

Head 163 – Ministry of Internal Affairs, Wayamba Development and Cultural Affairs

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ministry of Internal Affairs, Wayamba Development and Cultural Affairs for the year ended 31 December 2018 comprising the statements of financial position as at 31 December 2018 and statements 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. 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 Internal Affairs, Wayamba Development and Cultural Affairs was issued to the Chief Accounting Officer on 31 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 30 May 2019 to the Chief Accounting Officer. This report which should be 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 effects of 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 Internal Affairs, Wayamba Development and Cultural Affairs 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 Responsibilities for the Audit of the Financial Statements section of my 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 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 in terms of Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as the Chief Accounting Officer 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 of the Ministry.

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 system and accordingly make any alterations as required for such systems to be effectively carry out.

1.4 Auditor's Responsibility for 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 frauds or errors, 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 frauds or errors 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 audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. Also

- Identify and assess the risks of material misstatement of the financial statements, whether due to frauds or errors, 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 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

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

- (a) As there was no requirement of preparation of financial statements by the Ministry for the preceding year, recommendations on financial statements had not been made by the Ministry.
- (b) As there was no requirement of preparation of financial statements by the Ministry for the preceding year, I could not state that the financial statements of the year under review are consistent with the preceding year.

1.6 Comments on Financial Statements

1.6.1 Non-compliance of financial statements with the provisions of the Circulars

The following observation is made.

| Audit Observation | Recommendation | Comments of Chief Accounting Officer |
|---|--|--|
| ----- | ----- | ----- |
| Even though information contained in financial statements should be in compliance with the Treasury Records, due to not taking into account the value mentioned in Treasury Records, there was a difference relating to 02 accounting topics of Rs.561,031,793 between Treasury Records and financial statements. | In terms of paragraph 3.1 of Public Accounts Circular No.267/2018 dated 21 November 2018, information contained in financial statements must be in compliance with the Treasury Records. | Since time has been given till 2020 to estimate the assets of 'Cigas' program, actions will be taken to enter that amount in 2019. |

1.6.2 Statement of Financial Position

The following observation is made.

| Audit Observation | Recommendation | Comments of Chief Accounting Officer |
|--|--|---|
| ----- | ----- | ----- |
| (a) The value of 36 vehicles was not included in the financial statements. | All vehicles owned by the Ministry must be recorded in the financial statements based on cost and revalued amount. | Replies were not received. |
| | Fixed assets register must be properly updated. | |
| (b) Even though there is a balance of Rs.3,152,176,151 under assets acquired by the Ministry in the non- financial statement of year 2004 to the end of year 2018, due to not updating fixed assets register and not including certain assets of 'Cigas' program, the accuracy of such balances was not confirmed. | | Replies were not received |

1.6.3 Savings Accounts

The following observation is made.

| Audit Observation | Recommendation | Comments of Chief Accounting Officer |
|--|---|--|
| ----- | ----- | ----- |
| A liability balance of Rs.56,035,968 due 31 December 2018 that was in a Regional Development Bank Savings Account in the name of the Ministry under the 'Saviya' loan scheme was not included in the financial statements. | Account balances in bank accounts under the Ministry must be accounted as assets of the Ministry. | Even though it was communicated to the Ministry of Internal, Home Affairs and Provincial Councils and Local Government to acquire necessary observations, the necessary documents were communicated to the Ministry of Budhdha Sasana and Wayamba Development. Replies will be forwarded to you soon when received |

1.6.4 Reconciliation Statement for Advance Accounts of Government Officials

The following observations are made.

| Audit Observation | Recommendation | Comments of Chief Accounting Officer |
|---|---|---|
| (a) According to the Reconciliation Statement for the Advance Accounts, actions have not been taken to settle a sum of balances in the amount of Rs.1,426,149 during the time period from year 2004 to year 2010. | Balance according to the Individual Balances Classification Summary must be equal to the Advance Account balance. | Further action are taken this year to settle those loan balances. |
| (b) Except for the credit balance of the transferred officials, sum of the outstanding balance to date was Rs.1,479,235 and those outstanding balances had been continuing from a time period of 1 year to 5 years but actions have not been taken to recover those balances. | Provisions of the Section 4 of the Chapter XXIV of the Establishment Code must be followed in relation to credit balances of officials who retired or termination of service or officials who are released to state corporations before settling those loans. | Further actions are being taken to recover these credit balances. |

1.6.5 Non-maintenance of Books and Registers

The following observations are made.

| Audit Observation | Recommendation | Comments of Chief Accounting Officer |
|--|---|---|
| (a) Personal Emolument Registry Personnel payroll was not properly updated and maintained. | A Personal Emolument must be maintained in terms of Financial Regulation 453 in accordance with Treasury and Audit Forms 17 | Actions are being taken to update in terms of Financial Regulation 453. |

(b) Audit Queries Register

| | | |
|---|--|---|
| Audit Queries register was not properly updated and maintained. | In terms of Financial Regulation 452(1), Audit Queries Register must be properly updated and maintained. | It has been maintained and actions are being taken to formally document it. |
|---|--|---|

(c) Security Register

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|--|--|--------------------|
| A record of bail officers and employees had not been maintained. | A Security Register must be maintained with regard to bail officers in terms of Financial Regulation 891(1). | Is being prepared. |
|--|--|--------------------|

(d) Damage Registry

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|--|---|---|
| A Damage Registry has been maintained including information from only a few sectors. | A Damage Registry should be maintained according to the Form in terms of provisions of the Financial Regulation 110 | Registry is maintained in terms of Financial Regulations. |
|--|---|---|

(e) Liability Register

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|--|--|------------------------------------|
| Liability Register has not been updated. | In terms of Financial Regulation 214, liabilities in a Liability Registry must be noted in a way which can be checked regularly. | Actions are being taken to update. |
|--|--|------------------------------------|

(f) Attendance Registry of the Procurement committee and Technical Evaluation Committee

 Secretary of the committee has not updated and maintained an Attendance Registry in terms of guidelines.

In terms of guidelines laid out in the Government Procurement Guidelines 2.11.2, the secretary of the committee must maintain an Attendance Registry.

A list of signs is already being taken by the members and actions will be taken to formally document it.

1.6.6 Non-compliance with Laws, Rules and Regulations

The following observations are made.

| Observation | Recommendation | Comment of the Chief Accounting Officer |
|---|--|--|
| ----- | ----- | ----- |
| Reference to Laws, Rules and Regulations | Non-compliance | |
| ----- | ----- | |
| (a) Sub-section 16(2) of the National Audit Act, No. 19 of 2018 | Even though all annual performance reports shall be submitted to the Auditor General by the Chief Accounting Officer within a time limit as may be specified by the rules and accompanying financial statements of each entity, Performance Report for 2018 has not been submitted to be audited as of 28 February 2019. | Annual Performance Report must be presented together with the Financial Statements in terms of the provisions of the Act. Actions have been taken to hand over the report to the Auditor General on 31 May 2019. |

(b) Financial Regulations of
the Democratic Socialist
Republic of Sri Lanka

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|------|------------------------------------|--|--|--|
| (i) | Financial Regulation 565(5) | Even though the summary of monthly deposits for each month that are prepared in the general Form 71 must be submitted to the Auditor General before the next month ends, summary of monthly deposits from January to December 2018 in relation to 5 Deposit Accounts have not been submitted to be audited. Officers who sign checks of the Ministry have not acted in terms of Public Officers (Security) Ordinance. | Must act in terms of the Regulations. | Actions will be taken to present those reports henceforth. |
| (ii) | Financial Regulation 880 (1) | | -Do- | Actions will be taken to formally maintain a Security Register. |

2. Financial Review

2.1 Imprest Management

Audit Observation

The imprest requested for the months other than February, April and September 2018 were up to 3 percent to 137 percent over the planned imprest, thus the impending demand for the year was not properly planned.

Recommendation

Annual demand for imprests must be properly planned.

Comment of the Chief Accounting Officer

The reason for the imprest demanded for certain months being over than the planned imprest for certain months is the imprest issued by the Treasury for the month before was less than the imprest demanded for the said month. Even though the annual

imprest demand was prepared properly, the imprest rate had to be increased due to supply not being equal to the amount demanded.

2.2 Expenditure Management

| Audit Observation | Recommendation | Comment of the Chief Accounting Officer |
|---|--|---|
| (a) Provisions provided for 45 votes amounting to Rs.2, 271.07 million out of Rs.3,361.28 million was not utilized, and savings had been between the significant ranges of 25 percent to 100 percent out of the net provisions. | Estimates should be prepared accurately in terms of Financial Regulation 50. | Efficient and frugal use, imprests not being issued, change of Ministry, expenditure management being difficult due to expenditure being incurred by two ministries, being unable to conduct training for officers, limiting of overseas traveling, being unable to build new Cultural Institutions, Being unable to conduct training programs due to the field of the Ministry changing, political instability, land not being provided for development, no need emerging for overtime working, expenditure not being accordance with the expected amount, had been the reasons for these savings. |
| (b) There was a provision amounting to Rs.751.22 million left out of the supplementary estimates amounting to Rs.756.01 million provided for 5 objects under operational programs and 11 objects under Development programs, | -Do- | Being unable to correct votes, savings being left for bills and liability commitments, liabilities and commitments arising due to imprests not being provided, opening of institutions and the limitation of progress review meetings due to the Ministry being amended on 3 occasions, over |

and savings had been between 43 percent and 100 percent.

estimation of maintenance cost, land not being provided for development purposes had been the reasons for these savings.

2.3 Liabilities and Commitments

The following observations are made.

| Audit Observation | Recommendation | Comment of the Chief Accounting Officer |
|---|--|--|
| ----- | ----- | ----- |
| (a) An amount of Rs.2.76 million was not entered into the register of liabilities in relation to the year under review. | Liabilities relating to the year must be properly identified and included in the financial statements. | By mistake a voucher for Rs.497,905 was not included in the liabilities register. The rest of the amount was included as a cumulative balance of several vouchers. |
| (b) Even though only the liabilities for 2018 should be taken in out of expenditure incurred for contracted services and other services for 2018 and 2019, in 5 occasions liabilities in the amount of Rs.243,075 was stated as not being able to identify. | -Do- | As the expenditure for year 2018 and year 2019 are often included in the same voucher, it is difficult to differentiate the expenditure for the two years separately. However actions will be taken henceforth to avoid such mistakes. |

2.4 Deposit Balance

The following observation is made.

| Audit Observation | Recommendation | Comment of the Chief Accounting Officer |
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| ----- | ----- | ----- |
| There was a balance of Rs.63.48 million in the Deposit Account for retention money for contracts as of 31 December 2018. Actions have not been | Must act in terms of Regulations. | Actions will be taken to credit the Government Revenue immediately after the reply with regard to retention money is received from the relevant institutions. |

taken in terms of Financial Regulation 571 with regard to 24 Deposits totaling up to a sum of Rs.9.28 million which has exceeded 2 years among these balances.

2.5 Operation of the Bank Accounts

The following observation is made.

| Audit Observation | Recommendation | Comment of the Chief Accounting Officer |
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| ----- | ----- | ----- |
| According to the bank reconciliation statements, actions have not been taken to inquire from the bank and settle an unidentified payment of Rs.14.07 million. | The Ministry must take actions to inquire about unidentified payments from the bank and match them with the accounts when preparing bank reconciliation statements. | With regard to accounting unidentified payments, actions have been taken to open and maintain a separate file for foreign exchange transactions which are conducted through the official bank account for reconciliation purposes in order to easily acquire information with regard to accounting for unidentified payments. |

3. Operational Review

3.1 Planning

The following observation is made.

| Audit Observation | Recommendation | Comment of the Chief Accounting Officer |
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| ----- | ----- | ----- |
| Even though an action plan was created for the year 2018, updated details of the structure of the organization, recommended staff and details about the current staff and the financial requirements for the activities for the year were not | An action plan for the year needs to be prepared and presented in terms of Public Finance Circular No.01/2014 dated 14 February 2014. | The annual action plan for the year 2019 will be prepared and produced by including the details that are recommended by the audit. |

presented.

3.2 Non-performance of Functions

The following observations are made.

| Audit Observation | Recommendation | Comment of the Chief Accounting Officer |
|---|--|---|
| ----- | ----- | ----- |
| (a) Even though the establishing of cultural centers for every divisional secretariat region was initiated in the year 2011, by 31 December 2018 cultural centers for 110 divisional secretariat regions were still not established by the Ministry. | Must act in order to achieve the objective of this program. | Since Universities and schools also have cultural centers certain divisional secretariats regions have more than one cultural center. |
| (b) By 31 December 2018, Rs.93.8 million was spent to construct 9 cultural centers and construction has been ongoing for 05 years but works have not been completed up to February 2019. | Necessary steps should be taken to finish construction within the targeted time and correct cost estimates should be prepared. | This delay has occurred because construction was done in lapses due to the reason of lack of provisions. |
| (c) Construction of 3 cultural centers were abandoned due to the construction site being subjected to landslides and due to war in the region and by 31 December 2018 a total of Rs.4.26 million was spent. | Ownership and the Environmental conditions of the selected lands for the cultural centers needs to be evaluated and lands without such complications should be used for construction | Construction at the land for the cultural centers at Kahawatta, Pesale, Samanthure are halted halfway due to landslides and war. |
| (d) 42 capital activities with an estimated cost of Rs.1,258.3 million and 39 recurrent activities with an estimated cost of Rs.38.1 million in the action plan were suggested to be accomplished in the reviewed year. But progress reports corresponding to the | The ministry should provide quarterly performance reports regarding capital and recurrent activities implemented in a year to the Auditor General. | No comments given. |

action plan was not available, hence performance could not be evaluated.

(e) Below details were observed regarding the progress of 28 activities with an estimated cost of Rs.485 million and recurrent activities with an estimated cost of Rs.126.5 million of the socio cultural integration project

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|---|--|---|
| (i) The traditional knowledge and cultural values research activities, the in-service training center and the skills village at Veyangoda were initiated and expected to be completed within the reviewed year. But the physical progress of these 3 activities was between 10 percent to 50 percent. | Should take actions to reach expected progress of the yearly targeted activities. | Due to the inability to transfer balance grants that was allocated for the year 2018 to the Veyangoda national training activities to the skills and crafts village, grants were left. |
| (ii) Rs.300 million was allocated to construct new cultural centers and to renovate existing centers but Rs.303.86 million was spent but the physical progress of the projects was about 90 percent. | Proper estimates should be drafted and such estimates should not be exceeded and reaching the targeted physical progress should be given prominence. | Rs.300 million was granted for these projects in the year 2018 but realistically it requires around Rs.550 million. If the required grants were provided the physical progress as targeted could be achieved. |
| (iii) 04 projects had a progress of 100 percent but due to extreme allocation of grants the remainder of grants out of the total grant was between a range of 3.4 percent to 30 percent. | Estimates must be prepared properly. | Rs.300 million was granted for these projects in the year 2018 but realistically it requires around Rs.550 million. If the required grants were provided the physical progress as targeted could be achieved. |

3.3 Failure to obtain the expected output

The following observations are made.

| Audit Observation | Recommendation | Comment of the Chief Accounting Officer |
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| ----- | ----- | ----- |
| <p>The cabinet of ministers gave approval to the ministry in 2016 for Rs.500 million to be allocated as a circular loan fund project to develop self-employment and entrepreneurship in the North western province for a period of 05 years under the project of providing ten thousand state employments. In order to implement the project, the ministry has entered into an understanding agreement with the regional development bank. Below details were uncovered regarding this Rs.500 million.</p> | <p>Before commencing a project like this which allocates ministerial grants, first the agreement should be approved by the Attorney General and the project needs to be implemented based on the recommendations of the cabinet.</p> | <p>Even though it was informed to the ministry of internal and home affairs and provincial councils in order to make the relevant observations, it was informed that the files regarding the matter were handed over to the Ministry of Buddhasasana and Wayamba Development. Hence that ministry was informed in order to make the necessary observations. Will inform as soon as the response is received.</p> |
| <p>(b) After deducting the administrative expenses of the bank from the revenue from the credit interest the remainder should be deposited into the circular fund. In contrary to this by 31 July 2018 the interest of</p> | <p>Must act in terms of the letter No. BD/HR 163/9/01-VOL II dated 25 November 2016 of the Director General of Department of National Budget.</p> | <p>-Do-</p> |

Rs.17.08 million from the credit was deposited to an account of Wayamba Regional Development Cooperative Society under the Waymaba Regional Development Bank.

(c) When providing advances for the projects, its feasibility must be confirmed and must act in a way not to let that money to go to waste but there is no evidence that the feasibility was confirmed when depositing the advance to the bank. Must act in terms of the letter of His excellency the President in relation to the cabinet memorandum, No.16/946/722/014 dated 03 October 2016. -Do-

(d) A loan amounting to Rs.511.57 million was granted to the entrepreneurs residing in the Wayamba Province between the time period of November 2016 to June 2018 under 'Saviya' loan scheme and from that loan amounting to Rs.26.41 million was not recovered up to June 2018. Conditions with regard to the ability to recover money and recover loans must be included in the Memorandum of Understanding before the project begins. -Do-

3.4 Procurements

The following observations are made.

| Audit Observation | Recommendation | Comment of the Chief Accounting Officer |
|---|---|---|
| ----- | ----- | ----- |
| In 2018, Rs.8.4 million was spent to produce a stage drama in the name of "Kuwanna" with the participation talented artists from cultural centers. Following were observed with regard to this drama. | Must act in terms of provisions of the Government Procurement Guidelines. 2006, | A total cost estimate has not been done with regard to this and relevant expenses have been incurred only for 7 estimates. Will act in terms of |
| (i) In terms of guideline 4.3.1(a) of the Government Procurement Guidelines 2006, | | |

even though 7 estimates on 7 occasions in the amount of Rs.14.74 milion were made with regard to the Drama "Kuwanna", a total cost estimate was not prepared.

- (ii) In terms of In terms of guideline 3.4 of the Government Procurement Guidelines 2006, an amount of Rs.1.98 million to create artistic costumes of artists without obtaining sealed prices, an amount of Rs.766,000 for creating theater and stage settings and an amount of Rs.2.11 million for the food for the entire program had been spent.

guideline 4.3.1(a) of Procurement Guidelines henceforth.

-Do-

With the permission of the Secretary of the Ministry, quotations from experts in costume making and suppliers of theatrical objects who are not registered in the Ministry were asked and as there was not enough time to obtain food for the sealed prices, prices were called via fax on the request of the promotion sector.

3.5 Assets Management

The following observations are made.

| Audit Observation ----- | Recommendation ----- | Comment of the Chief Accounting Officer ----- |
|--|--|---|
| (a) Surveys have not been conducted in relation to 28 vehicles owned by the Ministry. | Must act in terms of Financial Statement 1647(b) | Around 40 vehicles were physically inspected but it was unable to physically inspect the rest due to various reasons. |
| (b) The ownership of lands in which constructions in an estimated amount of Rs.287.13 million have been done has not | Assets must be formally assigned and used. | Actions are being taken to assign this property to the Ministry. |

been assigned to the Ministry as at 31 December 2018.

3.6 Not answering to audit Quarries

The following observations are made.

| Description of Audit Quarry | Recommendation | Comment of the Chief Accounting Officer |
|---|--|---|
| ----- | ----- | ----- |
| The Ministry has not replied to 4 Audit quarries in relation to the year under review that were issued till May 2019. | Must act in terms of Financial Regulation 155. | The replies have been delayed as obtaining observations from each sector has been a time consuming task. Actions will be taken to reply in the near future. |

4. Good Governance

4.1 Internal Audit

The following observation is made.

| Audit Observation | Recommendation | Comment of the Chief Accounting Officer |
|--|---|--|
| ----- | ----- | ----- |
| Even though the Internal Audit Unit must be independent from the control of the persons engaged in money and accounts matters, the Ministry's Chief Internal Auditor was had been given the power to sign checks and due to this reason, the independence of the internal audit has been breached. | In terms of Financial Regulation 134(1), Internal Audit Unit must be independent from the persons engaged in money and account matters. | Even though Chief Internal Auditor's name was sent to the bank as a result of finding a suitable person for the position after the Chief Accountant left employment, the Chief Internal Auditor's sign had not been put in checks in any occasion. |