

Head 110 – Ministry of Justice and Prison Reforms

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ministry of Justice and Prison Reforms 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. 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 Justice and Prison Reforms was issued to the Chief Accounting Officer on 19 July 2019. In terms of Sub-section 11(2) of the National Audit Act, the Annual Detailed Management Audit Report relating to the Ministry of Justice and Prison Reforms was issued on 10 July 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 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 Justice and Prison Reforms as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted accounting Principles.

1.2 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility, under those standards is further described in the Auditor's Responsibility 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 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 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.

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 carried out.

1.4 Auditor's Responsibility 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 or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Chief Accounting Officer regarding, 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 of Justice and Prison Reforms for the preceding year, I could not state that the financial statements of the year under review are consistent with the preceding year.
- (b) As there was no requirement of preparation of financial statements by the Ministry of Justice and Prison Reforms for the preceding year, recommendations on financial statements had not been made by the Ministry.

1.6 Comments on Financial Statements

1.6.1 Non-compliance of Financial Statements with Provisions in Circulars

Even though financial statements should be prepared in terms of State Accounts Circular No.267/2018 of 21 November 2018, instances of deviating from those requirements, appear below.

Audit Observations	Recommendation	Comments of the Chief Accounting Officer
<p>(a) According to the Report on Assets of the Ministry of the year under review, office equipment valued at Rs.2,210,395 purchased under machinery and equipment from October to December in the year 2018, had not been indicated under purchases in Format ACA – 06. Moreover, the value of total assets thereof as at the end of the year under review amounted to Rs.791,491,836. However, the said value had been accounted as Rs.388,219,862 in Format ACA – 06. As such, the value of non-financial assets and the reserved value of property, plant and equipment had been understated by</p>	<p>Action should be taken in terms of Sub-section 3.3 of the State Accounts Circular No.267/2018 of 21 November 2018 relating to non-financial assets.</p>	<p>Matters mentioned in the Audit Queries are accepted. It is informed that action will be taken to correct those accounting deficiencies in future.</p>

Rs.403,271,974 in the statement of financial position.

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| <p>(b) According to Sub-section 3.4 of the circular, the statement of commitments and liabilities under Note No.(iii) and the statement of commitments and liabilities issued by the Treasury should reconcile with each other. Nevertheless, there were 03 instances in which they were not reconciled.</p> | <p>Unreconciled instances should be settled and the financial statements presented thereafter.</p> | <p>Values have been included in the Format Note No. iii, based on the actual values identified by the Ministry. Moreover, other departments have included commitments and liabilities in the Object 110 – 01 – 03 – 1409 through the CIGAS programme. Accordingly, a difference between the values in the statement of commitments and liabilities issued by the Department of Treasuries and Note (iii) has been indicated.</p> |
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1.6.2 Reconciliation Statement on Advances to Public Officers Account

 The following observations are made.

Audit Observations -----	Recommendation -----	Comments of the Chief Accounting Officer -----
<p>(a) Loan balances totalling Rs.323,197 of three interdicted officers had not been recovered from a period ranging from 06 years to 11 years.</p>	<p>Should be recovered even from guarantors.</p>	<p>Information relevant for taking legal action necessary for recovery of loan balances of Rs.162,215 has been forwarded to the Attorney General's Department. Action is being taken to recover other loan balances as well.</p>
<p>(b) Loan balances totalling Rs.318,425 of 05 officers who had vacated the service, had not been recovered from a period ranging from 03 years to 21 years.</p>	<p>Action should be taken to recover the said balances speedily.</p>	<p>Information relevant for taking legal action necessary for recovery of loan balances of Rs.238,395 has been forwarded to the Attorney General's Department. Action is being taken to recover other loan balances as well.</p>

1.6.3 Non-maintenance of Registers and Books

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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In terms of Financial Regulation 214, liabilities should be entered in a Record of Liabilities so as to be regularly examined. However, a Record of Liabilities had not been maintained.	The relevant liabilities should be entered in a Record of Liabilities.	The matters mentioned in the Audit Query are accepted. Steps will be taken to maintain a Record of Liabilities in an updated manner in future.

1.6.4 Responsibilities of the Chief Accounting Officer

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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The Chief Accounting Officer shall ensure that all audit queries be answered within the specified time as required by the Auditor-General. However, Audit Queries had not been replied in terms of paragraph 3.5 of the report.	Action should be taken in terms of provisions in Section 38 of the National Audit Act, No.19 of 2018.	Replies should be prepared after studying the matters by examining old files relating to Audit Queries. As such, a delay has occurred in replying Audit Queries. However, the relevant officers have been briefed to take steps in future for reply of Audit Queries on the due date.

1.6.5 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with provisions in Laws, Rules and Regulations observed during the course of Audit test checks are analysed and shown below.

Observation	Recommendation	Comments of the Chief Accounting Officer	
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Reference to Laws, Rules and Regulations	Non-compliance		
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Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation 396	Proper action had not been taken relating to 17 expired cheques valued at Rs.164,136 issued as at the end of the year under review. Moreover, action had not been taken relating to, the cheque misplaced out of those, by July 2019, valued at Rs.3,510.	Action should be taken in terms of Financial Regulation 396.	Letters of Indemnity have been submitted by the payees of cheque Nos.137828 and 150444 and the bank has been given a stop payment order relating to those cheques. As cheque No.161644 has been misplaced, the payee has been informed to send a Letter of Indemnity. All other cheques have been cleared by now.
(ii) Financial Regulation 571	Proper action had not been taken relating to deposits of Rs.471,246 further remained by July 2019 out of deposits lapsed for 02 years by 31 December 2018.	Action should be taken in terms of Financial Regulation 571.	Cash amounting to Rs.37,890 deposited in Account Numbers 6000 – 0 – 0 – 2 – 0 – 138 and 6000 – 0 – 0 – 16 – 0 – 86 had been credited to the Revenue by now. It is kindly informed that action will be taken in future to use the remaining deposited money to implement relevant programmes or to credit to the Revenue.

2. Financial Review

2.1 Management of Expenditure

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) The entire net provision amounting to Rs.8,654,521 made for implementing 03 projects under 05 Objects had been saved. Moreover, the entire provision amounting to rs.500,000 made for one Capital Object had been saved as well.	If estimates are prepared based on the Action Plan, the Ministry should take action to forecast and perform the functions indicated in the Action Plan within the relevant period.	Provisions have been saved due to non-function of the Commercial Mediation Centre as a result of problems arisen relating to passing and implementation of the Commercial Mediation Act . It is informed that action will be taken to ensure that such a situation will not occur in future.

2.2 Deposit Balances

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
A sum totalling Rs.1,623,537 comprising Rs.307,496 received on 02 June 2016 for organizing the Drug Control Programme of the UNDP – SELAGSI Project and Rs.1,316,041 received for settling expenses incurred for the Mediation Day held in November 2016, had been retained in the Deposit Account without utilizing for the relevant purposes.	Moneys received should be utilized for the relevant purpose.	The matters in the Audit Queries are accepted. Further action is being taken to identify the requirements and to find out about utilization of the said moneys. Moreover, discussions are in progress with the officials of the UNDP Project for obtaining approval for effective utilization of the said moneys.

3. Operating Review

3.1 Planning

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
In the preparation of the Action Plan of the Ministry, details such as the organizational structure, approved cadre, details of the staff employed at present, Imprest Plan and the Internal Audit Plan should be included. However, action had not been taken accordingly.	The Action Plan should be prepared in terms of Public Finance Circular No.01/2014 of 17 February 2014.	The Internal Audit Plan has been approved. It is informed that action will be taken to prepare the Annual Action Plan by including the relevant details as pointed out by Audit.

3.2 Delays in Execution of Projects

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
An agreement had been entered into for the contract value of Rs.52.55 million for completion of installing an air conditioning system for the new office building of the Ministry by 13 December 2016. However, the Mechanical Engineer of the Technical Evaluation Committee had not given consent for the additional works estimate of Rs.14.60 million, indicating many reasons. The approval of the Procurement Committee had not been received therefor, based on the reasons indicated. Moreover, out of the net provisions of Rs.21.84 million and Rs.17.5 million made in the years 2017 and 2018 respectively for this project, of which works were not completed by the due date of the year 2016, sums	In the preparation of original plans, estimates should be properly prepared by carrying out a feasible study and identifying requirements.	Adequate information could not be furnished to the Tender Board for relevant approval after settling technical problems arisen relating to this project. As such, provisions have been saved. As this task is a very complex technical problem, it has been submitted to a third party with expertise in the relevant field for obtaining technical instructions therefor, by now. It is kindly informed that action will be taken in terms of Guideline 8.12.2 of the Government Procurement Guidelines, after receiving the said report.

of Rs.6.51 million and Rs.17.43 million had not been utilized respectively.

3.3 Assets Management

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
<p>(a) Action had not been taken even by 31 December 2018 to value the land in Battaramulla on which the building belonging to the Ministry is located.</p>	<p>The building should be valued.</p>	<p>The building located in Battaramulla has been referred to the Valuation Department for valuation. The officers of the Valuation Department as well have been called for the discussions held at the Department of State Accounts and informed to expedite this matter.</p>
<p>(b)The ownership of lands belonging to the three buildings, those are the two buildings in which the two circuit bungalows of Nuwara Eliya and Rakwana are located and the building in which the Legal Draftsman's Department owned by the Ministry is located, had not been established.</p>	<p>The ownership relating to assets owned by the Ministry should be established.</p>	<p>The Rakwana circuit bungalow located on a block of land of 01 acre 01 rood and 10 perches in extent and applications relating to the vesting of this land had been submitted to the Godakawela Pradeshiya Sabha on 24 June 2019. The documents relating to lands for valuation of the Legal Draftsman's building and the Nuwara Eliya circuit bungalow, were not available with the Ministry and as such, letters have been forwarded to the relevant Divisional Secretariats, calling for the said information.</p>
<p>(c)Even though the payment of the total sum of the 23 motor vehicles purchased on lease</p>	<p>The ownership of motor vehicles should be transferred.</p>	<p>The problematic situation existing with regard to the transfer of motor vehicles</p>

basis had been finalized on 27 May 2012, the ownership of the said motor vehicles had not been transferred even by the year 2018. Out of these, 22 motor vehicles had been identified to be disposed of in the year 2018. However, as the ownership has not been obtained, in terms of Sub-section 9 (a) of the Public Finance Circular No.02/2015, recommendation for disposal had not been received. Moreover, it was observed in Audit that the said 22 motor vehicles could not be given to other Ministries and Departments as the **first** registration was not in the name of the Ministry and as such, the assessed value could not be obtained.

purchased on lease basis, has not been settled even by now.

- (d) Twenty nine motor vehicles including 13 motor vehicles obtained on lease basis, had been given to other Ministries and Departments in the year 2018 without proper transfer. Should be properly transferred. Replies not submitted.
- (e) A Board of Inquiry had been appointed on 07 June 2017 relating to a Defender vehicle being met with an accident on 08 March 2017. A report on the said inquiry had not been submitted up to December 2018 and information whether repairs were carried out and whether the motor vehicle was returned to the Ministry, had not been made available to Audit. Inquiries should be completed speedily. -do-
- (f) A Record on Losses had not been maintained in terms of Financial Regulation 110 relating Action should be taken in terms of Financial Regulation 110. -do-

to motor vehicle accidents occurred in the year 2018. Even though a Board of Inquiry has been appointed on 28 February 2018 for 16 motor vehicle accidents occurred in the year 2017, the reports on inquiries relating thereto had not been submitted even up to November 2018.

(g) In reporting on fixed assets, the physical quantity, reconciliation between the values of fixed assets according to the Ledger and according to Control Accounts and the accuracy thereof had not been confirmed.	Relevant reconciliations should be made accurately and the accuracy should be confirmed.	As pointed out by the Audit Query, it is informed that proper action will be taken in future to avoid deficiencies in accounting fixed assets.
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3.4 Uneconomic Transactions

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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A sum of Rs.34.85 million had been paid for the year 2018 for operating the International Arbitration Centre in a rented location until it is established in a permanent location. Even though this Centre has been established as a company limited by guarantee in December 2016, according to files, it was observed that the said company is in inoperative condition due to failure in taking a decision on providing capital required for the company and failure in appointing a Board of Directors. Even though a period of 5 ½ years had lapsed since the year 2013, the Ministry of Justice has failed to establish this Centre in a permanent location and the company established as well has	Action should be taken to solve these administrative problems and to utilize monies economically.	It is informed that a suitable location could not be found for the establishment of the International Arbitration Centre. The Cabinet Committee on Economic Management has appointed a special committee on 29 November 2017 for obtaining recommendations on the request submitted for gaining capital and independence in operations necessary for this company and it has been decided to assign the Ministries of National Policies and Economic Affairs and City

become inoperative. As such, it is observed that the rent of Rs.34.85 million paid, has become an uneconomic transaction.

Planning and Water Supply, with obtaining the said recommendations.

The Cabinet has approved the decision dated 29 November 2017 of the Cabinet Committee on Economic Management, on 12 December 2017 and the Cabinet has decided that the recommendations given by the said special committee should be submitted by the Ministry of Justice as Cabinet Memoranda. However, this Ministry has not been briefed on giving the said recommendations up to now.

As a final decision has not been reached on providing financial provisions required by this company, it is informed that the Board of Directors remain **inactive**.

3.5 Unanswered Audit Queries

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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One Audit Query issued for the year 2017 and 4 Audit Queries issued for the year under review had not been answered even by 31 July 2019.	Action should be taken in terms of provisions in Financial Regulations 155 and 452 (1).	Replies are being prepared for these Audit Queries and it is informed that action will be taken to submit replies in future.

4. Human Resources Management

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
----- Fifty two vacancies in 13 posts and an excess of 17 in 05 posts existed in the staff as at the end of the year under review. Moreover, the number of employees recruited on contract basis stood at 05.	----- Action should be taken to fill the vacancies in the staff and to regularize the number of excess employees included in the approved cadre.	----- Out of vacancies existed in 13 vacancies in the year under review, 02 vacancies in Senior Level were filled in the year 2019 and interviews have been held for 04 vacancies in the post of Driver out of Primary Level posts, on the approval of the Ministry of Public Administration. Accordingly, action will be taken to make recruitments in future. Permanent employees were not recruited in place of employees recruited on contract basis.