

## **Head 147 – Ministry of Regional Development**

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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 Ministry of Regional Development 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 to be 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 Regional Development was issued to the Chief Accounting Officer on 31 May 2019 in terms of Section 11(1) of the National Audit Act No.19 of 2018. The Annual Detailed Management Audit Report relating to the Ministry was issued to the Chief Accounting Officer on 31 May 2019 in terms of Section 11(2) of the National Audit Act. This report will be tabled in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka 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 Regional Development as at 31 December 2018, and of its financial performance and its cash flows 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 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 Responsibility of the Chief Accounting Officer and the Accounting Officer on the Financial Statements**

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The Chief 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 the provisions in Section 38 of the National Audit Act No.19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 the preparation of annual and periodic financial statements.

In terms of Sub-section 38(1)(c) of the National Audit Act, the Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Ministry 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**

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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 summary 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 judgement 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 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, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 1.5 Report on Other Legal Requirements

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I express the following matters in accordance with Section 6(d) and Section 38 of 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 was consistent with the preceding year.
- (b) Since there was no requirement for the Ministry of Regional Development to prepare financial statements for the preceding year, recommendations on the financial statements had not been made.

## 1.6 Comments on Financial Statements

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### 1.6.1 Presentation of Accounts

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The following financial statements had not been furnished to audit by the Ministry on due dates.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
----- Even though, the annual financial statements should be furnished to the Auditor General before 28 February 2019 in terms of Public Accounts Circular No.267/2018 dated 21 November 2018, the financial statements had been presented to audit only on 01 April 2019 after a delay of a period of 01 month.	----- Action should be taken in terms of the provisions of the Circular.	----- Financial Statements were furnished to audit on 01 April 2019.

### 1.6.2 Statement of Financial Performance

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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
----- (a) The receipts of imprests from the Treasury shown as non-revenue receipts in the year under review amounted to Rs.271,130,853. Nevertheless, it was shown	----- Action to be taken to account in terms of Public Accounts Circular No.267/2018 dated 21 November 2018.	----- Direct receipts from the Treasury had been Rs.268,310,000 as per the ACA 3 Format- Details of the receipts of imprests shown in the statement of financial performance. The amount

as Rs.268,310,000 according to the documents furnished to audit and the Monthly Accounts Summary. Accordingly, a difference amounting to Rs.2,820,853 was observed.

- (b) Even though a sum of Rs.1,907,853 had been shown as other receipts in the year under review, it was shown as Rs.4,615,288 as per the Monthly Accounts Summary presented to audit. Accordingly, a difference of Rs.2,707,435 was observed.

- (c) The balance of the imprest account as at 31 December 2018 had been understated by Rs.113,418 in the statement of financial performance as per the audit observation mentioned in the above paragraph (b)

collected by the Ministry from the various sources during the year about Rs.2,820,853. That collected money also considered as a part of the imprest. Therefore, all receipts were shown in the financial statements as total of receipts of imprests.

A sum of Rs.271,130,853 was recorded in the statement of financial performance under Treasury imprests in the financial statements presented for the year ended 31 December 2018. The break-up of above imprests was shown in the format ACA-3 annex. The format of the above annex was presented as mentioned in the respective Circular. The imprests should be shown as a total of the imprests received from the Treasury imprests and the money received from other various sources. Accordingly, it was shown as Rs.271,130,153 in the statement of financial performance under other receipts with the total of the money received from the Treasury amounting to Rs.268,310,000 and the money received from other sources amounting to Rs.2,820,853.

The balance of imprest amounting to Rs.485,298,744 shown in the statement of financial performance as at 31 December 2018 was correct. The break-up of this imprest balance was shown in the Imprest Adjustment Account in the page 54 of the financial statements. The break-up of the balance shown by audit cannot be identified.

### 1.6.3 Statement of Financial Position

The following observations are made in respect of the statement of financial position.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
(a) Even though, a sum of Rs.92,287,698 had been shown as value of the property, plant and equipment under non-current assets in the year under review, it was shown as a nil balance as per the Treasury computer printout furnished to audit.	The figures in the financial statements should agree with the values of the Treasury print outs in terms of paragraph 3.1 of the Public Accounts Circular No.267/2018 dated 21 November 2018.	The audit observation was accepted. As action had been taken to rectify the errors made, in reporting the details of the assets under CIGAS Programme the value of the property, plant and equipment had shown a nil balance as per the Treasury records. At present above details is being updated.
(b) The value of the advances and deposits given to an external party on behalf of the office building which obtained on lease basis in the year under review amounting to Rs.312,156,151 had not been shown in the Rent and Works Advance Account.	Action should be taken in terms of Public Accounts Circular No.250/2016(i) dated 03 August 2016.	The Public Accounts Circular No.250/2016(i) was issued on 03 August 2016 and instructions in respect of accounting of advance payments for external parties were given by that circular. The payments for advances and deposits for buildings rent had been made before issuing the circular. Therefore, action could not be taken as per the instructions of the circular. The Department of Public Accounts of the Treasury had informed when enquired on above matter that the instructions of the Circular was not relevant for the payments, as the Circular had been issued post-dated after the payments made

#### 1.6.4 Cash Flow statement

The following observations are made in respect of the cash flow statement.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
(a) A sum of Rs.270,992,728 had been shown as non-revenue receipts generated from operating activities. According to the Monthly Accounts Summary furnished to audit, it was shown as Rs.272,925,287.	The financial statements to be prepared in terms of the instructions of the Public Accounts Circular No.267/2018 dated 21 November 2018.	The cash flow generated from operating activities was computed only including cash flows and excluding the cross entry receipts. The audit had identified the cash flow with taking into account the cross entry receipts.
(b) A sum of Rs.215,008,263 had been shown as personal emoluments and operating expenses generated from operating activities. According to the Monthly Accounts Summary furnished to audit it was shown as Rs.219,105,272.	-do-	The personal emoluments expenditure was included in the cash flow without considering the cross entry payments. The audit had identified the cash flow with considering the cross entry payments.
(c) A sum of Rs.398,727 had not been shown as receipts and payments of deposits in the cash flow generated from operating activities.	-do-	The total amount posted as receipts in the General Deposit Account had been paid during the same year. This part was reported in the financial performance report. The changes of the deposits only should have been reported in the cash flow statement.
(d) A sum of Rs.4,930,945 paid as loan advances to public officers and a sum of Rs.3,119,473 received as	-do-	The cash received for payments of advances had been included in the non-revenue receipts shown in the query 1. The receipts of the

loans repayments had not been shown under cash flow generated from investing activities.

advance account also had not been included as that was also a receipt through the cross entry.

### 1.6.5 Advance Account Balances

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The following observations are made.

Audit Observation -----	Recommendation -----	Comments of the Chief Accounting Officer -----
(a) Even though, the Office Assistant (K.K.S) transferred to the Ministry of Regional Development from the Department of Examination on 07 April 2016 had not reported for work from 22 June 2017, a sum of Rs.33,719 had been paid as the salary for July 2017 to him. Action had not been taken to recover the salary paid during the year under review.	The required systems and control methods should be prepared to minimize irregular payments and proper action to be taken to identify the officers responsible for such type of payments.	Action was taken to inform to pay back the total salary paid.
(b) Even though, a period over 1 ½ years had elapsed as at 31 December 2018 from the date of vacation of post of the Office Assistant mentioned above, action had not been taken to recover the loan balance of Rs.85,895 recoverable from him.	Action should be taken to recover the loan balances in terms of Section 4.5 of Chapter XXIV of the Establishments Code.	It was informed in several instances to pay back the loan. As no response was received action will be taken to file a case.





## 2. Financial Review

### 2.1 Expenditure Management

The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
(a) The provisions of Rs.2,900,000 had been made for 02 Recurrent Objects and 01 Capital Object for the year under review and the savings of provisions had ranged from 91 per cent to 97 per cent of the above provisions.	Action to be taken to prepare estimates on realistic basis and to minimize budgetary variances.	The subject of Sustainable Development and Wild life also had been added to the scope of Honourable Minister of Regional Development in May 2018 and had been established a new Ministry as Ministry of Sustainable Development, Wildlife and Regional Development. In that context, the provisions had been made for Ministry of Sustainable Development and Wildlife under Head No.161 and provisions had been made for Ministry of Regional Development under Head 147 for the year 2018. As the above changes of the Ministries both Heads were come under one Minister and as such the expenditure expected to incur under Head 147 had been incurred under Head 161. Similarly, with the unexpected change of the subjects of the Ministries on 26 October 2018, the expected expenditure was also not furnished. As such the provisions were saved as shown in the query.
(b) The provisions made for one Recurrent object and 2 capital objects totalling Rs.650,000 had not been utilized during the year under	-do-	-do-

review.

## 2.2 Operations of Bank Accounts

The following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
According to the note No.viii of the financial statements presented for the year under review, the balance of the bank account No.7041590 had been shown as Rs.71,729,655 but according to the books of the Ministry the bank balance amounted Rs.7,172,655.	The registers belonging to the Ministry should have been maintained accurately and should include the accurate information in the financial statements.	I accept that a wrong figure had been entered mistakenly in entering the balance according to the bank statement in preparation of financial statements.

## 3. Operating Review

### 3.1 Annual Performance Report

The following observations are made in respect of the Annual Performance Report furnished to audit.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
(a) According to the Action Plan of the year under review provisions of Rs.100 million had been made to implement Special Development Projects in the Central and Eastern Provinces under Investment Promotion Programme. Nevertheless, those provisions had been utilized only for the areas such as reconstruction of tanks, construction of bridges, road development and improvement of infrastructure facilities but no special development project whatsoever had been	The provisions of Government which is a limited resource should have been utilized to implement effective and efficient investment promotion projects.	The provisions of Rs.100 million were allocated initially for investment promotions considering the functions assigned to the Ministry. These provisions were allocated with the objective of providing infrastructure facilities for an investor who agreed for an investment. As agreements for investment opportunities which could be implemented during the year under review were not arised, action had been taken to utilize the provisions allocated thereon for the utilization in other suitable projects to manage the provisions properly.

launched.

Action was taken to provide financial facilities required for small and medium scale industrialists and entrepreneurs under the programme of “Siyawara Loans” of this Ministry. The above programme was implemented with the connection of Enterprise Sri Lanka Programme which is being implementing at present. Further, many facilities had been provided in-directly to the industrialists through the infrastructure facilities development.

- (b) Even though provisions of Rs.25,999,285 had been released to cover 03 Districts to implement Investment Promotion Programme, the financial progress and physical progress of projects implemented therein had become a nil value. -do-

These projects could not be implemented due to the reasons beyond the control of the Ministry. Two projects costing Rs.15,999,285 could not be implemented due to the bad weather condition.

The District Secretary had informed at the end of the year that 2 projects valued at Rs.10 million could not be implemented in Biyagama Divisional Secretariat Division in the Gampaha District.

These projects could not be implemented due to lack of consent of the Pradeshiya Sabha.

- (c) Even though the provisions of Rs.15 million had been released to the District Secretariat, Batticaloa for the reconstruction of stairs gate and sluice gate which is the second stage of Batticaloa Ampunai tank project implemented under the Investment Promotion -do-

According to the explanation given by the District Secretary Batticaloa, the constructions of the Ampunai Tank could not be completed due to the bad whether condition.

Programme, the constructions had been stopped half way after awarding tenders.

- (d) Even though the provisions of Rs.999,285 and Rs.5,000,000 had been released to the Kurunegala and Gampaha District Secretariats respectively to implement development projects for covering of 02 districts of Kurunegala and Gampaha, those provisions had been returned to the Ministry during the year under review. -do-

The project of development of Kurunegala, Mayakadawara anicut could not be implemented due to the bad weather condition prevailed with the rains.

The responsibility to implement 3 projects had been assigned to the District Secretary, Gampaha and the provisions thereon also provided. The District Secretary had informed on 05 December 2018 that the above projects could not be implemented. Due to the sufficient time was not available, these funds could not be utilized for another projects. In enquiries made further thereon, it was identified the reason for above had been the non-availability of due consent from the respective Pradeshiya Sabhas to implement of above projects.

- (e) Even though the provisions of Rs.2,894,542 had been released to the District Secretariat, Polonnaruwa to construct a bridge near the Medirigiriya lime stall, the above project as well had not been implemented. -do-

Even though the necessary preliminary works to implement this project had been finalised the project could not be completed due to the bad weather conditions with the rains.

### 3.2 Assets Management

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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
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(a) Two motor vehicles which registered under the name of other Ministries had been utilized from the year 2016 without proper vesting.	Action should be taken to transfer the motor vehicles properly.	The activities for transferring the motor vehicles No.WP KJ-3870 and WP KR-5664 to this Ministry had not been carried out by other Ministries. However, above 2 motor vehicles had been handed over to other Ministry (Ministry of National Policies, Economic Affairs, Resettlement and Rehabilitation, Northern Province Development and Youth Affairs) at present.
(b) Three vehicles including 02 motor vehicles transferred to the Ministry after obtaining on lease basis by the Department of Budget of the Treasury and a motor bicycle valued at Rs.199,500 had remained idle for over a period of one year.	Action to be taken to utilize the Government vehicles remained idle for the intended purposes.	<p>The motor vehicle No.WP CAQ-2498 had been a pool vehicle previously and it was temporary attached to the wildlife Trust on 04 June 2018 at the time of the Ministry of Sustainable Development, Wildlife and Regional Development. The vehicle had been handed over again to the pool of the Ministry on 02 July 2018. But as the adequate duties not available in the pool to utilize the motor vehicle it was not utilized for running.</p> <p>The vehicle No.WPCAQ-2528 was utilized by an officer of the Honourable Minister's Staff and with the changes of the Ministries on 26 October 2018 adequate duties were not available in this Division and as such the vehicle had not been utilized up to the date. Motor Bicycle No.WPBFT-7753 had been purchased for this Ministry to utilize in the postal duties. But non-availability of a suitable officer, the motor bicycle</p>

was not utilized for running.

- (c) Even though, 02 new motor vehicles had been obtained under operating leases installments at the rate of Rs.162,000 per month during the year under review; those motor vehicle had not been utilized. But installments of Rs.814,708 had been paid for a 03 months period from the end of the year under review.

Action to be taken to utilize the Government vehicles which remained idle for the intended purpose.

The cab vehicle No.WPP1-2358 was obtained for pool duties under operating leases method and with the changes of the Ministries there were no development projects to implement for the year 2019 or there were no adequate duties and the vehicle had not been utilized for running.

As such the private institution had been informed to take action to cancel the lease agreement and to take over the vehicle obtained under operating lease method. As per the agreement, a period of 03 months had been spent to hand over the vehicle. Accordingly, action had been taken to cancel the agreement and to hand over this vehicle on 07 March 2019.

#### 4. Execution of Sustainable Development Goals

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The following observation is made.

##### Audit Observation

##### Recommendation

##### Comments of the Chief Accounting Officer

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Every Government institution should take action as per the 2030- Agenda on Sustainable Development of the United Nations and the Ministry of Regional Development had reported that the Ministry carried out the functions according to its scope. Even though, the Sustainable Development goals such as reduce the poverty and eliminate hunger had been identified, the activities to identify the turning point to achieve that objectives and goals as well

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The institution should take action to carry out functions in accordance with the Government policy and the relevant Act.

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Action will be taken to obtain replies from Sustainable Development Council in respect of identifying the relevant indicators.

as the indicators to measure  
the progress had not been  
finalised.