

Head 310 - Report of the Auditor General of the Department of Government Factory – Year 2017

The Appropriation Account and a Reconciliation Statement 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 Government Factory. 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

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

The audit of Department of Government Factory – Head 310 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 05 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

The audit observations of the Department of Government Factory 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 2.2 to 2.7 of this report. It was observed that the accountability as 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
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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.	Not achieved expected output. 2.1.1
128(1)(c)	The financial regulations and other supplementary instructions of the Government are adhered to in his department, and that they are supplemented by departmental instruction, where necessary.	1. Not maintained books and records. 2.6 2. Not established an internal audit unit. 2.7
128 (1)(d)	Ensure that, an adequate system of internal check for receipts, payments and issues is maintained and tested from time to time.	Deficiencies in stores advance account. 2.5

128(1)(h)	Special arrangements are made to recover outstanding dues and that the officers assigned that task report to him at least once a quarter or as otherwise directed regarding arrears and action pursued to expedite their recovery.	Not recovered outstanding loan balances in the Government officers' advance account.	2.4.1
128 (1) (m)	An Appropriation Account is rendered to the Chief Accounting Officer at the end of the financial year in respect of each Programme of a Head of Expenditure for which he is responsible as Accounting Officer (Financial Regulation 150)	Made over Provisions.	2.2

2. Material and Significant Audit Observations

2.1 Performance

2.1.1 Not Archiving Expected Output Level

In terms of Public Finance Circular No.01/2014 of 17 February 2014, an action plan had been prepared for the year 2017. Accordingly, eleven major functions had been identified to perform during the year under review by the department and though Handapanagala project and Thondaman Aru project out of the said functions should be completed on 30 September 2017 and 30 October 2017 respectively, those projects had not been completed. The Physical progress at the end of the year under review was 83 per cent and 60 per cent respectively.

2.2 Utilization of Provisions made by Parliament for the Accomplishments of Function

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	55.25	54.53	0.72	1.30
	Capital	318.86	128.42	190.44	59.72

	Total	374.11	182.95	191.16	51.09
2014	Recurrent	63.27	60.62	2.65	4.19
	Capital	145.35	125.75	19.60	13.48
	Total	208.62	186.37	22.25	10.66
2015	Recurrent	79.37	75.56	3.81	4.80
	Capital	152.20	86.75	65.45	43.00
	Total	231.57	162.31	69.26	29.90
2016	Recurrent	90.63	76.97	13.66	15.07
	Capital	51.69	51.37	0.32	0.62
	Total	142.32	128.34	13.98	9.82
2017	Recurrent	100.26	98.66	1.60	1.59
	Capital	58.15	57.73	0.42	0.72
	Total	158.41	156.39	2.02	1.27

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

Made Over Provisions

An over provision made to three objects and after utilization of provision more than 20 per cent was saved percent from the total net allocation of the object.

2.3 Liabilities

In accordance with the Financial Regulation 94 though no commitment should be made exceeding the provision, the department had committed for total amount of Rs.2,753,923 exceeding the approved provision in 07 objects.

2.4 Public Officers Advance Account

Limits Authorized by Parliament

Limits authorized by Parliament in respect of the Public Officers Advance Account, bearing item No.31001 of the Factory 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
38.00	37.43	26.00	30.87	125.00	89.35

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.1,818,326 and out of that a sum of Rs.1,377,016 had remained outstanding more than 03 years and a sum of Rs.930,211 had remained outstanding for more than 05 years.

2.5 Stores Advance Account

2.5.1 Financial Results

According to the financial statements of the stores advance account, operational result of the year under review had a surplus of Rs.14,267,357 as compared with the corresponding surplus of Rs.880,770 for the preceding year, thus indicating an improvement of Rs.13,386,586 in the financial result of the year under review, as compared with the preceding year.

- (a) In some instances the amended invoice had not been taken in the cases where the invoice is paid differently than the mentioned amount at the payment made for supplies.
- (b) An internal audit had not been carried out on the activities of the stores advances in the year under review and previous years.
- (c) A proper daily purchase journal had not been maintained for entering purchases and cash purchases and credit purchases had not been entered separately in primary books and had not been accounted in the general ledger through a monthly journal.
- (d) A proper daily creditors ledger had not been maintained.

2.6 Lack of Books and Records

It was observed in the test check that the department had not maintained following registers and some registers had not been properly updated and maintained.

Type of Register	Relevant Regulation	Observation
(a) Records of Liabilities.	Financial Regulation 214	Not maintained
(b) Counterfoil register	Financial Regulation 341	Not maintained
(c) Appropriation (Standard vote) register	Financial Regulation 447	Not maintained
(d) Personal emoluments register	Financial Regulation 453	Not maintained
(e) Computer, accessories and software register	Treasury Circular No.IAI/2002/02 dated 28 November 2002.	Not updated
(f) Fixed assets register	Treasury Circular No.842 of 19 December 1978/ section 11 of Financial Regulation No.502(2).	Not updated
(g) Losses register	Financial Regulation 110	Not updated

2.7 Internal Audit

An internal audit unit had not been established by the Government Factory.

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.68,164,106 had been spent by the Department for the year under review for the personnel emolument expenditure object. As such, per capita expenditure was Rs.149,811.

Staff Category	Approved Cadre	Actual Cadre	Number of Vacancies	of Excess cadre
(i) Senior Level	31	17	14	-

(ii)	Tertiary Level	10	02	08	-
(iii)	Secondary Level	197	119	78	-
(iv)	Primary Level	552	316	236	-
(v)	Other (Casual/Temporary/ Contract basis)	-	1	-	1
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	Total	790	455	336	1
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