

## **Head 437 - State Ministry of Aviation and Export Zones Development**

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### **1. Financial Statements**

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#### **1.1 Unqualified Opinion**

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The audit of the financial statements of the State Ministry of Aviation and Export Zones Development for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 State Ministry of Aviation and Export Zones Development was issued to the Accounting Officer on 14 May 2021 in terms of Section 11(1) of the National Audit Act, No.19 of 2018. The Annual Detailed Management Audit Report relevant to the Ministry was issued to the Accounting Officer on 30 July 2021 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. This report will be tabled in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, the financial statements give a true and fair view of the financial position of the State Ministry of Aviation and Export Zones Development as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Unqualified Opinion**

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements is further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **1.3 Responsibilities of the Accounting Officer for the Financial Statements**

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The 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 in Section 38 of the National Audit Act, No.19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. As per Section 16(1) of the National Audit Act, No.19 of 2018, the Ministry is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable the preparation of annual and periodic financial statements.

In terms of Sub-section 38(1)(c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Ministry and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

#### **1.4 Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry's internal control.
- Evaluate the 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.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, among other matters significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

#### **1.5. Report on Other Legal Requirements**

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I express the following matters in terms of Section 6 (1) (d) and Section 38 of the National Audit Act, No. 19 of 2018.

As the State Ministry is a new Ministry established in the year 2020, the financial statements for the preceding year had not been submitted to compare the financial statements with the preceding year.

## 2. Financial Review

### 2.1 Reporting Expenditure for the year 2020

The government expenditure had been incurred in the year 2020 by the two Vote on Accounts passed by the Parliament on 28th October 2019 and 28th August 2019 respectively for the periods from 01 January 2020 to 05 March 2020 and from 01 September 2020 to 20 October 2020 and by the Warrants issued by His Excellency the President under the Constitution 150(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka for the periods from 06 March 2020 to 31 May 2020 and from 01 June 2020 and 31 August 2020. Despite the changes in the structure of the Cabinet of Ministers in the year 2020, the government expenditure up to 31 August 2020 had been incurred in accordance with the Heads of Expenditure mentioned in the Vote on Account passed in the year 2019. According to the provisions mentioned in the articles no.10 & 12 in the Appropriation Act No. 06 of 2020 passed by Parliament on 20th October 2020 in accordance with the Ministries of the Cabinet of Ministers and State Ministries published by His Excellency the President in the Extraordinary Gazette Notification of the Democratic Socialist Republic of Sri Lanka No. 2187/27 of 09 August 2020, expenditure from the month of January to 31 August 2020 had to be included in the Heads of Expenditure under the Heads of Expenditure mentioned in the First Schedule to the Appropriation Act No. 6 of 2020. The Treasury had instructed to carry out this task in accordance with the provisions of the National Budget Circular No. 6/2020 dated 30 November 2020.

Following the publication of the Extraordinary Gazette Notification by His Excellency the President on 08 August 2020, Head 437 - State Ministry of Aviation and Export Zones Development commenced. As per the above instructions, from the month of January 2020 to 31 August 2020, the total expenditure incurred under 27 expenditure subjects of the two Ministries at that time was Rs.106.6 million had been accounted for as expenditure of this Ministry.

### 2.2 Revenue Management

#### Audit Observation

According to the statement of arrears of revenue included in the financial statements, the arrears of revenue as at 31 December 2020 was Rs.430,720,831. Out of this, the unrecovered revenue up to 30 April 2021 was Rs.180,888,093.

#### Comments of the Accounting Officer

Necessary steps are being taken to recover the arrears.

#### Recommendation

Action should be taken to recover the arrears.

### 2.3 Expenditure Management

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) Out of the provision of Rs.1,982,000 for three recurrent expenditure codes relating to the year 2020, an amount of Rs.1,977,587 or 99 per cent had remained. Further, out of the provision of Rs.658,000 for two capital expenditure codes for the year 2020, a sum of Rs.650,000 had remained and it was 98 per cent of the provision for those expenditure codes.	The Covid pandemic situation was the main reason for remaining provisions.	Action should be taken to achieve the desired objectives through the proper utilization of the provisions.
(b) An amount of Rs.580,000 had been obtained through F.R. 66 transfers due to the provision of Rs.250,000 for Expenditure Code No. 2103 was insufficient, but 24 per cent of the transferred provision had been remained.	Due to the Covid pandemic situation, procurement could not be completed on time and provision had remained thereon.	Action should be taken to transfer only essential provisions and to utilize the transferred provisions properly.

### 2.4 Certifications of Accounting Officer

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Accounting Officer should certify the following matters in terms of provisions set out in Section 38 of the National Audit Act, No. 19 of 2018. However, it had not been so done.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) The Accounting Officer should ensure that an effective internal control system for the financial control exists in the Ministry and carry out periodic reviews to monitor the effectiveness of such systems, and accordingly make any alterations as required for such systems to be effectively carried out. Such reviews should be carried out in writing, and a copy thereof should be presented to the Auditor General, but no statements had been furnished to the Audit that the reviews had been carried out.	Once the Internal Audit Division is established, the relevant reports can be sent.	Action should be taken in terms of provisions in Section 38 of the National Audit Act, No.19 of 2018.

- (b) The Chief Accounting Officer and the Accounting Officer shall ensure that an effective mechanism exists to conduct an internal audit. However, the said requirements had not been fulfilled due to audit observations indicated in paragraph 5.1 of the report.
- An attempt is being made to -do- obtain an internal audit officer and set up an internal audit division.

## 2.5 Non-compliance with Laws, Rules and Regulations

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

<b>Observation Reference to Laws, Rules and Regulations</b>	<b>Non-compliance</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation 103 (1) (b)	The relevant officers should have to be aware of soon after an accident is taken place. However, it had been reported to relevant officers regarding the accident of the vehicle no. PG-9518 after 09 days from the accident.	The office has not been notified immediately (on that day) regarding the accident as he is a new employee of the Minister staff. But they were informed to make sure that would not happen in the future.	Action should be taken to comply with applicable financial regulations.
❧ (ii) Financial Regulation 110	The register of losses had not been maintained.	It will be maintained from the year 2021.	The register of losses should be maintained in accordance with the provisions of Financial Regulation 110.

(iii) Financial Regulation 115(3) ( a ) and ( b )	The Ministry had paid for a repair carried out on a cab on 23 December 2019, for a transaction which is not applicable to the Ministry on 29 January 2021 in violation of the Financial Regulations.	The delay in payment was not the responsibility of the Ministry and the payment was made on the notice of the Ministry of Tourism.	Action should be taken to comply with applicable financial regulations.
(iv) Financial Regulation 214	The register of liabilities had not been updated.	From the year 2021, all liabilities will be recorded in the register of liabilities.	All liabilities should be identified, included in a register of liabilities and updated in accordance with the Financial Regulation 214.
( b ) Paragraphs 4.2.1 (a), (b) and (c) of Public Procurement Guidelines pursuant to Public Procurement Agency Circular No. 08 dated 25 January 2006 and paragraph 04 of Public Finance Circular No. 02/2020 dated 28 August 2020	The Ministry had not prepared a procurement plan for a period of at least 03 years and a detailed procurement plan for the coming year.	The relevant plan for the year 2021 has been prepared.	A procurement plan for a minimum period of 03 years and a detailed procurement plan for the upcoming year should be prepared.
(c) Asset Management Circular No. 04/2018 dated 31 December 2018	Cost or assessment value of 31 no of assets which had been given to State Ministry by Ministry of Tourism, had not been taken into accounts and accurate information on all non-financial assets used by the Ministry as at 31 December 2020 had not been submitted to Comptroller General.	These assets will be accounted for in 2021 and the relevant report will be prepared and submitted.	Arrangements should be made to account for non-financial assets and to submit accurate information on those assets to the Comptroller General on the due date.

### 3. Operational review

#### 3.1 Asset Management

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
There were 11 vehicles under the Ministry as at 31 December 2020, but no action had been taken to acquire those vehicles properly in accordance with paragraph 02 (ii) of the Asset Management Circular No. 02/2017 dated 21 December 2017.	Missed duties will be systematically restored in the future and the acquisition of vehicles is expected to be carried out accordingly.	Necessary arrangements should be made to take over the vehicles properly.

#### 3.2 Losses and damages

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
The accident of cab number PG 9548 on 16 September 2020 had not been reported in the statement of losses and omissions in the financial statement (Note - ( i ) ).	Although the initial report has been submitted with a delay due to Covid 19 pandemic, the complete report will be submitted as soon as the repairs are completed and the damage assessment will be calculated and accounted for.	The damage occurred by this accident should be taken to account by the Ministry.

### 4. Achievement of Sustainable Development Goals

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
According to Section 12 (1) of the Sri Lanka Sustainable Development Act No. 19 of 2017 dated 06 October 2017, all Ministries, Departments, Provincial Councils, Provincial Ministries and Departments and Local Government Institutions are required to formulate Sustainable Development Strategies relevant to the scope of the Ministry or Department. However, Development strategic goals had not been prepared by the Ministry.	Sustainable development strategies specific to the identified export zones are being identified in consultation with the Investment Promotion Board of the Ministry.	Action should be taken to prepare sustainable development strategic goals by the Ministry.

## 5. Good governance

### 5.1 Internal Audit

#### Audit Observation

According to paragraph 40 (1) of the National Audit Act No. 19 of 2018, an Internal Auditor should have appointed by the Chief Accounting Officer of a Ministry. However, action had not been made accordingly.

#### Comments of the Accounting Officer

It is expected to appoint an officer to the post of Internal Auditor either on an acting basis in the future.

#### Recommendation

Action should be taken to appoint an internal auditor immediately to perform internal audit functions properly.

### 5.2 Audit and Management Committee

#### Audit Observation

Subject matters, functions and related policy programs and implementing projects of Departments, Public Corporations and Statutory Institutions under the purview of the State Ministry as per Section 25.1 (01) of the Extraordinary Gazette No. 2187/27 dated 09 August 2020, on assigning scope to Cabinet of Ministers, should be required to follow up and evaluate. However, the institutions under the purview of the Ministry had not get participated in the Audit and Management Committee Meetings.

#### Comments of the Accounting Officer

From the 2nd quarter of 2021, the institutions under the Ministry will participate in the Audit and Management Committee meeting.

#### Recommendation

Audit and Management Committee meetings should be conducted with the participation of institutions under the Ministry to follow up and evaluate the functions of those institutions.



## 6. Human Resource Management

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) As at 31 December 2020, there were 22 vacancies in comparison with the actual number of employees approved by the Ministry and three key posts under the Secretary to the Ministry were still vacant even by 19 March 2021.	Attempts have been made on several occasions to fill the vacancies.	Recruitments should be made to the vacant posts in time considering the need.
(b) As per paragraph 02 (II) in Public Administration Circular No. 03/2016 dated 20 February 2018, recruitments had been made on contract basis for 03 Management Assistant Officer positions in the Ministry. However, approval had not been taken from the Public Service Commission for those service contracts.	After informing the Ministry of Public Administration about the service requirements, on verbal agreement three retired Grade I Management Service Officers were called on contract basis and the relevant approval is awaited.	Action should be taken to make required recruitments in comply to the approval of Public Service Commission.