

## Head 295 - Department of Commerce

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### 1. Financial Statements

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#### 1.1 Qualified Opinion

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The audit of the financial statements of the Department of Commerce for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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 Department of Commerce was issued to the Accounting Officer on 18 October 2019 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report of the Department was issued to the Accounting Officer on 03 October 2019 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

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 Department of Commerce as at 31 December 2018 and its financial performance and cash flow for the year then ended, in accordance with Generally Accepted Accounting Principles.

#### 1.2 Basis for Qualified Opinion

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, on the financial statements 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 Responsibilities of Chief Accounting Officer and the Accounting Officer on Financial Statements

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The Accounting Officer is responsible for preparation of financial statements in a manner that reflects a true and reasonable position and determines the internal control required to enable financial statements to be prepared without inadequate false statements that may result from fraud and error in accordance with Generally Accepted Accounting Principles and the provisions of Section 38 of the National Audit Act, No. 19 of 2018.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Department 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.

The Accounting Officer shall ensure that an effective internal control system is maintained and maintained for the financial control of the Department in terms of sub-section 38 (1) (c) of the National Audit Act and it should be periodically reviewed the effectiveness of the system and make any necessary changes to keep the system running efficiently.

#### **1.4 Auditor's Responsibility on Audit of Financial Statements**

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My objective is to express a reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue the Summary Report of the Auditor General 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 skepticism 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.
- It is not intended to express an opinion on the effectiveness of internal control of the Department to plan appropriate audit procedures in a timely manner.
- Evaluate the structure of financial statements including disclosures and content-based transactions and events the structure that the financial statements are appropriate and reasonable.
- The transactions and events underlying the structure and content of the financial statements are appropriately and fairly when submitting financial statements as a whole.

The Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

#### **1.5 Report on Other Legal Requirements**

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I declare the following matters in terms of Section 6 (d) of the National Audit Act No. 19 of 2018 .

As there was no need to prepare financial statements for the previous year, it was impossible compare the financial statements for the year under review with those of the previous year.

Further, therefore the recommendations for the financial statements of the preceding year had not been presented.

## 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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The following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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In terms of paragraph 7.2 of the Public Accounts Circular No. 267/2018 dated 21 November 2018, although the other Departments which collect revenue on behalf of Revenue Accounting Officers such revenues should be included in the own statement of financial performance considering the imprests received from the Treasury, the revenue collected by the Department amounted to Rs. 90,297,873 had been included under non-tax revenues and other item.	Actions should be taken in accordance with the State Accounts Circular No. 267/2018 of 21 November 2018.	It is agreed to be corrected in future.

### 1.6.2 **Reconciliation Statement of Advances to Public Officers Account**

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The following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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There was a difference of Rs. 419,541 was observed in balance as per Department Books at the beginning of the year under review in Advances to Public Officers 'B' Account and the balance of the Treasury Computer Prints and the difference had not been settled even by the end of the year under review.	Advances to Public Officers 'B' Account balance shown in Department Books should be equal to the balances of the Treasury Computer prints.	This difference had remained before the year 2005 and actions will be taken to correct in the future years.

### 1.6.3 Certification that should be made by the Accounting Officer

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Although the Accounting Officer should certify the following matter in terms of the provisions of Section 38 of the National Audit Act, No. 19 of 2018, actions had not been taken accordingly.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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(a) The Accounting Officer shall ensure that an effective internal control system is developed and maintained for the financial control of the Department and the effectiveness of the system should be periodically reviewed and the necessary modifications should be made to make the system effective and although these reviews should be made in writing and a copy of that should be furnished to the Auditor General, the statements as of such a review was carried out had not been furnished to audit.	The actions should be taken as per the provisions of Section 38 of the National Audit Act No. 19 of 2018.	Information will be submitted to the Auditor General in this regard in future.
(b) The Accounting Officer shall ensure that the annual and other financial statements are prepared within required period and as a result of the audit observations referred to in Paragraphs 2.4 (a) of the report, those requirements had not been fulfilled.	-do-	Annual and other financial statements have been submitted on the due date and it was noted that the performance report to be submitted on the due date.
(c) Although the Accounting Officer should ensure that there is an effective mechanism for carrying out the internal audit function properly, as a result of the observations made in Paragraph 2.4 (b) of the report, those requirements had not been fulfilled.	-do-	Necessary steps are being taken to establish an internal audit unit.

#### 1.6.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following observation is made.

<b>References to Laws, Rules, Regulations, etc.</b>	<b>Non-compliance</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
Sub-section 16 (2) of the National Audit Act, No. 19 of 2018	According to the sub-section 16 (2) of the National Audit Act, No. 19 of 2018, the Annual Performance Report was also required to be submitted along with the Annual Financial Statements, it had not act accordingly.	Arrangements should be made in accordance with Sub-section 16 (2) of the National Audit Act, No. 19 of 2018.	Agree to comply with the provisions of the Act.

## 2. Financial Review

### 2.1 Expenditure Management

The following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
As a result of utilizing only a sum of Rs. 39,810,639 out of total provisions amounted to Rs. 44,235,000 made available for 09 recurrent expenditure objects and 03 capital expenditure objects, a sum of Rs. 4,424,361 or 10 per cent had saved. The savings in each of those expenditure objects, had ranged from 6 per cent to 69 per cent.	Accurate expenditure estimates should be prepared in terms of Financial Regulations 50.	Savings have been made after the efficient utilization of provisions.

## 2.2 Entered into Liabilities and Commitments

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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
<b>(a)</b> Although it could not be entered in to liabilities exceeding the allocations made available for objects in terms of the provisions of the Finance Regulation 94 (1), liabilities had been entered in to exceeding the savings of 03 recurrent objects totalled to Rs. 2,733,309 .	It should concern not to enter into liabilities exceeding the provisions allocated, in terms of 94 (1) of the Financial Regulations.	It is agreed to take measures to minimize the occurrence of such situations in future.
<b>(b)</b> Although the statement of commitments and liabilities under Note (iii) of Paragraph 3.4 of the State Accounts Circular No. 267/2018 dated 21 November 2018 should be matched with the statement of commitments and liabilities issued in relation with each Heads by the Treasury , There was a difference of Rs. 3,124,865 between those two documents.	The statement of commitments and liabilities under Note (iii) of Paragraph 3.4 of the State Accounts Circular No. 267/2018 dated 21 November 2018 should comply with the statement of commitments and liabilities issued by the Treasury in respect of each Heads.	Generally, liabilities entered in to during the year have to be settled and paid off during the year. Nevertheless, out of the provisions allocated for the year, since the payments are made for the arrears bills of the previous year at the beginning of the year, a certain decrease in net provisions stipulated to the year can be seen and it would like to point out that this is a continuous process of every year.

### 3. Operating Review

#### 3.1 Performance

The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
(a) Although the progress reports to be submitted according to the Action Plan, should be prepared in accordance with the National Budget Circular No. 01/2017 dated 13 January 2017 and the National Budget Circular No. (1) / 01/2017 dated 05 March 2018 actions had not been taken accordingly.	Arrangements should be made in accordance with the National Budget Circular No. 01/2017 dated 13 January 2017 and the National Budget Circular No. (1) / 01/2017 dated 05 March 2018.	The progress reports will be presented in relation with the circulars from the next month.
(b) The performance indicators had not been identified and prepared in order to the year 2018 by the Department in accordance with the Circular No. BD / CBP / 4/1 / 2-2018 of 07 November 2017.	Actions should be taken in accordance with the Circular No. BD / CBP / 4/1 / 2-2018 dated 07 November 2017 of the Department of National Budget.	Action will be taken to prepare the performance indicators for the year 2020 as per Circular No: BD / CBP / 4/1 / 2-2018 dated 07 November 2017 of the Department of National Budget.
(c) Although the measures have been taken to obtain the approval of the Cabinet of Ministers and Gazette as stated in the Action Plan for the anti-dumping and countervailing duties Act No. 02 of 2018 and the Safeguard Measures Act No. 03 of 2018, establishment of trade remedial laws to investigate trade-related offenses in it had not been completed.	Actions should be taken in compliance with the Action Plan.	According to the World Trade Organization criteria, currently drafted regulations have been submitted to the Department of Legal Draftsman and will be gazetted as soon as possible.
(d) Although the officers of the Department had who been assigned to the Foreign Missions as per the Action Plan, should made a significant contribution	Actions should be taken in accordance with the Action Plan.	Funds required for the implementation of proposals to be carried out by commercial officers engaged in the

to the objectives of the Department such as international trade, tourism promotion, investment promotion, it was observed that the officers' contribution to the many of promotional activities of the Annual Action Plan was very low.

duties of missions and providing other facilitation depends on the export promotion agencies of Sri Lanka. Therefore, the proposed programmes may not be able to perform as expected due to lack of providing funds.

- (e) Although the officers of the Department were attached to 28 Foreign Missions, it was observed that more than 50 per cent of Sri Lanka's exports are made only for 05 major countries in the world. The export trade representation in each of the other countries was below 05 per cent. Accordingly, it was not observed that the Departmental officers assigned to those countries have achieved adequate performance.
- Arrangements should be made to promote foreign trade through delegation of Foreign Missions
- According to the export and import figures for the year 2018, exports from Sri Lanka have increased in most countries where commercial officers are employed.

#### 4. Good Governance

##### 4.1 Internal Audit

The following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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There was no internal audit unit for the Department and also an internal auditor had not been appointed by the end of the year under review.	Actions should be taken in accordance with Sub-section 40 (1) of the National Audit Act No. 19 of 2018.	An Internal Audit Unit is difficult to establish due to shortage of staff and the internal audit activities are carried out by the Ministry.

**5. Human Resource Management**  
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The following observation is made.

<b>Audit Observation</b> -----	<b>Recommendation</b> -----	<b>Comments of the Accounting Officer</b> -----
There are 31 officers of the Combined Services staff who are attached to the Department subjected to annual transfers have not been transferred out for a period of 6 to 34 years by the end of the year under review and is still in service attached to the Department. Accordingly, it was observed that the actions had not been taken as per the Combined Services Circular No. 03/2017 dated 30 June 2017 .	Actions should be taken in accordance with the Combined Service Circular 03/2017 dated 30 June 2017.	Since this Department is not a popular office the existing officers are not allowed to be moved due to the officers do not wish to be transferred in.