

Head 195 – Ministry of Development Strategies and International Trade

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ministry of Development Strategies and International Trade 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 the provisions of the National Audit Act, No.19 of 2018. In terms of Sub-section 11(1) 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 Development Strategies and International Trade was issued to the Chief Accounting Officer on 30 May 2019. In terms of Sub-section 11(2) of the National Audit Act, the Annual Detailed Management Audit Report relating to the Ministry was issued on 31 May 2019 to the Chief Accounting Officer. This report read in conjunction with Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka is submitted to Parliament in terms of Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, except for the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Ministry of Development Strategies and International Trade as at 31 December 2018, and of 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 qualified opinion.

1.3 Responsibilities of the Chief Accounting Officer for the Financial Statements

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 provisions mentioned in Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as the Chief Accounting Officer determines 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 of the Ministry.

As per 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 periodic reviews are carried out to monitor the effectiveness of such systems and accordingly make any alteration 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 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 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 with governance 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

As required by Section 6 (d) of the National Audit Act, No.19 of 2018, I state the followings:

- (a) As there was no requirement of preparing financial statements for the preceding year by the Ministry of Development Strategies and International Trade, it could not be stated whether the financial statements of the year under review are consistent with the financial statements of the preceding year.
- (b) As there was no requirement of preparing financial statements for the preceding year by the Ministry, recommendations on the financial statements for the preceding year, had not been included.

1.6 Comments on Financial Statements

1.6.1 Statement of Financial Performance

The following accounting deficiencies were observed in the statement of financial performance presented to Audit.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(a) Even though a sum of Rs.8,698,521 had been shown under non-income receipts, according to the monthly account summaries presented to Audit, other receipts had been Rs.7,740,738. As such, it had been overstated by Rs.957,783.	The figures in statements of final accounts of the Treasury should be based in the preparation of financial statements in terms of paragraph 3.5 of the State Accounts Circular No.267/2018 of 21 November 2018.	The sum of Rs.959,949.50 relating to recovery of loans of officers who transferred in to the Ministry had been computed under other receipts and after adjusting the sum of Rs.2,166.77 through Journal entries, the other receipts of Rs.8,698,521 is accurate.
(b) Even though a sum of Rs.4,154,406 had been shown as receipts of advances in the statement of financial performance, it had been Rs.5,577,886 according to the Treasury computer	-do-	The receipts in the Advances Account 195011 amounting to Rs.4,154,406 had been brought to account under non-income receipts in the statement of financial performance of the Ministry while the sum of Rs.1,423,480 credited under

print. As such, a difference of Rs.1,423,480 was revealed.

other Departments and Ministries had been shown by entries in the Adjustment Account. Moreover, the said sum is not Rs.1,123,480, but Rs.1,423,480.

(c) A sum of -do- Rs.13,740,933 had been shown as payment of advances in the statement of financial performance. However, according to the monthly accounts summaries presented to Audit, it had been Rs.14,706,838. As such, a difference of Rs.965,905 was revealed.

The said sum has been shown by a note in the Imprest Adjustment Account.

1.6.2 Cash Flow Statement

The following accounting deficiencies were observed in the cash flow statement.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
<p>(a) Even though a sum of Rs.1,607,150,989 had been shown as non-income receipts in the cash flows generated from operations in the cash flow statement, according to the information presented to Audit, its value had been shown as Rs.1,609,728,543, understating by Rs.2,577,554.</p>	<p>The cash flow statement should be prepared in terms of provisions of the State Accounts Circular No.267/2018 of 21 November 2018.</p>	<p>Expenditure in certain Objects could not be brought to account based on quarterly limitations. As such, those Journal entries have been made for rectification after debiting to other Objects.</p>
<p>(b) Payments of deposits amounting to Rs.303,385 had not been entered under cash flows spent for operations.</p>	<p>-do-</p>	

(c) Even though a sum of -do- Rs.1,606,562,438 had been shown under cash flows spent for operations and investments in the cash flow statement, according to the monthly accounts summaries presented to Audit, it had been Rs.1,599,443,544. As such, it had been overstated by a sum of Rs.7,118,894.

(d) Receipts of advances -do- amounting to Rs.5,114,355 and payments of advances amounting to Rs.14,706,838 had not been shown under the cash flows generated from investment activities.

(e) Even though the Ministry -do- had not engaged in financial activities, a sum of Rs.199,420 had been shown as the cash flows spent for financial activities in the cash flow statement.

1.6.3 Responsibilities of the Chief Accounting Officer

In terms of provisions in Section 38 of the National Audit Act, No.19 of 2018, the Chief Accounting Officer shall be responsible for the following matters. However, action had not been taken accordingly.

Observation	Recommendation	Comments of the Chief Accounting Officer
The Chief Accounting Officer had not replied the Audit Queries within a specific period as required by the Auditor General.	Action should be taken in terms of provisions in Section 38 of the National Audit Act, No.19 of 2018.	Action is being taken to reply the Audit Queries within a specific period in terms of provisions in Section 38 of the National Audit Act, No.19 of 2018.

1.6.4 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with provisions in laws, rules and regulations observed during the course of Audit are analyzed and shown below.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer															
<table border="1"> <thead> <tr> <th>Reference to Laws, Rules and Regulations</th> <th>Value</th> <th>Non-compliance</th> </tr> </thead> <tbody> <tr> <td></td> <td>Rs.</td> <td></td> </tr> <tr> <td colspan="3">(i) Establishments</td> </tr> <tr> <td colspan="3">Code of the Democratic Socialist Republic of Sri Lanka</td> </tr> <tr> <td>(i) Section 11.1 of Chapter XV and the letter No.F/P/06/140 dated 27 July 1990 of the Deputy Secretary to the Treasury</td> <td>520,000</td> <td>A sum of Rs.520,000 had been spent for obtaining business class air tickets for 04 officers who were in posts not approved by the letter of the Deputy Secretary to the Treasury, to travel abroad.</td> </tr> </tbody> </table>	Reference to Laws, Rules and Regulations	Value	Non-compliance		Rs.		(i) Establishments			Code of the Democratic Socialist Republic of Sri Lanka			(i) Section 11.1 of Chapter XV and the letter No.F/P/06/140 dated 27 July 1990 of the Deputy Secretary to the Treasury	520,000	A sum of Rs.520,000 had been spent for obtaining business class air tickets for 04 officers who were in posts not approved by the letter of the Deputy Secretary to the Treasury, to travel abroad.	In the purchase of air tickets for travelling abroad, expenses should be incurred for purchase of business class air tickets only for officers approved by the letter of the Deputy Secretary to the Treasury.	The officers who had participated in those discussions had belonged to the agency on international trade which was proposed to be established by then and that only business class air tickets had been provided in
Reference to Laws, Rules and Regulations	Value	Non-compliance															
	Rs.																
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proceeding
abroad, by taking
into consideration
their experience
and skills as they
are not made any
payment
whatsoever.

(ii) **Financial
Regulations of
the Democratic
Socialist
Republic of Sri
Lanka**

<p>----- Financial Regulations 104(1), 104(3) and 104 (4)</p>	<p>Had not been computed.</p>	<p>The Preliminary Report relating to 05 motor vehicle accidents which should be sent within 07 days and the full report which should be sent within 03 months had not been submitted.</p>	<p>Action should be taken in terms of provisions in Financial Regulations to submit relevant reports on due dates.</p>	<p>The relevant officers have been made aware to complete relevant reports speedily and to take action in terms of Financial Regulations in future.</p>
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(iii) **Public
Administration
Circulars**

<p>----- Circular No.30/2016 of 29 December 2016</p>	<p>Fuel consumption tests on 16 motor vehicles of the Ministry had not been carried out in terms of provisions in circulars.</p>	<p>Fuel consumption tests should be carried out in terms of provisions in circulars.</p>	<p>Fuel consumption tests have been carried out on 05 motor vehicles at present and action has been taken to carry out the fuel consumption tests on the other motor vehicles in future.</p>
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(iv) **Circulars of the**

**Ministry of
Finance and
Planning**

Circular No.156 266,800
of 16 February
2012

A sum of Rs.266,800 had been spent for printing 3,000 Vesak cards for the State Ministry contrary to provisions in the circular. Action should be taken in terms of provisions in circulars. Vesak cards have been printed on the request of Ministers in charge of subjects and the relevant officers had been briefed on limiting of expenses.

(v) **Assets
Management
Circulars**

Paragraph 02(i) 1,069,330
of Circular
No.02/2017 of 21
December 2017

The Ministry had used 4 motor vehicles belonging to other parties without proper approval. Action should be taken in terms of circulars. Relevant officers have been briefed to consider matters of transfer of relevant motor vehicles.

2. Financial Review

2.1 Management of Expenditure

The following observation is made.

Audit Observation

Recommendation

**Comments of the Chief
Accounting Officer**

Excess provision had been made for 17 Recurrent Objects and 22 Capital Objects and as such the savings, after the utilization of provisions, ranged between 11 per cent and 100 per cent of the total provisions relating to the respective Objects.

Accurate estimates of expenditure should be prepared in terms of Financial Regulation 50.

Implementation of projects as expected, had delayed and provisions had been saved as a result of reasons such as the change in Government, delay in selecting the consultancy firms and delay in getting qualified specialists.

2.2 Incurring of Liabilities and Commitments

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) Liabilities had been incurred, exceeding the savings by Rs.321,695 after utilization of provisions made for 05 Objects.	Action should be taken in terms of Financial Regulation 94(1).	Liabilities had to be incurred in such a manner for essential expenses and those which could not be delayed.
(b) The value of liabilities relating to the year 2018 not mentioned in the statement of liabilities in the financial statements, had been Rs.2,053,532.	All liabilities relating to the year should be mentioned in the statement of liabilities in the financial statement.	The payment could not be entered due to an error and the relevant officers were briefed on taking action to avoid such errors.

2.3 Issue and Settlement of Ad-hoc Sub-impres

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
In terms of Financial Regulation 371(5), ad-hoc sub-impres should be settled within 10 days after the completion of the purpose for which it is granted. However, ad-hoc sub-impres amounting to Rs.287,000 issued in 10 instances for 07 officers had been settled with a delay ranging from 25 days to 67 days.	Action should be taken in terms of Financial Regulation 372(5)	The settlement of sub-impres has been delayed for various reasons and action is being taken to brief the relevant officers thereon.

3. Operating Review

3.1 Performance

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) Provisions of Rs.70 million had been made in the year under review for 07 agreements under trade facilities and out of that, only a sum of Rs.33.92 million had been spent. The progress achieved relating to 05 agreements thereof had been ranging from 5 per cent to 10 per cent. Another 03 agreements had been postponed for the years 2019 and 2020.	Action should be taken to utilize the provisions for the execution of expected functions.	Certain agreements had been postponed until the year 2020 due to delay in agreeing in respect of technical matters such as objectives, general definitions, settlement of disputes and tariff lines for various other reasons.
(b) A sum of Rs.2,900 million had been estimated in the year 2018 for implementing/coordinating the activity named project on Rojana Industrial Park in Milleniya. A sum of Rs.949 had been spent in the year under review therefor. About 20 per cent physical progress had been achieved from activities such as acquisition of lands, evaluation of environmental effects, re-settlement of families and providing water, electricity and access roads planned to be	Action should be taken to achieve progress from activities as planned.	Problematic situations had to be faced in releasing funds to service supply institutions on inadequate receipt of imprests requested from the General Treasury.

achieved in the year 2018.

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|---|---|---|
| <p>(c) Provisions of Rs.500 million had been made in the year 2018 for the projects of establishing the industrial zones in Bingiriya and Weligama. A sum of Rs.154.53 million had been spent in the year under review and the physical progress thereof had been 40 per cent.</p> | <p>Action should be taken to achieve progress from activities as planned.</p> | <p>Problematic situations arose in releasing funds to service supply institutions on inadequate receipt of imprests requested from the General Treasury.</p> |
| <p>(d) Provisions of Rs.100 million had been made in the year under review for the project on implementing/coordinating the zone created for construction of boats and ships. Nevertheless, only a sum of Rs.8.107 million had been spent during the year and a physical progress of 45 per cent had been achieved.</p> | <p>Action should be taken to achieve progress from activities as planned.</p> | <p>The programmes had slowed down to a certain extent due to the changes occurred in the Government during the latter part of the year 2018 and action has been taken during the first quarter of the year 2019 to take the progress of these programmes to a higher level.</p> |

3.2 Annual Performance Report

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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<p>In terms of Public Finance Circular No.402 of 12 September 2002, the performance report for the year under review had not been tabled even by 31 May 2019 by the Ministry.</p>	<p>Action should be taken in terms of Sub-section 16(2) of the National Audit Act, No.19 of 2018.</p>	<p>Action is being taken to send the annual performance report to Parliament.</p>

3.3 Procurements

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(a) The procurement activities had not been shown in detail in the Master Procurement Plan prepared for the year 2018. Accordingly, the Master Procurement Plan had not been made use of as an instrument of management control.	The procurement activities for the year should be shown in detail in the Master Procurement Plan.	Action is being taken to prepare the procurement plan for the year 2019 in detail.
(b) Procurement activities on supply of venues and other facilities for discussions and workshops relating to trade agreements which were a main function, had not been planned in the Master Procurement Plan.	All procurements expected to be carried out during the year should be included in the Master Procurement Plan.	Action is being taken to include procurement activities on supply of venues and other facilities for discussions and workshops, in the Master Procurement Plan.
(c) Deviations from the Government Procurement Guidelines had occurred as follows.		
(i) In terms of Guideline 5.3, standard bidding documents had not been used relating to procurement activities valued at Rs.759,820.	Action should be taken in terms of procurement Guidelines.	It has been noted to use standard bidding documents for procurement activities carried out in future.
(ii) In terms of (a), (c) and (d) of Guideline 5.6.1, in calling for quotations for a computer, the trade	Action should be taken in	The relevant officers have been briefed to act in terms

name has been terms of Procurement of Procurement Guidelines mentioned and after Guidelines. for procurement activities mentioning so, the words “or a similar good” had not been used. carried out in future.

(iii) In terms of Guideline 4.3.1 (a) of the Procurement Guidelines, total cost estimates including all related Action should be taken in terms of Procurement Guidelines. The relevant officers have been informed to prepare total cost estimates in terms of Guideline 4.3.1 (a) of the Government Procurement Guidelines. expenditure relevant to each procurement, had not been prepared.

3.4 Assets Management

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
----- A motor vehicle belonging to the Ministry had been released to another Ministry.	----- A proper methodology should be used in releasing motor vehicles.	----- The activities required for transfer of the said motor vehicle is in progress.

3.5 Management Weaknesses

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
----- (a) Sums of Rs.4.19 million and Rs.1.09 million had been spent respectively for two ministerial consultants in the year 2018. However, information on the functions performed by those officers had	----- Even though a description including terms of reference for duties and responsibilities performed relating to the post, had been prepared, action should be taken to regularize it.	----- The role and responsibility assigned on background, expertise and experience relevant to the appointment had been indicated in the Cabinet Memorandum while action had been taken to prepare a description including Terms of Reference for the time being.

not been made available to Audit.

- (b) An overpayment of Rs.77,500 had to be made for reservation of seats at the last moment for three officers who participated in foreign programmes. Foreign tours should be well planned and organized. The relevant officers have been briefed to be careful relating to reservation of tickets.

4. Human Resources Management

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(a) The Ministry had not taken action to fill 76 vacancies existed as at the last date of the year under review.	Action should be taken to fill vacancies in the staff.	The Ministry of Public Administration had been informed of the relevant vacancies and action is being taken to forward reminders again and to recruit officers.
(b) Out of 296 employees of the staff of the Ministry, training opportunities had been given only to 32 persons during the year.	Action should be taken in terms of paragraph 6 of the Administration Circular.	Out of the staff of the Ministry, 161 employees are serving in the District Secretariats/Divisional Secretariats and regional offices of the Export Development Board for the duties of the Export Development Board and they had been made to participate in training courses conducted by the Export Development Board as well on various occasions.