by the Accounting Officer	Reference to the Paragraph included Observation
Financial Regulation		
128(1)(a)	The work of his Department is planned and carried out with due despatch, having regard to the policy laid down by the Government and the intentions of Parliament in granting him financial provision for the activities authorized and that an endeavour is made, to complete the programme of work laid down for the year and/ or to attain the targets specified.	<ol style="list-style-type: none"> <li>1. Not plan procurement activities adequately. 2.3.1</li> <li>2. Over provision 2.4(b)</li> <li>3. Not utilization of provisions made. 2.4(a)</li> </ol>
128 (1)(d)	Ensure that, an adequate system of internal check for receipts, payments and issues is maintained and tested from time to time.	<ol style="list-style-type: none"> <li>1. Deficiencies in income account. 2.5</li> <li>2. Deficiencies in Public Officers' advance accounts. 2.6</li> </ol>

**Accountability of the Public Revenue  
Accounting Officer in terms of Financial  
Regulation 128 (2)**

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128 (2) (a)	The Estimates of Revenue are prepared completely and as accurately for the income Code.	Unable to collect expected income.	2.5
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**2. Material and Significant Audit Observations**

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**2.1 Main Functions of the Department**

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- a) Formulate policies for Public Enterprises.
- b) Issue instructions to commercial corporations and statutory boards to implement the provisions of the finance Act. No.31 of 1971.
- c) Issue Guidelines and new circulars with relevant to implementation of good governance in public enterprises.
- d) Study and analysis of Cabinet memorandum proposals.
- e) Assist to resolve issues and enterprises relevant to Non- Government Organizations.
- f) Participate to committees of the Parliament Public Enterprises Committee.

## **2.2 Performance**

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### **2.2.1 Planning**

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(a) An action plan had been prepared for the year 2017 according to Public Enterprises Circular No.01/2014 of 17 February 2014, but the following facts had not been included.

(i) Updated Organization Structure of the institute, approved cadre and the details of actual cadre for the relevant year.

(ii) Action plan for collection of income mentioned in each income heads in the budget estimates of the income department.

(iii) Imprest requirement plan for the annual activities.

(iv) Internal Audit Plan.

(b) Eventhough the Department of Public Enterprises had taken follow up action on furnish in annual reports to parliament by Public Enterprises with in the stipulated time frame work, out of 55 government owned commercial enterprises remained as at 31 December 2017, 21, 32 and 44 enterprises had not furnished annual reports in years 2014, 2015 and 2016 respectively. Further, 03 institutions for five years, 04 institutions for three years and 13 institutions for three years were unable to furnish annual report continuously.

### **(c) Sustainable Development**

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Every Public Institution should act in compliance with the United Nations Sustainable Development Agenda for the year 2030 and the department had been aware in this regards, but no action had been taken to identify the targets, statistical data and milestones in achieving the targets relating thereto, as well as the indicators for evaluating the performance.

## **2.2.2 Annual Performance Report**

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The following observations are made.

- a) According to the Performance Report for the year 2017 of the Department of Public Enterprises, the return on investment of 55 Government owned enterprises assets had in low percentage of 0.64 per cent and as such, it was revealed that the performance of the government enterprises was not in a optimum range. The Department had identified that, unavailability of clear methodology in accountability, unavailability of policy and legal framework and weak supervisory methodology of institutions as main reasons for this. But observed that the department had not given sufficient contribution to resolve such issues having long time in some institutions.
- b) According to the recommendations of the Department of Public Enterprises for the performance of Government owned Commercial Enterprises in the performance Report of the year 2017, it had been reported that the pre tax profit of Rs.9.49 million for the year 2016 of the National Livestock Development Board had dropped to a loss of Rs.840 million in the year 2017. Therefore, the Department of Public Enterprises had recommended the promotion of new dairy farms with calves from imported high-yielding cattle. According to that Report of Special Audit out on imported dairy cattle, there were issues such as not receiving milk from dairy cattle as expected, risk of the death of dairy cattle and the lack of expected results from the artificial insemination.

## **2.3 Receive Supplies and Services through the Procurement Process**

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A sum of Rs.3.55 million had been provided to procure supplies and services by following the Government Procurement Guidelines by the department and out of that a provision Rs.2.49 million had been utilised.

### 2.3.1 Procurement Planning

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The following observations are made.

- (a) A sum of Rs.2.5 million had been allocated to the department to execute supplies and services by following the Government Procurement Guidelines and out of that only a sum of Rs.0.55 had been utilized.
- (b) In terms of Guideline 4.2.1 (a) of the Government Procurement Guidelines the department had prepared the Master Procurement Plan for the year 2017, but in terms of Guideline 4.2.1 (c) of that Guideline Manual the details procurement plan and in terms of Guidelines 4.2.2 and 4.2.3 the procurement time schedule had not been prepared.

### 2.4 Utilization of Provisions made by Parliament for the Accomplishments of Function

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Information in respect of provisions made to the department during the 5 years ended 31 December 2017, utilization, savings and the audit observations thereon are given below.

Year	Expenditure type	Net Provision	Utilization	Savings	Savings as a Percentage of the Net Provision
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		Rs.Millions	Rs.Millions	Rs.Millions	Percentage
2013	Recurrent	48.14	41.04	7.10	14.75
	Capital	6.85	6.42	0.43	6.33
	<b>Total</b>	<b>54.99</b>	<b>47.46</b>	<b>7.53</b>	<b>13.70</b>
		=====	=====	=====	=====
2014	Recurrent	57.55	56.25	1.30	2.25
	Capital	11,350.37	11,347.77	2.60	0.02
	<b>Total</b>	<b>11,407.92</b>	<b>11,404.02</b>	<b>3.90</b>	<b>0.03</b>
		=====	=====	=====	=====
2015	Recurrent	64.61	62.75	1.86	2.88
	Capital	94,405.40	89,390.93	5,014.47	5.31

	<b>Total</b>	<b>94,740.01</b>	<b>89,453.68</b>	<b>5,016.33</b>	<b>5.31</b>
2016	Recurrent	72.05	70.38	1.67	2.31
	Capital	19,425.26	19,424.31	0.95	0.01
	<b>Total</b>	<b>19,497.31</b>	<b>19,494.69</b>	<b>2.63</b>	<b>0.01</b>
2017	Recurrent	3,938.84	3,934.57	4.27	0.10
	Capital	13,478.55	13,476.44	2.11	0.01
	<b>Total</b>	<b>17,417.39</b>	<b>17,411.01</b>	<b>6.38</b>	<b>0.04</b>

The following observations are made in respect of the year under review.

(a) Non Utilization of provisions made available

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Total net provision of Rs.0.5 million allocated to an object had not been utilized at all and totally saved.

Made Over Provision facilities

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A total over provision of Rs.5.7 million had been allocated for four objects but had utilized only Rs.2.53 million from that provisions of the objects and out of net provisions balance ranging 38 per cent to 66 per cent were saved.

## 2.5 Estimated and Actual Income

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The department had estimated a total amount of Rs.49,100 million income from 03 income codes for the year 2017 and had collected a income of Rs.98,675 million during the year under review. It was 200.97 per cent from the estimated income. Details are as follows.



Income code	<u>As at 31 December 2017</u>			Collected income as a percentage to the estimated income
	Estimated Income	Actual Income	Exceed / (shortage)	
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	Rs.million	Rs.million	Rs.million	
20.02.03.00	44,000	50,447	6,447	14.65
20.02.04.00	5,100	3,551	(1,549)	(30.37)
20.06.01.00	-	44,677	44,677	-

#### 2.5.1 Income code 20.02.03.02 - surplus

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The following observations are made.

Estimating basic income

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The basic estimation of Rs.68,000 million was amended as Rs.44,000 million in the year under review and collected net income was Rs.50,447 million. While comparing the initial estimate and amended estimate it was observed that income reduced by Rs.24,000 million or 35 per cent and the amended income exceeded the actual income by Rs.6,447 million. While comparing the collected income in 2016, the income of the year under review had deteriorated by Rs.41,891 million or 45 percent compared to the year 2016 and following observations are made in this regard.

- a) Three institutions which were estimated for Rs.210 million income had not been given any contribution to the 2017 income out of that the Sri Lanka Association Bureau had been included to the Budget estimates in previous years also but had not been given any contribution to the government income after the year 2012.
- b) Profit contribution amounted to Rs.12,026 million, Rs.8,000 million and Rs. 175 million by National Savings Bank Peoples' Bank and National Gem and Jewellery Authority in 2016 respectively had limited to contribute of Rs.3,865 million, Rs.5,000 million and Rs.100 million respectively in 2017. As such,

deterioration of income relevant to above 03 institutions had exceeded 30 per cent.

- c) Eventhough the bank sector estimated income which was given contribution to the government income was Rs.25,140 million in the year under review, the actual income was Rs.20,890 million and as such, it was decreased by Rs.4,250 million compared to the estimated income. While comparing the income of Rs.38,124 million received from the bank sector in 2016 it was observed that contribution had decreased by Rs.17,324 million in the year under review. It was also observed that, according to the financial statements of 2017 the pre-tax profit of National Savings Bank and Peoples Bank in 2017 had increased with compared to the 2016. However, Department of Public enterprises informed that according to the Basal iii covenant (බාසල් iii සම්මුතිය) the banks have taken action to comply capital requirements and it had been effected to this accordingly.

## 2.5.2 Income code 20.02.04.00 - Dividends

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The following deficiencies observed

Estimating Basic Income  
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The initial estimate of Rs.4,600 million for the year under review had been revised and increased as Rs.5,100 million and a sum of Rs.3,551 million had been collected. As such, compared to the revised income estimate it was decreased by Rs.1,549 million or 30 per cent. As such, a sum of Rs.15,822 million had been collected in 2016 and compared to that the actual income of the year under review had decreased by Rs.12,271 million or 76 per cent and the following observations are made in this regard.

- a) No any contribution had been received to the dividend income from 06 institutions which had included Rs.556.3 million total income to the income estimate in the year 2017. According to the financial statement of Sri Lanka Mineral Sand Company, which had 100 percent share holding to the government, it was observed that the pre-tax profit of Rs.154 million in 2016

had increased to Rs.473 million by 207 percent in 2017. The Department of Public Enterprises had informed that, had not received dividends due to the Director Board had not been appointed and therefore, the Annual General Meetings should not be called in the period of year 2015-2017.

Further, because of the direction given by the Central Bank of Sri Lanka to comply with the capital requirement according to the Basal III no dividends had been received from the Sri Lanka Savings Bank.

- b) When considering the revised estimate in 2017 and actual dividends as at 31 December 2017, income of 03 institutions had abnormally decreased by Rs.1,523 million and the decreased had ranging 52 per cent to 75 per cent.
- c) According to the 2016 Performance Report of the Department of Public Enterprises, pre-tax profit in 2016 compared to the 2015 of a Company and a Tea Factory had increased and the pre-tax profit of those both institutions in 2016 was Rs.605 million and Rs.33 million respectively. Those institution had not been taken into account at the preparation of the income estimates in 2015, 2016 and 2017 but the government had 100 percent capital ownership of those enterprises.

### **2.5.3 Income code 20.06.01.00 – Received cash from Transfers.**

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**Establishment of an Income code and collection of Income**  
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Income code No.20.06.01.00 had been included to the initial income estimate in the year 2017 under the object name “Received Cash from Transfers”, no estimated income had been mentioned there. (Further, as per the schedule I of the Public Finance Policy Circular No.01/2015 of 15 June 2015 of the Deputy secretary to the Treasury, the power of authority/ constitution of this code mentioned as Public Enterprises Reform Act No. 01 of 1996 and the Accounting officer was “Secretary to the President”) Later, by the Public Finance Policy Circular No.01/2015 (x) of 20 December 2017 of the Deputy Secretary to the Treasury, the power of Authority / constitution of this income code had been amended as “Decisions taken by the

Ministers of Cabinet for Restructuring of Public Enterprises.” and then the income Accounting Officer had been amended as “Director General – Department of Public Enterprises.” This situation had been included to the 2017 – amended estimates but had not been mentioned an estimated income value.

As such, the income received from leasing the port in Hambanthota amounted to Rs.44,677 million in accordance with sponsored agreement signed on 29 July 2017 as a Public Private Partnership had been accounted in this new amended income account in 2017.

## 2.6 Public Officers Advance Account

### Limits Authorized by Parliament

Limits authorized by Parliament in respect of the Public Officers Advance Account, bearing item No.24101 of the Department and the actual amounts are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
4.00	3.90	2.50	2.88	18.00	14.93

### Non recovery of outstanding loan balances

According to the reconciliation statement presented to audit, the total outstanding loan balances except the loan balances of officers who had gone on transfers, amounted to Rs.408,304 and those out balances remained outstanding more than 05 years, but balances should not be able to recover.

## 2.8 Human Resources Management

### Approved Cadre, Actual Cadre and Expenditure on Personal Emoluments

Particulars on approved and actual cadre and the number of vacancies as at 31 December 2017 are given below. A sum of Rs.49.94 million had been spent by the

Department for the year under review for the personnel emolument expenditure object. As such, per capita expenditure was Rs.723,819.

Staff Category	Approved Cadre	Actual Cadre	Number of Vacancies
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(i) Senior Level	30	26	04
(ii) Tertiary Level	12	09	03
(iii) Secondary Level	22	19	03
(iv) Primary Level	17	15	02
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<b>Total</b>	<b>81</b>	<b>69</b>	<b>12</b>
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The following observations are made in this regard.

#### Approval Exceeding the Required Cadre

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Although 12 vacancies had remained at the end of the year under review and the provisions had been saved which was allocated by the appropriation account of 2017 without utilization, the vacancies had not been affected to the above savings. As such, it was observed in the audit that the approved cadre had been over estimated. Further, the vacancies of the department was 12 as at 31 December 2017 and out of that 04 vacancies consistent with senior level officers.