

Head- 056 – Ministry of Special Area Development

1 Financial Statements

1.1 Qualified Opinion

The audit of the financial statement of the Department of Public Enterprises for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 09 February 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, except for the effects of the matters described in paragraph 1,6 of this report, the financial statements prepared in accordance with the provisions of the Government Accounting Circular No 271/2019 dated 03 December 2019, give a true and fair view of the financial position of the Ministry of Special Area Development as at 31 December 2019, 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 Qualified 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.

Since the Ministry of Special Area Development - Head 56 had been established in the year 2019, Financial Statements relating to the preceding year had not been submitted. Therefore, the Financial Statements of the Year under review can not be certified as consistent with the previous year.

The recommendations I had made in relation to the preceding year had been implemented.

1.6 Comments on the Financial Statements

1.6.1 Financial Statements not complying with Circular Provisions

Even though the Financial Statements should have been prepared as per Government Accounting Circular No 271/2019 dated 03 December 2019, instances of non compliance with such requirement are as follows.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) Although it has been mentioned in chapter 7(vi) of the State Accounts Circular No 271/2019 dated 03 December 2019 on what should be adjusted by the Imprest Adjustment Account, in contravention of which Rs.483,500 of cross entries expenditure and Rs.1,537,549 of surcharge had been mentioned in it.	Accounts should be prepared as per the Government Account Circular No 271/2019.	Since cross entries are included in the total expenditure, there is no space to adjust them in the Statement of Financial performance. Therefore, they had to be mentioned in Advance Adjustment Account, and imprest settlement too had to be mentioned in that way while total expenditure has been calculated without adjusting for surcharge values, surcharge value has been mentioned in the Adjustment Account.
(b) Although the Cash Flow Statement should have been prepared based on Specimen ACA-C of the Government Accounts Circular No 271/2019 dated 03 December 2019, the submitted Cash Flow Statement was not in conformity with that specimen.	-Do-	That the specimen which was available on the website of the Government Accounts Department was used.

1.6.2 Financial Performance Statement

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Although the deposit receipts and advance receipts in the Treasury Final Accounts Statement were Rs.106,786 and Rs.147,669 respectively, such values had not been mentioned as receipts in the Financial Performance Statement.	It is necessary to prepare the accounts correctly.	That the Financial Performance Statement was prepared as far as possible on the basis of encompassing transactions done in cash only, and that since Rs.254,445 of advance and deposit receipts are cross entries, they were not included.
(b) Although the other receipts value was Rs.242,325, it had been mentioned in the Financial Performance Statement as Rs.1,564,799 and due to that, financial result had been overstated by Rs.1,322,474.	-Do-	That the audit observation is not accepted, according to the Final Treasury Accounts Statements (SA -21) that the other imprest receipts value has been indicated as Rs.1,564,799, and that it clearly indicates the imprest receipts value indicated in the Financial Performance tallies with the Final Treasury Accounts Statements (SA -70)

1.6.3 Cash Flow Statement

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) Since Receipts amounting to Rs.242,325, collected under cash flow for other Departments and Ministries have not been included under cash flow generated out of operational activities, net cash flow from operational activities had been under stated.	-Do-	That the total has been mentioned due to non classification under non income receipts.

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| (b) | Although the personal emoluments and operational expenses amounted to Rs.49,974,698, it had been mentioned as Rs.96,873,922 under operational activities of the Cash Flow Statement and owing to that Rs.46,899,224 of cash flow had been overstated. | It is necessary to prepare the financial statements correctly. | That the total of the personal emoluments and operational expenses was indicated under the item Personal Emoluments and Operational Expenses in the Cash Flow Statement. |
| (c) | Rs. 541,091 being the value recovered as Advance, and Rs.706,702 being the value paid as Advance in the year under review and payment of Rs.27,474,506 made to construct or purchase physical assets or acquire other investments, had been mentioned in the Cash Flow generated from investment activities. | It is necessary to prepare the accounts as per Government Circular 271/2019. | That since investment activities did not happen, value of them has not been included. |

1.6.4 Imprest Account

The following deficiencies were revealed when accounting the imprest balance.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(a) Although the balance of the Imprest Account should have been Rs.17,838,757 as at 31 December 2019, that balance had been mentioned as Rs.19,386,269 and as such a sum of Rs.1,547,512 had been overstated.	It is necessary to prepare the financial statements correctly.	That the audit observation is accepted.
(b) According to the cooperate detailed trial balance of the Ministry, although there is a difference of Rs.464,614 amongst the advance receipts and payments and values mentioned in the Final Treasury Account Statements, that has not been mentioned in the Imprest Adjustment Account.	It is necessary to tally the balance of the departmental books with that of the Treasury.	That a difference has been occurred between trial balance and Final Treasury Account Statements due to taking over of advance balance at the end of the year through Transfer Sheets by submitting them to the Treasury.

2. Financial Review

2.1 Expenditure Management

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Provisions totalling Rs.29,730,000 made for 11 Objects had been totally saved since they had not been utilized for any purpose.	It is necessary to take steps to utilize the annual budget provisions in an optimal way.	That only 15 employees were involved with operational activities although there was a approved cadre of 42 employees and that trained graduaets were used as employees.
(b) The balance provisions of 12 Objects saved after utilization ranged from 35 per cent to 88 per cent of the allocated provisions .	-Do-	Although the Ministry was established in March 2019 through a Gazette paper,there was no sufficient time to carry out activities due to it being closed down on 20 November 2019. Further, carring out activities was further delayed due to the limited staff..