

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statement of the **Ministry of Prison Reforms, Rehabilitation, Resettlement and Hindu Religious Affairs** 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 including my comments and observations on the financial statements of the **Ministry of Prison Reforms, Rehabilitation, Resettlement and Hindu Religious Affairs** was issued to the Chief Accounting Officer on 31 May 2019 in terms of Sub-section 11 (1) of the National Audit Act, No. 19, and the Detailed Annual Management Audit Report relating to the **Ministry** in terms of Section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Chief Accounting Officer on 27 May 2019. This report will be tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution 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 the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the **Ministry of Prison Reforms, Rehabilitation, Resettlement and Hindu Religious Affairs** as at 31 December 2018, 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

---

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards 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 opinion.

1.3 Responsibilities of Chief Accounting Officer and Accounting Officer for the Financial Statements

---

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 such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Sub-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 annual and periodic financial statements to be prepared.

As per Sub-section 38 (1) (c) of the National Audit Act, the Accounting Officer shall ensure that effective internal control system for the financial control of the **Ministry** exists 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 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, 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 scepticism 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit 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 appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, 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.

I communicate with the Chief Accounting Officer regarding, significant audit findings, any significant deficiencies in internal control and other matters that I identify during my audit.

## 1.5. Report on Other Legal and Regulatory Requirements

---

I express the following matters in accordance with Section 6 (d) and Section 38 of the National Audit Act, No. 19 of 2018.

- (a) Since there was no need for the preparation of financial statements for the preceding year, it could not be stated that the financial statements presented for the year under review were consistent with the preceding year.
- (b) Since there was no requirement for the Ministry of Prison Reforms, Rehabilitation, Resettlement and Hindu Religious Affairs to prepare financial statements for the preceding year, recommendations on the financial statements had not been made.

## 1.6 Comments on Financial Statements

---

### 1.6.1 Non-compliance of the Financial Statements with Provisions of the Circulars

---

The financial statements should have been prepared in terms of Public Accounts Circular, No. 267/2018, dated 21 November 2018. However, following deviations were observed.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
-----	-----	-----
<p>a) Revenue collected by other Ministries on behalf of Revenue Accounting Officers should be included in the statement of financial performance using the Form ACA-3 considering as an imprest released by the General Treasury. However, a sum of Rs. 5,688,182 so collected on behalf of the Revenue Accounting Officers had been shown in the statement of financial performance under Non-tax Revenue and</p>	<p>Accounts should be prepared in accordance with the Public Accounts Circular, 267/2018.</p>	<p>According to the Form ACA-1, a sum amounting to Rs. 1,708,943 out of Rs. 5,688,182, had been obtained in cash. The remaining amount of Rs. 3,979,239 had been obtained through cross entries. The sum of Rs. 1,708,943 received in cash is included in the value of Rs. 96,514,079 shown under the heading - other resources, in the Form ACA-3.</p>

Others in the Form  
ACA-1.

- b) According to Paragraph 7(vi) of the Circular, a sum of Rs. 2, 589, 769 relating to Advance "B" Account should have been debited to the Reconciliation Account as expenses incurred under other main ledgers. Furthermore, an expense of Rs. 5,121,162,903 incurred on Objects of the other Ministries / Departments under Financial Regulation 208, along with a sum of Rs. 61,980 relating to Advance "B" Account being the expenses incurred under the other main ledgers, should have been credited to the Reconciliation Account. However, the Imprest Reconciliation Account had not been prepared by accurately debiting and crediting those values.
- Ditto - Both types of accounts - the Imprest Account and the Payable Imprest Account, are being prepared by us. The said objective is achieved through the system being followed by us, but no format whatsoever approved in that connection, is provided in the Circular, No. 267/2018 of the Department of State Accounts.
- c) Provision amounting to Rs. 10,513,000 transferred among 37 recurrent Objectives in terms of Financial Regulation 66 & 69, and provision amounting to Rs. 20,000,000 transferred between 02 Objectives, had not
- Ditto - As the provision made under the budget estimate - 2018 had been exhausted, action had been taken to transfer provision of Rs. 10,513,000 from 24 other Objectives of Programme - 1 in terms of Financial Regulation 66 & 69, to 13 recurrent Objectives of the Programme - 1. As such, provision had been added or subtracted among 37 Objects

been shown in the Form ACA-2 introduced under Paragraph 6 of the Circular.

belonging to the same Performance Report in accordance with the Financial Regulations, the relevant values are remain adjusted within the programme.

- d) When reporting on the non-financial assets in terms of Paragraph 3.3 of the said Circular, the Chief Accounting Officer did not verify that the values tallied with each other by examining the main ledger balance of those assets with the value of individual assets.
- Ditto -
- Agreed. In reporting on the non-financial assets in the future, the main ledger balance of those assets will be examined with the value of individual assets and informed after verifying that the balances are tallied.

#### 1.6.2 Statement of Financial Position

----- Audit Observation -----	Recommendation -----	Comment of the Chief Accounting Officer -----
Particulars relating to non-financial assets valued at Rs. 644,035,255 comprising non-financial assets valued at Rs. 23,098,945 purchased by the Bureau of the Commissioner General of Rehabilitation, and the work in progress valued at Rs. 362,686,407, had not been shown in the Form ACA-6	Instructions of the Public Accounts Circular, No. 267/2018 should be followed strictly.	According to the instructions of the Department of State Accounts, assets are created by the computerized system for the expenses incurred only under the Item of Expenditure Nos, 2101, 2103, 2104, and 2015. As such, expenses incurred under Item of Expenditure, No. 2202, can not be identified as assets.

### 1.6.3 Statement of Financial Performance

-----  
 The following observation is made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
-----	-----	-----
The recurrent expenditure of Rs. 9,409,455 incurred to develop and train the misled combatants and drug addicts, and on the implementation of post-rehabilitation assistance programmes, had been brought to accounts as capital expenses under the Head of Expenditure – 145-1-2-5-2002.	Classification of expenses should be done accurately.	Provision had been made by the Treasury for all the capital expenses of the Bureau of the Commissioner General of Rehabilitation, prior to the year 2018. Accordingly, all the expenses were incurred under the capital expenses.

### 1.6.4 Non-compliances with Laws, Rules, and Regulations

-----  
 The instances of non-compliances with the provisions of Laws, Rules, and Regulations observed during the audit test checks, are analyzed below.

Observation	Recommendation	Comment of the Chief Accounting Officer
-----	-----	-----
Reference to Laws, Rules, and Regulations	Non-compliance	
-----	-----	-----
Financial Regulations of the Democratic Socialist Republic of Sri Lanka.		
a) Financial Regulation 104 (1) a	Even a preliminary inquiry had not been carried out on the damaged	Action should be taken in terms of Financial Regulation 104. Those damages were visible at the time of taking over the vehicles. inquiries are being instituted to recover the damages of the said vehicle.

vehicles that had been taken over after being assigned to the staff of the former Minister.

- |                                 |   |           |  |
|---------------------------------|---|-----------|--|
| b) Financial Regulation 104 (4) | <p>A detailed report should be furnished within a period of 03 months from the date of causing the damage. However, such reports had not been furnished relating to accidents involving 05 vehicles in 06 instances.</p>                          | - Ditto-  | <p>Investigations have been commenced on 04 accidents in terms of Financial Regulation 104 whilst action has been taken to retain the salaries and allowances of the driver and the officer in charge until the completion of investigations on the rest of the accidents.</p> |
| c) Financial Regulation 237 (b) | <p>A certificate that the articles have been received and that they have been brought on charge in the appropriate inventory, stock book, etc. should be appended. However, payments had been made for 19 items of articles worth Rs. 443,118</p> | - Ditto - | <p>Action should be taken preventing such inefficiencies in the future.</p>  |

before being received.

- |   |  |  |   |
|---|--|--|---|
| d) Financial Regulation 115                   | In order to settle a liability that had not been brought to accounts as a liability in the year 2017, a sum of Rs. 943,674 had been paid contrary to the objectives of an Item of Expenditure relating thereto. Approval had not been obtained as well in terms of Financial Regulation 115. | Approval should be obtained in terms of Financial Regulation 115.            | It was not brought to accounts as a liability due to the Department of Buildings not making a request at the beginning of the year 2018. Payments had been made under the Item of Expenditure - 145-01-02-2001 in regard to renovation of lavatories of the official residence, No. C 40, Keppetipola Mawatha, and the repairs around the kitchen and drainage pipes. When payments are made in the future, action will be taken to obtain approval under Financial Regulation 115. |
| e) Financial Regulation 315 (1), (2), and 755 | Inventory items worth Rs. 702,869 given to the former Ministers, the Deputy Minister, and the Media Secretary, and an official vehicle worth Rs. 35,000,000 handed over to the former Minister by the Ministry, had not been taken over  | Action should be taken in accordance with Financial Regulation 315 and 755 . | It had been informed through letters in several instances that the inventory items be returned to the stores. It was informed in 05 instances that the vehicle assigned to the former Minister be returned.   |



after the  
completion of  
duties.

## 2. Financial Review

-----

### 2.1 Management of Expenses

-----

The following observations are made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
-----	-----	-----
a) Of the provision amounting to Rs. 2,080 million made for the Rehabilitation of Persons, Properties and Industries Authority under the Object Code, 01-02-04-1503, a sum of Rs. 539.3 million had been saved due to non-receipt of imprests.	Accurate estimate of expenses should be prepared in terms of Financial Regulation 50.	Of the provision amounting to Rs. 2,080 million allocated under rehabilitation expenses of the Rehabilitation Of Persons, Properties And Industries Authority, provision totalling Rs. 539.3 million had been saved by the end of the year. The reason is that the imprests had not been received properly.
b) Of the supplementary provision amounting to Rs. 3,381 million made for 05 capital Objects for which provision had not been made through the annual estimate, a sum of Rs. 1,312.07 million had been saved. The percentage of savings relating to 03 of the Objects, ranged between 46 per cent and 100 per cent.	- Ditto -	The supplementary provision requested to settle the bills had been saved due to reasons such as, unwillingness of the combatants to become socialized as per the rules and regulations, non-receipt of the approval of the Treasury to make use of those aids in vocational and livelihood activities, and failure in settling the bills at the end of the year.

- c) As supplementary provision amounting to Rs. 781.1 million had been obtained in excess of the amount required to settle the outstanding bills valued at Rs. 755.3 million furnished by the District Secretariats relating to the expenses incurred in the year 2017 on the project for expediting the resettlement activities in the North and Eastern Provinces, provision amounting to Rs. 25.8 million had been saved.
- Ditto - This is the saving after settling a sum of Rs. 107.9 million from the supplementary provision given to settle the bills valued at Rs. 133.7 million for the year 2017.
- d) As expenses totalling Rs. 206.42 million had been incurred in excess of the estimated provision of Rs. 1,200 million relating to 02 capital Objects, and supplementary provision amounting to Rs. 114 million had been obtained for those Objects, it was observed that the estimates had not been prepared realistically.
- Ditto - There had been bills in hand to the value of Rs. 13.9 million due to inadequacy of imprests given in the year 2017. Additional provision had to be obtained as the provision had not been adequate. As it is not possible to include the value of bills in hand when estimates are prepared, expenses had to be incurred in excess of the provision.

## 2.2 Issuance and Settlement of Advances

-----

The following observation is made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
-----	-----	-----
Even though a loan balance of Rs. 235,206 recoverable from 02 officers who had vacated the service or been interdicted, had remained outstanding for 7-8 years as at the end of the year under review, that sum had not been recovered.	Loan balances should be recovered promptly.	It is informed through letters to recover the loan balances.

## 3. Operating Review

-----

### 3.1 Activities External to the Main Objectives

-----

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
-----	-----	-----
Of the provision amounting to Rs. 1,000 million made for the implementation of the programme to assist the small industries selected in the Northern Province through the production cooperatives in accordance with a budget proposal of the year 2018, a sum of Rs. 125.57 million had been granted for 03 districts in the Eastern Province under the approval of the Minister in charge of the subject. Furthermore, a sum of Rs. 250 million had also been given to the Palmyrah Development Board.	Activities should be planned and executed in line with the objective for which provision has been made .	Provision has been released to the District Secretariats under the approval of the Treasury.

### 3.2 Delays in the Implementation of Projects

-----

The following observations are made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
-----	-----	-----
<p>(a) Following a special budget proposal made in the year 2018, supplementary provision amounting to Rs. 250 million had been granted to the Ministry on 05 January 2018 in order to implement a salary relief scheme for the sake of rehabilitated and socialized ex combatants to be employed in the private sector. Nevertheless, the said provision had not been utilized. A Cabinet Memorandum including the problems in implementing the project and the proposals for utilizing such provision in a different manner, had been presented on 02 November 2018. Accordingly, it was observed that no action had been taken for the optimal utilization of provision. Due to inadequacy of time for the implementation of proposals, included in the Memorandum as per the recommendations of the Minister of Finance dated 19 November 2018, within this year, instructions had been given that action be taken to include such proposals into the budget proposals of the year 2019 after conducting a feasibility study in that connection.</p>	<p>The provision should be utilized efficiently as planned.</p>	<p>The laws and rules relating to the implementation of this project, had been specified by the Treasury. As such, due to unwillingness of the combatants to socialize as being misled and rehabilitated, the Treasury was requested for approval to provide those aid for them as livelihood assistance, but the Treasury did not grant approval therefor. Hence, the provision made under the said project could not be utilized.</p>
<p>(b) Of the supplementary provision amounting to Rs. 1,000 million obtained for the programme to provide loan facilities relating to micro finance for the indebted</p>	<p>By presenting new proposals including solutions for the problems identified</p>	<p>The Ministry was not prepared for the said programme at that time. Due to changes in the Government policies during</p>

people living in Northern and North Central Provinces, a sum of Rs. 500 million had been granted to 05 districts in the Northern Province whilst the remaining amount of Rs. 500 million had been granted to Anuradhapura District in the North Central Province. A sum of Rs. 542.49 million equivalent to 46 per cent of that provision had been spent as at 31 December 2018, but no evaluation had been carried out by the Ministry relating to the physical progress thereof. The programme had been implemented in accordance with the criteria relating to micro finance loan schemes and the guidance of the Ministry of Finance. However, due to practical issues occurred such as, the interest rate of the loans as high as 14 per cent, and the indebtedness of the people was higher than the limit of the loans considered being Rs. 20,000, supplementary provision amounting to Rs. 457.5 million could not be utilized. By presenting new proposals including solutions for the problems identified, action had not been taken for the efficient and optimal utilization of provision received at the beginning of the year.

practically, action should be taken to efficiently and optimally utilize the provision received at the beginning of the year.

the same period, programmes had been introduced to the villages under the supervision of the Central Bank enabling the beneficiaries to obtain loans without interest, thus giving rise to problems in getting the people involved in such programmes. Furthermore, it is questionable that the maximum limit for the loans under this loan programme was Rs. 20,000 with an interest rate of 14 per cent. It is a new introduction. The program was implemented with severe difficulties sans prior experience. Although the entire amount could not be utilized due to hindrances, it is expected to take measures to rectify such an issue in the future.

### 3.3 Losses and Damages

-----

The following observations are made.

Audit Observation -----	Recommendation -----	Comment of the Chief Accounting Officer -----
(a) Particulars had not been properly reported on the damages totalling Rs. 810,624 relating to 18 incidents recorded in a register of	Action should be taken as per provisions of the Financial Regulation 110.	Action will be taken to properly prepare the Register of Losses and Damages in the future.

damages in accordance with the Format given in Financial Regulation 110.

- |     |   |           |  |
|-----|---|-----------|--|
| (b) | Due to delay in taking action in terms of Financial Regulation 104 on 03 vehicle accidents including a vehicle that had met with accidents twice during the period of July – December, 2018 the losses could not be assessed and brought to accounts. | - Ditto - | Investigations are being carried out, and action will be taken to obtain estimates for assessment in the future. |
|-----|---|-----------|--|

4. Good Governance

-----

4.1 Internal Audit

-----

The following observation is made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
-----	-----	-----
Six employees including the Chief Internal Auditor had been deployed in the Internal Audit Unit of the Ministry. However, the approved cadre had not been decided. An internal audit had not adequately been conducted on miscellaneous projects valued at Rs. 3,663.41 million under the development programmes of the Ministry.	Internal audits should be carried out covering all the units of the Institute.	It is informed that action will be taken in the future by preventing such inefficiencies.

## 5. Human Resource Management

-----

The following observation is made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
-----	-----	-----
<p>The 36 vacancies in the staff comprised 02 posts of Assistant Secretary, 02 posts of Engineer, 03 posts of Assistant Director, the post of Administrative Officer, 02 posts of Translator, 05 posts of Development Officer, 06 posts of Management Assistant, and 06 posts of Driver.</p>	<p>Vacancies of the essential posts should be filled in collaboration with the relevant institutions, or taking necessary action by holding discussions with the Treasury in case of excess posts.</p>	<p>Many requests relating to the filling of those vacancies, had been made to the Director General of Combined Service, Engineering Services Board, and Secretary to the Ministry of Public Administration, but no reply has been received. Due to those vacancies, issues such as failure in the productive execution of duties of the Ministry, failure to supervise the housing projects and expedited development activities taking place in the Northern Province, and inability to translate documents on time, have arisen.</p>