

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ministry of Trade 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 Ministry was issued to the Chief Accounting Officer on 08 July 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 Chief Accounting Officer on 13 August 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, 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 Trade 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 Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements are 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 Chief Accounting Officer and the 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 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 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 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 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 judgment and maintain professional skepticism 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 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

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

Financial statements were not submitted for the previous year as the Ministry was established in the year under review.

1.6 Comments on Financial Statements

1.6.1 Statement of Financial Performance

(a) Recurrent Expenditure

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
<p>(i) Information regarding the manner in which the surcharges amounting to Rs. 2,840,611 made under other ministries consolidated to the Ministry had been adjusted to the accounts was not presented to the audit.</p>	<p>Expenditure on salaries and wages amounting to Rs. 1,872,756 and the expenditure on other allowances amounting to Rs. 774,200 spent under Head 55 have been taken under the Head 151 (Ministry of Fisheries). Subsequently, according to the Budget Circular 6/2020, this expenditure should be included in the Head 116. Accordingly, total expenditure on salaries and wages taken under the Head 116 is Rs. 32,589,956 and the expenditure on total other allowances is Rs. 774,200. It is accepted that overtime and holiday pay as Rs. 3,332,934 and rent and local government tax expenditure as Rs. 13,930,877 should be corrected.</p>	<p>Expenditure surcharged under other Ministries should be adjusted to the relevant accounts.</p>
<p>(ii) Travel expenses for the year under review had been overstated by Rs. 120,750 as failure to rectify the error of debiting a refund of travel expenses amounting Rs.120,750 transferred from Object No. 151-1-1-0-1101-11 to Object No. 116-1-1-0-1101-11 instead of crediting the Object No. 116-1-1-0-1101-11</p>	<p>According to the Account Summary of December 2020, the travel expenses amounting to Rs. 120,750 has been credited to Object No. 116-1- 1-1101</p>	<p>Rs, 241,500 should be credited to the Object 116-1-1-0-1101-11 in order to correct the error.</p>

1.6.2 Statement of Financial Position

The following deficiencies were observed in accounting for property, plant and equipment.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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(a) Although the opening balances under other machinery and equipment had not been shown as per the Treasury Printout SA 80, an opening balance of Rs. 3,400,978.had been shown under the Statement of Non-Financial Assets of ACA 6 in the financial statements .	The audit observation is accepted as correct. The assets amounting to Rs. 3,400,978 are assets purchased in the year 2020.	Assets which were purchased should be accurately stated in the financial statements.
(b) The information related to three vehicles, which cost Rs. 41,000,000, had not been shown in the ACA-6 of financial statement or under the Treasury Printout SA 81.	Actions will be taken to account this value as assets.	All assets should be accounted for.

1.6.3 Non-maintenance of Registers and Books

It was observed during audit test checks that the Ministry had not maintained the following registers .

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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(a) Audit Query Register ----- An Audit Query Register had not been maintained in terms of Financial Regulation 452 (1).	Agreed, Updating	In terms of Financial Regulation 452 (1), the Audit Query Register should be maintained in an updated manner.

(b) **Records of Losses**

A record of losses had not been maintained in terms of Financial Regulation 110.

do

In terms of provisions in Financial Regulation 110, a record of losses should be maintained in the form appended.

(c) **Record of Liabilities**

A record of liabilities had not been maintained in terms of Financial Regulation 214.

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In terms of Financial Regulation 214, liabilities should be recorded in a record of liability to ensure regular examination of such liabilities.

1.6.4 Lack of Audit Evidence

Audit evidence on the following transactions had not been made available.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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(a) Replies to 03 Audit queries issued to the Ministry in the year under review had not been furnished even by 31 May 2021. The value of quantifiable transactions relating to those audit queries amounted to Rs. 4,106,802,713.	Comments had not been made.	In terms of Financial Regulation 155, the Chief Accounting Officer /Accounting Officer should inspect the Audit Query Register referred to in F.R. 452(1) after a specific time and take steps to correct any shortcomings which they reveal and replies to those queries should be furnished forthwith. If a delay is envisaged in furnishing such replies, action should be taken to submit an interim report.
(b) Monthly accounts summaries for the months of January and February 2020 were not submitted for audit.	Agreed.. Updating	Monthly accounts summaries should be submitted to the audit.

- (c) Information related to Rs.6,111,379 which had been shown as cross entries of Imprest Adjustment Account had not been presented to the audit. Actions will be taken to present necessary explanations in this regard very soon. Details of cross entries should be submitted to the audit.

2. Financial Review

2.1 Management of Expenditure

The following observations are made.

Audit Observation -----	Comments of the Chief Accounting Officer -----	Recommendation -----
(a) The entire net provision amounting to Rs. 5,830,000 provided for 12 Objects had been saved.	This Ministry has been established since September 2020. The previous Head No. 53 the Ministry of Economic Reforms and Public Distribution, the non-Cabinet Ministry was abolished and the expenditure under that Ministry has been transferred to this Ministry. Allocations were actually made to this Ministry (Head 116) only from September to December 2020. Accordingly, those provisions have been utilized to the maximum and the facts such as non-receipt of adequate imprests and disruption of work to be performed due to Corona pandemic caused the inability to spend entire funds allocated .	Accurate estimates of expenditure should be prepared in terms of Financial Regulations 50.
(b) As a result of provisioning of Rs. 678,908,109 for 53 Objects, savings after utilizing the provisions ranged from 12 percent to 99 percent of the net provision for those Objects.	over- Rs.	-do-
(c) Additional provisions under the Virement Procedure aggregating Rs. 38,230,000 as Rs. 7,230,000 for 5 Objects of Program 01 and Rs. 31,000,000 for an Object		-do-

of Program 02 had been provided under the Head of the Ministry. It ranged from 60 percent to 700 percent of the estimated provision of each Object

- (d) Provisions aggregating Rs. 35,980,000 had been decreased under the Virement Procedure as Rs. 4,980,000 for 5 Objects of Program 01 and Rs. 31,000,000 for an Object of Program 02 under the Head of the Ministry. It ranged from 28 percent to 100 percent of the estimated provision of each Object
- Additional provisions were made under the Virement Procedure for the purchases required by the Ministry and the expeditious completion of the Rajavasa project as the Ministry was a new Ministry,
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2.2 Exceeding Limits

The observations on excesses and shortfalls of prescribed limits authorized by Parliament for government advance account activities are given below.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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<p>The Minimum Limit of Receipts authorized by the Appropriation Act in respect of the Public Officers' Advance (B) Account of the Ministry for the year 2020 was Rs. 6,000,000 and the actual receipts in cash after removing the adjustments made under F.R. 503 (1) had been Rs. 3,061,083. Accordingly, the Ministry had not reached the Minimum Limit of Receipts authorized by the Appropriation Act.</p>	<p>Agreed</p>	<p>The Minimum Limit of Receipts authorized by the Appropriation Act in respect of Public Officers' Advance (B) Account should be achieved.</p>

2.3 Incurring of Liabilities and Commitments

Audit observations revealed relating to liabilities and commitments. are given below.

Audit Observation -----	Comments of the Chief Accounting Officer -----	Recommendation -----
(a) Although it was stated that there are no liabilities and commitments in the Statement of Liabilities and Commitments of the financial statement , in a sample test carried out related to the payments made in the year 2021, it was observed that an amount of Rs. 4,416,559 related to the year 2020 had been paid in January and February of the year 2021 .	These liabilities and obligations will be included in the instance where the financial statements for the year 2021 will be prepared.	Liabilities and commitments should be correctly identified and stated in the statement of liabilities and commitments in the financial statement.
(b) Liabilities in excess of the savings under Object number No. 116 - 1 - 2 - 1002 were Rs. 601,023 and actions had not been taken in this regard in accordance with F. R 94.	Actions will be taken in accordance with F.R 94.	Actions in respect of liabilities in excess of the savings should be taken in terms of F.R 94.

2.4 Certification of Chief Accounting Officer/Accounting Officer

Audit Observation -----	Comments of the Chief Accounting Officer -----	Recommendation -----
(a) The Chief Accounting Officer and the Accounting Officer should ensure that an effective internal control system for the financial control exists in the Ministry in accordance with Provisions in Section 38 of the National Audit Act No.19 of 2018 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,	The reply will be furnished in due course.	Action should be taken in accordance with provisions in Section 38 of the National Audit Act No.19 of 2018.

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

- (b) The Chief Accounting Officer and the Accounting Officer shall ensure that all audit queries be answered within the specified time as required by the Auditor General. However, in terms of paragraph 3.3 of the report, audit queries had not been answered. Reply has not been given. -do-
- (c) 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 paragraphs 4,1 of the report. -do- -do-

2.5 Non-compliance with Laws, Rules and Regulations

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

Reference to Laws, Rules and Regulations	Observation Non-compliance	Comments of the Chief Accounting Officer	Recommendation
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(a) Financial Regulations 104 (1), 104 (3) and 104 (4)	The preliminary investigation report on 05 vehicle accidents which had to be submitted within 07 days and the final investigation report which had to be submitted within 03 months had not been prepared.	04 reports on Financial Regulations 104 had been completed as at 31 December 2020 and officers had been appointed to take actions in respect of other accidents.	Actions should be taken in terms of Financial Regulations 104 (1), 104 (3) and 104 (4) in relation to motor vehicle accidents.

- (b) Financial Regulations 395(c) Although a bank reconciliation statement should be prepared before the 15th day of the following month regarding the position of transactions at the end of each month, the Ministry had not taken actions accordingly.
- At present the Ministry is preparing a bank reconciliation statements before the 15th day of the following month.
- According to Financial Regulation 395 (c), a bank reconciliation statements should be prepared before the 15th day of the following month regarding the position of transactions at the end of each month.

2.6 Deposit Balances

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Although the stamp duty levied on salaries under section 7 of the Stamp Duty Act No. 12 of 2006 should be remitted to the Commissioner General of Inland Revenue within 15 days after the end of each quarter, the stamp duty amounting to Rs. 24,725 levied by the Ministry from January to December 2020 had been credited to the public deposit account without remitting to the Commissioner General of Inland Revenue even as at 01 March 2021.	Stamp duty will be remitted to the Department of Inland Revenue after registration for the stamp duty at the Department of Inland Revenue.	In terms of the Section 7 of the Stamp Duty Act No. 12 of 2006, stamp duty levied on salaries should be remitted to the Commissioner General of Inland Revenue within 15 days after the end of each quarter.
(b) Rs. 235,360 to be remitted to the Public Service Provident Fund and Rs. 85,103 to be remitted to the Employees Provident Fund had been credited to the public deposit account without being remitted to the relevant institutions.	This amount will be remitted to the Public Service Provident Fund and the Employees Provident Fund expeditiously.	Funds to be remitted to the Public Service Provident Fund and the Employees Provident Fund should be remitted without a delay.

2.7 Operation of Bank Accounts

Deficiencies revealed at the audit test checks carried out on operation of bank accounts, appear below.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
Actions in terms of F.R.396 had not been taken regarding cheques amounting to Rs. 1,862,716 which was issued but not presented for payment.	Necessary steps regarding cheques issued but not presented for payment will be taken in accordance with Financial Regulation 396	Actions in terms of F.R.396 should be taken regarding cheques issued but not presented for payment.

3. Operating Review

3.1 Planning

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
A procurement plan had not been prepared in terms of National Budget Circular No. 128 dated March 24, 2006.	The Ministry of Trade was established under the Extraordinary Gazette Notification dated 09.08.2020 and the Ministry of Internal Trade, Food Security and Consumer Welfare, which had previously been merged by parts of several Ministries, became the Ministry of Trade. A procurement plan had not been prepared due to the lack of officers and the difficulty in securing space for the Ministry. However, the procurement plan for the year 2021 has been prepared.	A procurement plan should be prepared in accordance with National Budget Circular No. 128 dated March 24, 2006.

3.2 Assets Management

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
The ownership of 19 vehicles as at 31 December 2020 had not been transferred to the Ministry.	Actions to take over these vehicles are in progress.	Vehicles used by the Ministry should be taken over to the Ministry.

3.3 Failure to reply Audit Queries

Replies for 03 audit queries issued to the Ministry had not been furnished even as at 31 August 2021.

4. Good Governance

4.1 Internal Audit

Audit Observation

An internal audit unit had not been established in the Ministry.

Comments of the Chief Accounting Officer

Both the posts of Chief Internal Auditor and Internal Auditor are currently vacant in relation to the establishment of an internal audit unit in the Ministry and the Ministry of Public Administration, the Public Service Commission and the Department of Management Services have been informed in writing requesting to complete the post expeditiously and reminders have been also sent. The Cabinet has also been informed about this situation. The reason for this is the lack of officers.

Recommendation

An internal audit unit should be established in terms of Section 40 of the National Audit Act No. 19 of 2018.

4.2 Audit and Management Committee

Audit Observation

Audit and management committee meetings had not been held for the year 2020 in terms of paragraph 2 of Circular No. DMA / CIR-EDIT / 2016 dated 28th January 2016.

Comments of the Chief Accounting Officer

A situation had arisen where the audit and management committee meetings could not be held as both the posts of Chief Internal Auditor and Internal Auditor are currently vacant in relation to the establishment of an internal audit unit. Further, there are no officers in the Ministry who are experienced enough to be attached to that division.

Recommendation

Audit and management committee meetings should be held in accordance with the provisions of the circular.

5. Human Resource Management

Audit Observation

The approved cadre as at 31 December 2020 was 111 and out of which 55 posts or 50 percent were vacant.

Comments of the Chief Accounting Officer

The Ministry of Public Administration, the Public Service Commission, the Department of Management Services and the Cabinet of Ministers have been informed requesting to fill the vacancies expeditiously.

Recommendation

Action should be taken to fill the vacancies for essential posts taking the requirements into consideration.