

## **Head 165 - State Ministry of National Integration and Reconciliation**

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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 State Ministry of National Integration and Reconciliation 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 State Ministry of National Integration and Reconciliation was issued to the Chief Accounting Officer on 04 June 2019 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report of the Ministry was issued to the Chief Accounting Officer on 13 June 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 State Ministry of National Integration and Reconciliation 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, 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 on Financial Statements**

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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 is the responsibility of the Chief Accounting Officer.

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 annual and periodic financial statements to be prepared.

The Chief Accounting Officer shall ensure that an effective internal control system is maintained for the financial control of the Ministry 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 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 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 Ministry to plan appropriate audit procedures in a timely manner.
- Evaluate Structure of Financial Statements Including Disclosures and content-based transactions and events the structure that the financial statements are appropriate and reasonable.
- That 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 Chief 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) and Section 38 of the National Audit Act No. 19 of 2018 .

- (a) As there was no need to prepare financial statements for the previous year, it was impossible to declare the financial statements for the year under review were consistent with those of the previous year.
- (b) As there was no need for the State Ministry of National Integration and Reconciliation to prepare financial statements for the previous year, the recommendations for the financial statements of the preceding year had not been furnished.

## 1.6 Comments on Financial Statements

### 1.6.1 Submission of Accounts

The following observations are made.

| Audit Observations  | Recommendation   | Comments Given by the Chief Accounting Officer  |
|---|--|---|
| <p><b>Annual Financial Statements</b></p> <p>Although the Annual Financial Statements prepared in trilingual form should be furnished to the Auditor General before 28 February 2019 in terms of the Public Accounts Circular No. 267/2018 dated 21 November 2018, the financial statements in English, Sinhala and Tamil languages had been furnished to audit after a delay of 12 days, 15 days and 84 days respectively.</p> | <p>Actions should be taken to prepare financial statements in terms of Paragraph 9.1 of the Public Accounts Circular No. 267/ 2018 dated 21 November 2018.</p> | <p>Delays in starting the preparation of Final Accounts and the delay of the Tamil language copy due to translation issues.</p> |

### 1.6.2 Accounting Deficiencies

#### (a) Statement of Financial Performance

The following observations are made.

| Audit Observation   | Recommendation  | Comments Given by the Chief Accounting Officer                  |
|---|---|---|
| <p>(i) Even though the Deposit Income under the Non-revenue Receipts had been shown as a sum of Rs.</p> | <p>Actions should be taken to identify the Revenue accurately and taken in to</p> | <p>A sum of Rs. 6,209,570 had been overstated by a mistake.</p> |

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|--|---|---|
| <p>6,260,832, the Deposit Income had been shown under the Other Receipts amounted to Rs 6,209,570 as well in the Statement of Financial Performance.</p>   | <p>accounts .</p>   |   |
| <p>(ii) Although the acquisition of assets for the year under review as per the Statement of Financial Performance was Rs. 43,470,851 , since that had been a sum of Rs. 43,000,000 as per the Non- financial Assets Statement a difference of Rs 470,851 was observed. The reasons for that were not explained.</p> | <p>The value of non-financial assets should be accurately recorded in the financial statements.</p>         | <p>Agreed.</p>  |
| <p>(iii) Although the recovering of Advances during the year under review was Rs. 7,014,545 , since that had been shown as Rs. 229,470 under the Other Receipts of the Statement of Financial Performance the receipts of advances had been shown understated by a sum of Rs. 6,785,075 .</p>                        | <p>The recovery of total advances relating to the year should be included in the Financial Performance.</p> | <p>Settlement of advances made through cross notes were not included in the financial statements.</p> |
| <p>(iv) Even though the advance payments had been shown as Rs. 3,028,162, in the Statement of Financial Performance, since that amount had been noted as Rs. 3,648,146 as per the Treasury Computer Printouts, a difference of Rs. 619,984 was observed.</p>   | <p>The total advance payments relating to the year should be included in the Financial Performance.</p>     | <p>Only the Advances made out of cash are included in the Financial Performance Report.</p>           |

**(b) Cash Flow Statement**  
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The following observations are made.

| <b>Audit Observation</b><br>-----  | <b>Recommendation</b><br>-----  | <b>Comments Given by the Chief Accounting Officer</b><br>-----   |
|--|---|--|
| <p>(i) Even though the Capital Expenditure for the year under review amounted to Rs. 393,376,805 as per the financial statements for the year 2018, thus the value of construction of physical assets, or purchases and acquisition of other investment according to the Cash Flow Statement was Rs. 408,307,856, a difference of Rs. 14,931,051 was observed.</p> | <p>Accurate values should be identified whilst preparation of financial statements</p>  | <p>Corrected financial statements as per revealed in audit has been submitted.</p>   |
| <p>(ii) The receipts and payments of Advances to Public Officers had not been shown in the Net Cash Flow generated from Investment Activities.</p>   | <p>All cash inflows and cash outflows for the Advance Account purpose should be included in the Net Cash Flow generated from the Investment Activities.</p> | <p>The corrected Cash Flow Statement, Imprest Reconciliation Statement and the Financial Performance Report were sent as per revealed in audit .</p> |

**(c) Property Plant and Equipment**  
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The following observations are made.

| <b>Audit Observation</b><br>-----  | <b>Recommendation</b><br>-----   | <b>Comments Given by the Chief Accounting Officer</b><br>----- |
|--|--|--|
| <p>(i) The value of Office Equipment amounted to Rs. 7,655,233 and the Plant and Machinery amounted to Rs. 12,670,780 had been shown as a total under the non-residential buildings in the Statement of Non-Financial Assets as at the end of the year under review.</p> | <p>Should be taken in to accounts by identifying the asset class accurately.</p> | <p>Agree.</p>  |

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|-------|---|--|--|
| (ii)  | Purchase of Vehicles worth of Rs. 43,000,000 had been shown in the Statement of Non-Financial Assets as office buildings.   | Should be taken in to accounts by identifying the asset class accurately .             | Agree.   |
| (iii) | Although the balance of the non-financial asset as at 31 December 2018 was Rs. 63,796,863, the value had been reported as zero according to the Treasury printouts. | Actions should be taken to identify and correct the changes in the Treasury printouts. | The abolition of the State Ministry of National Integration and Reconciliation and the officers who had prepared the account had been transferred. |

**(d) Non-availability of Documents and Books**  
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It was observed that the following documents were not maintained by the Ministry during the course of audit test checks carried out .

| <b>Audit Observation</b><br>-----  | <b>Recommendation</b><br>-----   | <b>Comments Given by the Chief Accounting Officer</b><br>----- |
|--|--|--|
| (i) <b>Register of Fixed Assets for Computers, Accessories and Software</b><br>-----<br>A Register of Fixed Assets for the Computers, Accessories and Software had not been maintained in terms of the Treasury Circular No. IAI /2002/02 dated 28 November 2002 . | A Register of Fixed Assets for Computers, Accessories and Software should be maintained in terms of Treasury Circular No. IAI /2002/ 02 dated 28 November 2002 . | Agree. Actions will be taken to make corrections.              |
| (ii) <b>Register for Received Cheques and Money Orders etc.</b><br>-----<br>A Register for received Cheques and Money Orders had not been maintained in terms of Financial   | A Register should be maintained so that the received cheques, money  | -do-   |

|              |   |  |      |
|--------------|---|--|------|
|              | Regulations 451 .   | orders that can be recorded as per the Form G.A.M.83 in terms of Financial Regulation 451 .  |      |
| <b>(iii)</b> | <b>Register of Security</b><br>-----  |  |      |
|              | A Register of Security had not been prepared consisting of details of officers and the employees who should keep Security in accordance with the Financial Regulations 891(1) . | A Register of Security should be maintained consisting of details in respect of the officers who should keep Security in terms of Financial Regulation 891 (1) .       | -do- |
| <b>(iv)</b>  | <b>Register of Electrical Equipment</b><br>-----  |  |      |
|              | A Register of Electrical Equipment had not been maintained in accordance with Financial Regulation 454 (2) .  | An Inventory Book should be maintained in respect of all electrical components and equipment in government buildings in accordance with Financial Regulation 454 (2) . | -do- |
| <b>(v)</b>   | <b>Record of Losses</b><br>-----  |  |      |
|              | A Register in respect of losses had not been maintained in terms of Financial Regulation 110 .  | A Register of Losses should be maintained in terms of Financial Regulation 110 .   | -do- |
| <b>(vi)</b>  | <b>A Record of Liabilities</b><br>-----   |  |      |
|              | A Record of Liabilities had not been maintained in terms of Financial Regulation 214.   | Liabilities should be listed in a Record of Liabilities those can be checked regularly in terms of Financial Regulations 214.  | -do- |
| <b>(vii)</b> | <b><u>Fuel &amp; Lubricant Stock Book</u></b>   |  |      |
|              | A Stock Book for Fuel and Lubricants had not been   | A Stock Book for Fuel and  | -do- |

maintained in accordance with the Financial Regulations 1647 (d) .

Lubricants should be maintained in accordance with Financial Regulations 1647 (d) .

**(viii) Register of Vehicle List**  
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A Register of Vehicle List had not been maintained in terms of Financial Regulation 1647 (e) .

A Register of Vehicle List should be maintained in accordance with Financial Regulation 1647 (e) .

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**(e) Certifications to be made by the Chief Accounting Officer**  
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Although the Chief Accounting Officer should certify the following matter in respect of the provisions of Section 38 of the National Audit Act, No. 19 of 2018 , actions had not been taken accordingly.

| <b>Observation</b>   | <b>Recommendation</b>  | <b>Comments Given by the Chief Accounting Officer</b>   |
|--|--|---|
| -----  | -----  | -----   |
| <p><b>(i)</b> The Chief Accounting Officer should ensure that an effective internal control system for the financial control 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. Even though such reviews should be made in writing and submitted a copy to the Auditor General, the statements that such reviews were made had not been furnished to audit.</p> | <p>Actions should be taken in terms of Section 38 of the National Audit Act No. 19 of 2018 .</p> | <p>Agree. The former State Ministry of National Integration and Reconciliation has been abolished by now.</p> |
| <p><b>(ii)</b> Although the Chief Accounting Officer should ensure that there is an effective mechanism for carrying out the internal audit function properly as per the observation made in Paragraph 4.1 of the report, that requirement had not been fulfilled.</p>   | <p>-do-</p>  | <p>-do-</p>   |



(f) **Non-compliance with Laws, Rules and Regulations**

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An instance of non-compliance with Laws, Rules and Regulations is as follows.

| <b>Reference to Laws,<br/>Rules and<br/>Regulations</b>  | <b>Value<br/>Rs.</b> | <b>Observation</b>   |   | <b>Comments Given by<br/>the Chief Accounting<br/>Officer</b>   |
|--|----------------------|--|---|---|
|  |                      | <b>Non-compliance</b>  | <b>Recommendation</b>   |   |
| Financial Regulation<br>of the Democratic<br>Socialist Republic of<br>Sri Lanka<br>-----<br>Financial Regulations<br>104 (4) | 644,920              | Although the full<br>report should be<br>submitted within<br>three months from<br>the date of the loss<br>occurred, actions<br>had not been taken<br>to submit the<br>relevant reports<br>regarding the 02<br>vehicles in<br>accordance with the<br>Regulations. | Actions should be<br>taken in accordance<br>with the provisions of<br>the Financial<br>Regulations. | Agree. The former<br>State Ministry of<br>National Integration<br>and Reconciliation has<br>been abolished by<br>now. |

## 2. Financial Review

### 2.1 Expenditure Management

The following observations are made.

| Audit Observation   | Recommendation   | Comments Given by the Chief Accounting Officer  |
|---|--|---|
| <b>(a) Fruitless Provisions made Available</b>  |  |   |
| The Total Net Provision provided for 2 Recurrent Expenditure Objects amounted to Rs. 62,000 and 12 Capital Expenditure Objects amounted to Rs. 1517.76 million had been saved without any utilization.  | When the Scope of the Ministry is changed by Gazette Notifications, action should be taken to return the allocations made available for the relevant Expenditure Object. | Due to the changes of the Scope of the Ministry several times during the year 2018, it was impossible to perform the functions planned. |
| <b>(b) Overprovisions made Available</b>  |  |   |
| <b>(i)</b> Out of the net provision made available for 19 Recurrent Expenditure Objects totalled to Rs. 670.17 million due to the utilization of only Rs. 40.13 million, a sum of Rs. 630.04 million had saved and the remaining savings from the net provision had ranged from 14 per cent to 96 per cent. | -do-   | -do-  |
| <b>(ii)</b> Out of the net provision made available for 11 Capital Expenditure Objects totalled to Rs. 5,025.75 million, since only the total of Rs. 2,510.36 million was utilized, a sum of Rs. 2,515.39 million of the total net provision had saved and that savings remained ranging from 36 per        | -do-   | -do-  |

cent to 99 per cent of net provisions.

### 3. Operating Review

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#### 3.1 Planning

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The following observation is made.

#### Audit Observation

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An Action Plan had not been prepared for the year under review in terms of Public Finance Circular No. 2014 /01 dated 17 February 2014 .

#### Recommendation

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An Action Plan should be prepared for each year in terms of provisions.

#### Comments Given by the Chief Accounting Officer

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Agreed. The former State Ministry of National Integration and Reconciliation has been abolished by now.

#### 3.2 Annual Performance Report

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The following observation is made.

#### Audit Observation

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The Performance Report relating to the year under review had not been furnished along with the financial statements in terms of Section 15.3 (e) of the National Audit Act No 19 of 2018 .

#### Recommendation

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The Performance Report for each year should be prepared as prescribed.

#### Comments Given by the Chief Accounting Officer

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Agreed. The former State Ministry of National Integration and Reconciliation has been abolished by now.

#### 3.3 Management Weaknesses

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The following observation is made.

#### Audit Observation

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A report consisting details of property plant and equipment purchased from Local Fund by Bureau of National Integration and

#### Recommendation

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Fixed assets belonging to the National Integration and

#### Comments Given by the Chief Accounting Officer

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Agreed. The former State Ministry of National Integration and

Reconciliation amounted to Rs. 24,876,534 as at the end of the year under review as per the Asset Management Circular No. 01/2017 dated 28th June 2017 had not been sent to the Comptroller General by the Ministry. Reconciliation Bureau should also be reported to the Comptroller General. Reconciliation has been abolished by now.

**4. Good Governance**

**4.1 Internal Audit**

The following observation is made.

| <b>Audit Observation</b>  | <b>Recommendation</b>   | <b>Comments Given by the Chief Accounting Officer</b>  |
|---|---|--|
| The Ministry had not established an Internal Audit Unit in terms of Financial Regulation 133 and the Management Audit Circular No. DMA / 2009 (1) of 09 June 2009 . | An Internal Audit should be carried out in terms of the Circular. | The former State Ministry of National Integration and Reconciliation has been abolished and no information could be found as an Internal Audit Division had been in operation. |

**4.2 Audit and Management Committee**

The following observation is made.

| <b>Audit Observation</b>  | <b>Recommendation</b>   | <b>Comments Given by the Chief Accounting Officer</b>   |
|---|---|---|
| Although a Ministry should conduct 04 Audit and Management Committee meetings per year in terms of Circular No: DMA/ 2009 (I) dated 09 June 2009, only one Audit and Management Committee had been held in the year under review. | The Committee Meetings should be held every year as per the provisions of the Circular. | Agreed. The former State Ministry of National Integration and Reconciliation has been abolished by now. |