

Head – 149 Ministry of Industry and Commerce

1. Financial Statements

1.1 Unqualified Opinion

The audit of the financial statements of the Ministry of Industry and Commerce for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, and cash flow statement for the year then ended, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. The Summary Report containing my comments and observations on the financial statements of the Ministry of Industry and Commerce 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 of the Ministry was issued to the Chief Accounting Officer on 27 May 2019 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Ministry of Industry and Commerce and the financial performance and cash flow for the year ended 31 December 2018 in accordance with generally accepted accounting principles.

1.2 Basis for Unqualified 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 opinion.

1.3 Responsibilities of Chief Accounting Officer on Financial Statements

Preparation of financial statements in a manner that reflects a true and reasonable position and determines the internal control required to enable financial statements to be prepared without inadequate false statements that may result from fraud and error in accordance with Generally Accepted Accounting Principles and the provisions of Section 38 of the National Audit Act, No. 19 of 2018 is the responsibility of the Chief Accounting Officer.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Ministry is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

The Chief Accounting Officer shall ensure that an effective internal control system is maintained for the financial control of the Ministry in terms of Sub-section 38 (1) (c) of the National Audit

Act and it should be periodically reviewed the effectiveness of the system and make any necessary changes to keep the system running efficiently.

1.4 Auditor's Responsibility on Audit of Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- It is not intended to express an opinion on the effectiveness of internal control of the Ministry to plan appropriate audit procedures in a timely manner.
- Evaluate Structure of Financial Statements Including Disclosures and content-based transactions and events the structure that the financial statements are appropriate and reasonable.
- That the transactions and events underlying the structure and content of the financial statements are appropriately and fairly when submitting financial statements as a whole.

The Chief Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

1.5 Report on Other Legal Requirements

I declare the following matters in terms of Section 6 (d) and Section 38 of the National Audit Act No. 19 of 2018.

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

2. Financial Review

2.1 Expenditure Management

The following observations are made.

Audit observation	Recommendation	Comments Given by Chief Accounting Officer
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(a) The provision amounted to Rs. 552.70 million made available for 13 Objects of Expenditure had been totally saved without any utilization.	Expenditure estimates should be prepared in accordance with the provisions of Financial Regulation 50.	Lack of receiving adequate funds, lack of officers who receive transport allowances, no repair requirements arisen due to the abolition of the post of Minister of State in the middle of the year and no purchase requirements occurred for Regional Offices.
(b) As the over provisions made available for 28 Expenditure Objects, the savings after the utilization of provisions in those Expenditure Objects had ranged from 32 per cent to 93 per cent from the	Expenditure Estimates should be prepared in compliance with the provisions of Financial Regulations 50.	The provisions had been saved as a result of decrease in the payment of allowances adding to the salary in part; in terms of Circular No. 02/2016, lack of officers receiving transport allowance, expenditure limits due to non-availability of a

provision made available.

Deputy Minister at the end of the year, most of the Regional Offices located in rented buildings and the less purchases at the Regional Offices.

- (c) Although adequate provisions for the settlement of liabilities in respect of the preceding year for 09 Expenditure Objects had been provided during the year 2018, a sum of Rs. 195.42 million had been made available under the Supplementary Estimate allocation without paying due attention to it; that entire provision had been saved. Action should be taken to allocate the Supplementary Budget Estimates only if it is necessary by paying sufficient attention on the provisions made available. Even though the Supplementary Provisions had been applied for the settlement of commitments in the year 2017, due to the settlement of such commitments from the Estimated Provisions for the year 2018 before that provision was made, the provisions received for the settlement of commitments had saved.
- (d) Despite for more than 09 years elapsed by 31 December 2018, it had failed to recover the unsettled loan balance amounted to Rs. 100,208 from an interdicted officer. Actions should be taken in terms of Section 4.6 of Chapter XXIV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka. A case has been filed at the Magistrate's Court in Fort to recover this amount, further the warrant had been issued for the officer due to not appear in court twice and also the case has been hold temporarily.
- (e) A difference of Rs. 8,269,591 appeared in between the value of office equipment in the Register of Fixed Assets maintained by the Ministry and the amount consisted in the financial statements. The value stated in the financial statements should match with the value stated in the Register of Fixed Assets. The balance of the office equipment account appeared under the non-financial assets in the statement of financial position amounting to Rs. 28,624,422. That was consisted with the total of the equipment purchased in the year 2018 amounted to Rs. 8,269,591 and the estimated value of assets purchased before the 01 January 2018 amounted to Rs.

2.2 Entered to Liabilities and Commitments

The following observations are made.

Audit observations	Recommendation	Comments Given by the Chief Accounting Officer
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The savings after utilizing the provisions made available for Expenditure Objects amounted to Rs. 126,750. It had been entered in to liabilities amounted to Rs. 302,000 by exceeding the savings amounted to Rs. 175,250 in contrary to the provisions of Financial Regulation 94 (1).	It should be entered in to liabilities in accordance with the provisions of the Public Accounts Circular No.255/2017 dated 27 April 2017.	Repairs have been carried out beyond the existing provisions for very urgent repairs.

2.3 Deposit Balances

The following observations are made.

Audit Observation	Recommendation	Comments Given by the Chief Accounting Officer
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Actions had not been taken in terms of the Financial Regulations 571 (2) in respect of the deposits totaled to Rs. 19,309,393 for more than 02 years .	Actions should be taken in accordance with Financial Regulation 571 in respect of overdue deposits.	Comments were not given.

3. Operational Review

3.1 Failure to Perform Duties

The following observations are made.

Audit Observation	Recommendation	Comments Given by the Chief Accounting Officer
----- Even though a sum of Rs. 97.66 million had been made available for the implementation of the 04 construction projects in 03 Industrial Estates in the year under review under the Annual Action Plan, the provisions made available had not been utilized due to those projects were not implemented,	----- Estimation of expenses for projects accurately, timely utilization of the provisions made available by implementing the projects as per the Action Plan should be carried out.	----- As a result of the delays in obtaining the approval of the Cabinet and delays exists in the normal procurement procedure as well, the projects could not be performed during the due period.

3.2 Activities in contrary to the Main Functions

The following observations are made.

Audit Observations	Recommendation	Comments Given by the Chief Accounting Officer
----- A sum of Rs. 11.37 million had been incurred on 02 projects in 02 Industrial Estates which were not included in the Annual Action Plan.	----- The Action Plan should be prepared properly and accurately.	----- Additional expenditure incurred in unexpected circumstances faced whilst carrying out tasks.

3.3 Not Obtaining Desired Output Level

The following observations are made.

Audit Observations	Recommendation	Comments Given by the Chief Accounting Officer
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A sum of Rs. 26.11 million had been made available for the implementation of 02 projects in 02 Industrial Estates in the year under review. A sum of Rs. 28.85 million had been spent by the end of the year under review. There was no any physical progress reported in those 02 projects by the end of the year under review.	The Action Plan should be prepared in accordance with the Public Finance Circular No. 2014/01 of 17 February 2014.	Actions not taken to commence the project activities until the total estimated cost of each project was paid and another contractor had to be selected because of the contractor who was assigned the duties of the other project had not commenced the related activities.

3.4 Delays in Carrying Out Projects

The following observations are made.

Audit Observations	Recommendation	Comments Given by the Chief Accounting Officer
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(a) The activities of 09 projects that had been planned to be completed during the year under review worth of Rs. 135.59 million were delayed due to failure of completion. The physical progress of those projects had	The Annual Action Plan should be properly prepared and implemented in accordance with the provisions of the Public Finance Circular No. 2014/01 dated 17 February 2014.	Due to non-payment of the estimated total cost of the projects, non-commencement of related activities of the institutions and the projects were further being delayed due to delays in related procurement activities.

ranged from 0 per cent to 3 per cent.

- (b) Four projects that had been planned to be completed during the year under review worth of Rs 29.66 million had been delayed due to failure in completion. The physical progress of those projects had ranged from 45 percent to 75 percent by the end of the year under review.
- The Annual Action Plan should be properly prepared and implemented as per the provisions of the Public Finance Circular No: 2014/01 of 17 February 2014.
- Due to delays in procurement procedure and delays in normal procurement process due to contractors not responding to procurement notices.

3.5 Expenditure incurred for the Projects Exceeding the Provisions made Available

The following observations are made.

Audit Observations	Recommendation	Comments Given by the Chief Accounting Officer
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A sum of Rs. 21,820,000 had been spent exceeding the provision made available in respect of 07 projects in 05 Industrial Estates in the year under review.	Actions should be taken to spend within the limits made available.	Additional expenses had to be incurred on unexpected circumstances faced whilst carrying out tasks.

3.6 Annual Performance Report

The following observations are made.

Audit Observations	Recommendation	Comments Given by the Chief Accounting Officer
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Even though the Annual Performance Report along with the annual financial statements had to be	Actions should be taken in terms of Sub-section 16 (2) of the National Audit Act No. 19 of 2018.	Although the Annual Performance Report 2018 had been prepared in Sinhala and English Languages, the Report

submitted for the audit in terms of Sub-section 16 (2) of the National Audit Act No. 19 of 2018, actions had not been so done.

was sent to the Translator for translation into Tamil. It will be submitted to the audit as soon as it is received.