

Head- 241- public Enterprises Department

1 Financial Statements

1.1 Opinion

The audit of the financial statement of the Public Enterprises Department 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 including my comments and observations on the financial statements submitted to the Department are mentioned in this report in terms of Section 11 (1) of the National Audit Act, No. 19 of 2018. Detailed Annual Management Audit Report relating to the Department in terms of Section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Accounting Officer on 22 June 2021. This report will be tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution 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 Public Enterprises Department as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with generally accepted Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). 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 Chief Accounting Officer and the Accounting Officer for the Financial Statements

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 such internal control as management 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 Department 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.

As per Sub-section 38 (1) (c) of the National Audit Act, the Accounting Officer shall ensure that effective internal control system for the financial control of the Department exists, 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

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.
- 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 Department'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 Accounting Officer regarding, significant audit findings, any significant deficiencies in internal control and other matters that I identify during my audit.

1.5 Report on Other Legal and Regulatory Requirements

I express the following matters in accordance with Section 6 (I) (d) of the National Audit Act, No. 19 of 2018.

- (a) Financial statements are consistent with the preceding year.

- (b) The recommendations I had made in relation to the preceding year had been implemented.

2. Financial Review

2.1 Income Management

2.1.1 Defecincies in Preparation of Income Estimate

The following observations are made..

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) According to the financial statements,it was observed that the difference between the original estimate mentioned in revenue codes 2002:03:00 and 2002:94:00 and the original estimate aprved in 2020 is Rs.28,173 million and Rs.1,971 million respectively.	The reason for this was the inclusion of the income in the original estimate in place of the income mentioned in the estimate.	Financial reports should be prepared by adding correct information..
(b) Although it has been mentioned in the account that the income estimate of 2020 of the Department has been revised ,the relevent approval had not been submitted for the audit.	As per income stimates F.R. 85 (2), no approval is given for income estimates revised in the middle of the year and sent for approval to the Department of Fiscal Policy.	Income estimates should be revised upon proper approval.
(C) Accoordingly,the following were observed when the revised income estimates and actual income were checked.		

I. Revenue Code 20:02:03- Profits

- i. The revised revenue estimate was Rs.30,961 million for the year 2020 and the actual revenue was Rs. 14,768 million and this was a 48 per cent of the revised revenue.
- Due to the Covid pandemic occured in 2020, the profits and dividends in Government enterprises recorded a reduction.
- Projection of revenue and keeping reports of collection of income should be streamlined for determining the level at which the Government revenue should be kept for taking

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| | | correct policy decisions, and to determine how much the budget deficit would be and for supervision activities and policy analysis. |
| ii. Compared to revised revenue estimate the reduction of actual revenue in respect of 7 institutions hovered around from 33 per cent to 84 per cent. | Government profits and dividends shall not be recovered from all public enterprises. | -Do- |
| iii. Although 12 institutions had estimated to earn Rs.1398 million in 2020, those institutions had not earned any revenue in the year under review. | - Do - | - Do - |
| iv. National Institute of Business Management, Post Graduate Institute of Management and the National Lotteries Board had not made any contribution to the profit revenue during past 03 years. | Due to the Covid pandemic occurred in 2020, the profits and dividends in Government enterprises recorded a reduction | Projection of revenue and keeping reports of collection of income should be streamlined for determining the level at which the Government revenue should be kept for taking correct policy decisions, and to determine how much the budget deficit would be and for supervision activities and policy analysis. |
| v. According to the information submitted for the audit, People's Bank had informed the General Treasury that tax recoverable value of Rs.01 billion approved by the People Bank for the year 2020 had been used to settle Rs.909 million of interest related to the concessionary letter of Rs.1,650 issued on behalf of Mihinlanka Private Limited and Rs.90 .9 million | The amount of Rs.1000 million received in respect of cutting a part of the loan premium and together with the total accrued interest due to the People's Bank from the Mihinlanka remitted to the Consolidated Fund, has been accounted as profit revenue. | Proper procedures should be followed enabling the crediting of Government revenue to the Consolidated Fund and to make relevant payments upon proper provisions |

of capital amount. Accordingly, such settlement had been adjusted to the accounts through a Transfer Sheet dated 31 December 2020.

II. Income Code 20.02.04 - Divident Income

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| <p>i. The revised revenue estimate was Rs. 4,918 million for 2020 and since the actual revenue was Rs.2,855 million, it was 58 per cent of the revised revenue estimate. 2020</p> | <p>Due to the influence of the Covid 19 pandemic and the determination of the amount of dividends by the director board of the relevant company.</p> | <p>Projection of revenue and keeping reports of collection of income should be streamlined for determining the level at which the Government revenue should be kept for taking correct policy decisions, and to determine how much the budget deficit would be and for supervision activities and policy analysis.</p> |
| <p>ii. The actual revenue had reduced by a range between 65 to 80 per cent over estimated revenue in relation to 2 institutions.</p> | <p>The profits and dividends of state enterprises have reduced due to Covid pandemic occurred in 2020.</p> | <p>-Do -</p> |
| <p>iii. Rs.1,074 million had been estimated as dividend revenue of 14 institutions and no contribution had been made to the dividend revenue from these institutions in the year under review.</p> | <p>The profits and dividends of state enterprises have reduced due to Covid pandemic occurred in 2020.</p> | <p>-Do-</p> |
| <ul style="list-style-type: none"> • The following institutions had not made any contribution to the dividend revenue during the past several years. • Independent Television Network • Kahatagaha Graphite Lanka | <p>-Do-</p> | <p>-Do-</p> |

- Limited
- Lanka Sugar Company
- Lanka Logistics Limited
- Sri Lanka Thripasha Limited

2.2 Expenditure Management

The following observations are made

Audit Observation -----	Comments of the accounting Officer -----	Recomendation -----
(a) The total net allocation made for the recurrent and capital objects had fully saved at the end of the year without being spent in the period under review.	The amount allocated under one object for paying compensations to the persons of the Pugoda Textiles Lanka Ltd saved without being spent owing to the restriction of movement due to the Covid pandemic and allocation under another object set aside for paying lease premiums saved due to the motor car being transferred to the Prime Minister Office.	Making over allocations should be controlled through Annual Estimates.
(b) The variance of one object was 25 per cent when preparing the primary expenditure estimate and revised expenditure estimate.	Such variances normally occur when estimates are prepared.	-Do-
(c) It was observed that that due to 08 recurrent objects and 02 capital objects being over allocated, saving after utilization in the year was within the range from 34 per cent to 99 per cent of the net provision.	Provisions saved due to restriction of operations owing to Covid pandemic.	-Do -

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| (d) | Cheques valued at Rs.40,000,000 given under Equity Contributions Head No 2301 in 2020 for the initial capital of 02 companies had not been handed over by 16 June 2021 since these companies had not initiated operations although they have been established. | Handing over cheques had taken place on 17.06.2021. | Investments should be made in an efficient and productive manner. |
| (e) | Although Rs.48,000 million had been given as an additional capital to the Ceylone Electricity Board in the year under review, the attention of the Department had not been directed towards non making of provisions for that. | Additional capital provision made by the Fuel Price Stabilization Fund. | Necessary provisions should be made for payments made via Consolidated Fund. |
| (f) | It was observed that the capital contribution made by the Department to the State business firms had not been accounted and it was observed that the Department had not provided proper guidance for that. | When capital contributions are granted, It has been informed in writing to account such amounts as additional capital | A mechanism should be devised to ensure that capital contribution is accounted under proper guidance. |
| (g) | It was observed that there was no proper supervising procedure on the accounting of recurrent and capital grants | It has been informed to take steps to correct accounting mistakes if such mistakes are found at the time of analyzing. | Supervision of accounting of recurrent and capital grants should be streamlined. |

2.3 Non -compliance with laws, rules and regulations

Audit Observation

Comments of the

Recommendation

As per the guideline No 6 issued by the Government Accounts Department in compliance with chapter 10:1 of

Accounting Officer

Government Finance Circular No 02/2020, although the cash flow statement (ACA-C Specimen) should have been prepared as a draft, the following facts were observed on account of the cash flow statement not being prepared in the said manner.

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| i. Rs.3,363,852 had been understated due to the amount mentioned under cash flow statement generated through investment activities being Rs.2,870,051 although the recovery of advance in the year being Rs.6,233,903. | Cash flow statements have been prepared in accordance with accepted accounting principles and standards | Should follow the circulars. |
| ii. Although advance payments stood at Rs.4,778,054 only Rs.2,249,540 had been mentioned as advance payments in the cash flow statement. Therefore, Rs.2,528,514 of cash flow had been understated. | Cash flow statements have been prepared in accordance with accepted accounting principles and standards. | -Do- |

3. Operational Review

3.1 Failure to Achieve the Expected Output Level

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) The activities to be initiated under assisting to follow up the facts included in the memorandum of understanding related to Government owned enterprises privertized through the Action Plan prepared by the Public Enterprises Department for 2020 and sorting out issues related to such institutions, had not been included in the Annual Action Plan.	Agree. Noted for inclusion in the Annual Action Plan 2022.	Annual Action Plan should be prepared covering all activities.
(b) It had been mentioned in 1.1 in chapter 01 in the introduction of Performance	Agree The relevant revisions were	Updated information should be maintained in

<p>Report 2019 and in 1.1 in chapter 01 of the draft Performance Report 2020 that there are 396 Government owned enterprises out of which 280 are supervised by the Department. However according to the information provided for the audit by the Department itself that there are 417 Government owned enterprises out of which 300 enterprises are supervised by the Department.</p>	<p>noted for inclusion in the Performance Report 2021.</p>	<p>regard to supervised Public Enterprises.</p>
<p>(c) However, it had been informed to the audit that only 118 out of the above 300 mentioned Government owned enterprises are being supervised by the Department.</p>	<p>Agree</p>	<p>Should be able to identify the clear criteria in relation to Government enterprises that should be subjected to supervision.</p>
<p>(d) There were 33 loss making enterprises amongst those 118 Government enterprises. Although the audit had queried as to the intervention of the Department regarding loss making enterprises, though it had been mentioned in response to such question that it was providing required instructions and building awareness, it was observed at the audit that there was no follow up in that regard.</p>	<p>Not answered.</p>	<p>Follow up activities should be streamlined related to the supply of instructions and enlightening enterprises.</p>
<p>(e) According to the information provided for the audit, it was informed that even the Financial Statements had not been forwarded related to 18 of the 118 enterprises which were being supervised by the Department and it was observed that certain enterprises had not forwarded Financial Statements related to several years.</p>	<p>Not answered</p>	<p>-Do-</p>
<p>(f) The following facts were observed when checking the progress of the Action Plan 2020 of the Department.</p>		

I. Activities not Implemented in 2020

- As per indicated in 1.3 of the Action Plan, granting approval for the Administrative Manuals submitted by Government owned enterprises..
- Facilitation for renewing Collective Agreements.
- Conducting a programme to raise awareness on the Companies Act, Good Governance Guidelines and Management Activities.

has been included in the Action Plan 2021. Due to the covid 19 pandemic spread in 2020, most of the activities mentioned in the Action Plan could not be fulfilled at expected level. 2021

Action should be taken to achieve the targets of the Annual Action Plan.

II. According to the Performance Report 2019, the following are the activities that had been planned to be completed in the first and second quarter of 2019 and that had not been completed even by the end of 2020.

- i. Dividends Policy
- ii. Incentive Policy

Action is taken to complete the year 2021. These enterprises have informed that the relevant guidelines have been prepared.

Action should be taken to achieve the targets of the Annual Action plan

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| <p>iii. Although the updated Good Governance Guide Lines Manual was to be issued upon the cabinet approval related to the reestablishment of the Department in 2002 to initially control seven (07) Sri Lankan Public Enterprises and institutions such as Bank of Ceylone, People's Bank, National Saving Bank, State Mortgage and Investment Bank, Securities and Exchange Commission of Sri Lanka and Board of Investment of Sri Lanka, no relevant updated guide line had been issued so far by the Department.</p> | <p>Good Governance Guideline Manual covering institutions containing notes of the Cabinet of Ministers and other institutions has been already prepared.</p> | <p>-Do-</p> |
| <p>iv. Iv Guideline Manual for Revenue Policy
v. Guideline Manual for Administrative Manuals</p> | <p>All these guidelines are included in the above guideline.</p> | <p>Steps should be taken to achieve the annual action plan targets.</p> |
| <p>(g) Completion of data entry work of 121 institutions of the 300 institutions that are supervised under Public Enterprises Department was about 40 per cent..</p> | <p>This data system has been prepared in respect of the mainly supervised 126 Public Enterprises. Accordingly 119 institutions have been covered in 2 stages.</p> | <p>Correct updated data and information should be maintained and should carry out required supervision based on that.</p> |
| <p>(h) According to 17.2 chapter 07 of the draft Performance Report 2020, the word "compliance" had been given to facilitation to publish appreciations / accusations by the general public providing information of the institution through its website or alternative ways. As mentioned above, since the preparation of the data system of the</p> | <p>This data system has been prepared for the mainly supervised 126 public enterprises. Accordingly 119 institutions have been completed in the 2 stages.</p> | <p>-Do-</p> |

Public Enterprise Department has not yet been completed,said “compliance” became problematic at the audit.

- (i) Income generated from profits and dividends of Public Commercial enterprises in the year 2019 stood at Rs.22,833 million and 5,024 million respectively and in the year 2020 it stood at Rs.14,708 million and Rs.2,855 million respectively 2019 thus indicating a 36 per cent and 44 per cent reduction respectively.Information of 33 enterprises had been included under revenue code 20:02:03 (profit), 43 institutions had been indicated under revenue code 20:02:04 (dividends).According to the information provided for the audit, the number of Public Commercial enterprises is 206.Accordingly, the factors such as Revenue/profit/ loss of more than 150 institutions had not been taken into consideration and reasons for such non consideration too had not been given.
- Profit and dividends of Public Enterprises had been reduced due to Covid pandemic.Profit and dividends are not recovered from all Public enterprises and dividends are determined by the Director Board of the relevant company.
- Do -
- (j) It was observed that there has been sharp decrease in the level of performance at Public enterprises due to the reduction of profit and dividends.When considering the trainings on supervision of the performance of the Public Enterprises given to Treasury and internal representatives, a training programme had been conducted on 30 January 2020 for 100 new Treasury representatives on Acts,circulars and provisions that apply when intervening to take decisions related to the supervision of the performance of Public Enterprises. As the second step of that, although another training workshop had been conducted in
- Workshops could not be conducted after the month of March owing to the Covid pandemic.
- Enhancing the performance level of Public Enterprises through correct guidance and instructions.

February for 100 more representatives after which no more training programme had been conducted during the year 2020, thus indicating lack of action in that regard.

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| (k) | Although it had been planned to review the cooperate plans and Action plans related to the review of performance of Public Enterprises, according to the information submitted to the Audit,submitting of cooperate plans and Action Plans from amongst the 300 Public Enterprises was at minimum level in 2020. | Submitting of cooperate Plans and Action Plans did not take place at the expected level in 2020.2020. | Bringing down information by giving proper instructions and streamlining the reviewing of such information. |
| (L) | For solving major issues in Public Enterprises, only one round of discussion had been held in 2020 for other institutions of agriculture sector except for plantations and two rounds of discussions had been held for several enterprises. No meeting had been held in 2020 to solve major issues such as labour cost being increased due to the number of employees being higher,weaknesses in Good Governance practices in institutions and issues related to woking with unmotivated employees. | It was not possible to conduct programmes as planned owing to Corona Pandemic. | Providing guidance by giving priority to the institutions which are having serious problems. |