

Head 310 - Department of Government Factory

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Department of Government Factory 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 Department of Government Factory was issued to the Accounting Officer on 22 June 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 Department was issued to the Accounting Officer on 05 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, 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 Department of Government Factory 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 responsibilities 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 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 Department 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 Department 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 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 Department'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

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

- (a) The financial statements are consistent with the preceding year,
- (b) The following recommendations made by me on the financial statements of the preceding year had not been implemented.

Paragraph reference	Audit observation	Recommendation
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1.2.1 (c) (ii)	Out of the debt balance of Rs.138'239'822 due from 1995 to 2011, any amount had not been recovered during the last 10 years in Work Done Advance account.	Action should be taken to recover the outstanding debtor balance.
1.2.1(d) (ii)	A debt balance of Rs.466,400 had not been recovered from two officers who were transferred to provincial councils for more than two years.	Action should be taken to recover the outstanding debt balance.
1.2.1(d)(viii)	Due to the misplacement of the files, a loan balance of Rs.32,630 could not be recovered and no action had been taken against the responsible officials.	All documents, books, records, documents, etc. in accordance with F.R.156 (6) shall be kept in proper and orderly safe custody until disposed of properly.

1.6 Comments on financial statements

1.6.1 Submission of accounts

Audit observation

Annual financial statements

According to the guideline No.06 issued by the Department of Public Accounts, the Annual Financial Statements should have been submitted to the Auditor General on or before 28th February 2021, but were submitted for audit on 17th March 2021.

Comment of the Accounting Officer

The financial statements for the year 2020 were submitted to the Auditor General on 18 February 2021 and as some deficiencies in the reports had to be rectified, those corrections were made and re-submitted on 17.03.2021.

Recommendation

Annual financial statements should be submitted for audit as per the guidelines issued by the Department of Public Accounts.

1.6.2 Statement of Financial Performance

Non-revenue receipts

Audit observation

Although the treasury imprest received from the Treasury in the consolidated trial Balance was Rs. 247,001,944, the value shown in the statement of financial performance was Rs.248,268,319. A difference of Rs. 1,266,375 was observed .

Comment of the Accounting Officer

I would like to draw your attention to the fact that the difference of Rs. 1,266,375 is the outstanding advance of the previous year and it has to be settled within this year (2020) and this value has been added to the Treasury imprest Account when preparing the Statement of Financial Performance.

Recommendation

Receipts for the year should be stated in the financial statements of the relevant year.

1.6.3 Statement of Financial Status

Property plant and equipment

Audit observation	Comment of the Accounting Officer	Recommendation
The difference of Rs.277,700 was observed between the balance of the non-financial asset account and the balance of the non-financial asset reserve account.	I would like to draw your attention to the fact that the difference between the balance of the non-financial assets account and the balance of the non-financial assets reserve account amounting to Rs. 277,700 / - was unpaid advance.	Unsettled imprest balance should not be adjusted in in Non-financial assets reserve account.

1.6.4 Advance Account Balance

The following deficiencies are made when accounting for closing balances of advance accounts.

Audit observation	Comment of the Accounting Officer	Recommendation
(a) A difference of Rs.1,586,080 was observed between the advance receipts of Rs. 383,323,827, in the departmental consolidated trial balance and the balance of Rs.381,737,747 in the cash flow statement.	It will be corrected in presenting the cash flow statement in future.	Correct balances should be stated in the financial statements.
(b) A difference of Rs.1,090,795 was observed ,since the advance payments of Rs. 265,424,450 shown in the departmental consolidated trial balance had been shown as Rs. 264,333,657 in the cash flow statement.	It will be corrected in presenting the cash flow statement in future.	Correct balances should be stated in the financial statements.

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| (c) | A difference of Rs.1,009,579 was observed between the value of advance receipts in the SA- 52 and in the statement of financial performance. | I hope to correct this and present it when preparing accounts in the future. | Differences should be identified and appropriate adjustments should be made in the financial statements. |
| (d) | A difference of Rs.1,586,080 was observed between the value of advance payments in SA - 52 and in the statement of financial performance . | I would like to draw your attention to the fact that this will be rectified and the accounts will be submitted when the financial performance statement is prepared in the future. | Differences should be identified and appropriate adjustments should be made in the financial statements. |

1.6.5 Imprest Adjustment Account

The following deficiencies are made

Audit observation	Comments of the Accounting Officer	Recommendation
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(a) A difference of Rs.576,501 was observed between values of advance receipts in the the SA-52and in the statement of Financial Performance.	Steps will be taken to present the imprest adjustment account correctly in the future.	Differences between balances should be adjusted to the imprest adjustment account.
(b) A difference of Rs.495,287 was observed between values of advance payments as per the Statement of Financial Performance and as per the SA-52 had not been adjusted in the imprest adjustment account.	Steps will be taken to present the imprest adjustment account correctly in the future	Differences between balances should be adjusted to the imprest adjustment account.

1.6.6 Failure to maintain documents and books

Sample audit revealed that the department had not maintained some of the following documents and some documents had not been maintained properly and up to date.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) No surety register had been prepared containing details of Officers and employees required to submit securities under Financial Regulation 891 (1).	Necessary instructions have been given to maintain the security register.	A surety register should be maintained to record required information of the officers who are to be furnished sureties as per Financial Regulation 891(1).
(b) A register for liabilities had not been maintained.	No liabilities have been incurred in the year 2020 and it has not been noted that if any liability arise from this year, action will be taken to include them in the register.	A liability register had not been maintained in accordance with Financial Regulation 214.

1.6.7 Lack of evidence for audit

No audit evidence was presented regarding following transactions.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) Schedules had not been submitted for debtors amounting to Rs.55,087,507.	This amount is the debtor balance to be deducted according to the comparison of the debtor balance between the Accounts Division and the Work Division prior to 2015. That balance is Rs. 85,284,890. The Audit & Management Committee meeting approved to write off a balance of Rs.30,197,395 and the balance was removed from the books. The balance remaining after removal is Rs.55,087,494.90.	Schedules must be submitted to all debtors to ensure balance.

2. Financial Review

2.1 Revenue Management

Audit observations

Out of the debtor balance of Rs.138,239,822 due from 1995 to 2011, no amount had been collected during the last 11 years.

Comments of the Accounting Officer

Recommendations have been made to make the relevant adjustments through the doubtful debt balance account from 1995 to 2007. Investigations into the loan from 2008 to 2015 are ongoing. Letters have been sent to the relevant institutions regarding loans from 2015 to date.

Recommendation

Actions Should be taken to recover the outstanding debtor balances.

2.2 Failure to reach the limits

The following are the audit observations on the non-compliance of the limits imposed by Parliament on the advance work of the Government.

Audit Observations

Although the minimum approved credit limit of receipts in the Store advance account and work done advance account were Rs..120,000,000 and Rs.420,000,000 respectively, the actual limit were Rs.56,087,363 and Rs.305,040,431. The Department was unable to reach the limit in the year under review.

Comments of the Accounting Officer

Due to the spread of the first and second waves of Kovid-19, our department was closed for nearly five months. Also, imposition of travel restrictions caused the delays in completing the projects as planned, as the inability of the workers to go to work. Therefore, the approved minimum credit limit for receipts has not been achieved.

Recommendation

The limits must be adhered to.

2.3 Approach liabilities and obligations

Audit Observations	Comments of the Accounting Officer	Recommendation
There was an unresolved credit balance of Rs.1 , 141 , 584 pertaining to the store advance account for the year under review. Out of this Rs.324,021 was the balance between 02 and 05 years.	I kindly inform you that the amount stated in the account as creditors will be settled in the future.	Action should be taken to settle the liabilities properly.

2.4 Work Done Advance Account

Audit Observations	Comments of the Accounting Officer	Recommendation
No amount had been deducted from the debtor balance of Rs.138,239,822 due from 1995 to 2011 in the work done Advance Account for the last 10 years.	No answer.	Action should be taken to recover the outstanding debtor balance.

2.5 Advance Account of Public Officers

The following observations are made.

Audit Observations	Comments of the Accounting Officer	Recommendation
(a) A debt balance of Rs.466,400 had not recovered from two officers who were transferred to provincial councils for more than three years.	No answer.	Action should be taken to recover the outstanding debt balance.
(b) Due to the misplacement of the files, the loan balance of Rs. 32,630 could not be recovered and no action had been taken against the responsible officials.	No answer.	All documents, books, records, documents, etc., in accordance with Financial Regulation 156 (6) shall be kept in proper and orderly safe custody until disposed of properly.

2.6 Certifications to be made by the Accounting Officer

Audit Observations	Comments of the Accounting Officer	Recommendation
<p>The Chief Accounting Officer and the Accounting Officer should ensure that an effective internal control system for financial control is developed and maintained in accordance with the provisions of Section 38 of the National Audit Act No. 19 of 2018 and that the effectiveness of that system should be reviewed periodically and the system effectively. Necessary changes had to be made in order to proceed and the reviews had to be made in writing and a copy had to be submitted to the Auditor General, but no statement had been submitted to the Audit that such reviews had been made.</p>	<p>Internal administration methods such as numbering, presenting, and handing over files during transfers have also been introduced. Reviews about the changes will not be done from year to year and will be avoided in the future. Formal methods have also been introduced for workshop functions and no summary has been provided. It will be avoided in the future.</p>	<p>Should act in accordance with the provisions of Section 38 of the National Audit Act No. 19 of 2018.</p>

2.7 Non-compliance with rules, regulations and regulations

The following are the instances of non-compliance with the provisions of the rules, regulations and regulations observed during the sample audit tests.

Reference to laws, rules, and regulations	Observation	Comments of the Accounting Officer	Recommendation
<p>(a) Chapter xxiv of the Establishments Code of the Democratic Socialist Republic of Sri Lanka Paragraph 4.2.5</p>	<p>Non-compliance</p>	<p>More than 4 years since retirement or death.</p>	<p>Must comply with the Establishments Code.</p>

(b) 156 (6) of Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Debt balances could not be recovered due to failure to keep all the documents, books, records, documents etc. of the accounts in the safe custody of the responsible officer / officers.	The officials responsible for the disappearance of the relevant files are being investigated.	Must comply with Financial regulations.
(c) National Budget Circular No. 118 dated October 11, 2004	It was observed that although the loan balance of Rs.382,400 due from the transferred officers should be recovered from the relevant transfer office at once, the loan balance will be recovered in installments from the transferred officers to the Local Government Institutions.	Action has been taken to recover the loan balances of Rs.382,400 due from the two officers who were transferred to the Provincial Council Institutions.	Should act in accordance with National Budget Circular 118
(d) Circular No. 08 National Procurement Agency dated 25th January 2006 and 2006 Government Procurement Guidelines Paragraph 8.9.1 (b)	Although a formal agreement had to be signed for a goods contract exceeding Rs.500,000, such provision had not been complied with.	As indicated in the Audit Inquiry, I would like to inform you that in the future we will work under a formal agreement for goods and contracts exceeding Rs.500,000 without any omission.	Should act in accordance with the Circular No. 08 of Procurement agency.

2.8 Deposit balances

The following observations are made regarding the deposit balances.

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) The tender deposit balance which had not been settled for more than two years was Rs.505,600.	Necessary arrangements are being made to credit the government revenue by sending letters to the relevant institutions for tender deposit balances which have not been settled for more than two years.	Unsettle deposit balances over 02 years should be credited to the government revenue.
(b) A balance of Rs.508,570 in the temporary retained deposit account remain unsettled for more than two years.	Necessary arrangements are being made to credit the government revenue by sending letters to the relevant institutions.	Actions should be taken to settle the possible deposit balances.

3. Operational review

3.1 Failure to perform roles

Audit Observation	Comments of the Accounting Officer	Recommendation
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Although Rs. 22,199,572 had been paid by March 06, 2020 for the construction of a temporary building for the Transport Division of the Postal Department, no physical progress had been made on the project until the audit date of February 06, 2021.	Relevant civil engineering work has already been commenced. Designs related to mechanical engineering works are to be issued by the State Engineering Corporation of Sri Lanka and work is scheduled to commence as soon as those plans are issued.	Action should be taken to achieve proper performance by implementing projects in a timely manner.

3.2 Delays in project execution

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) The estimated cost for the construction of the second terminal of the e Scrap metal yards was Rs. 01 million. The physical progress of the relevant construction project, which was proposed to be completed in the year, under review, was about 10 percent.	The civil engineering work related to the construction of sub-yard II of the dilapidated yard has been completed and the raw material for the remaining work has been purchased. This work is planned to be completed soon.	Efforts should be made to implement projects in a timely manner and to achieve proper performance.
(b) The estimate for the construction and installation of the iron bridge that enters the Kuda Oya Lunugamvehera National Park was Rs. 60 million and as at 31 December 2020, the physical progress of the construction was 10 percent.	Ninety percent of the raw materials have already been purchased and the plans designs and designs have been completed. Some amendments had to be made to the specifications and the bids were recalled and it is planned to order the item and commence work as soon as the revised estimate is approved as per the relevant price changes.	Action should be taken to achieve proper performance by implementing projects in a timely manner.

3.3 Annual Performance Report

The Annual Performance Report had not been prepared and submitted with the Financial Statements in accordance with the guideline No. 14 issued by the Department of Public Finance in accordance with paragraph 10.2 of the Public Finance Circular No. 2/2020 dated 28th August 2020.

3.4 Asset Management

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) Underutilized assets The following lands were observed to be underutilized.</p>		
<p>(i) Premises of the old workshop No. 07 which was demolished</p>	<p>A project report has been submitted for the establishment of a vehicle service station on this land and it has not been approved. In the future, a vehicle park will be constructed at this location.</p>	<p>Action should be taken to identify and utilize the assets.</p>
<p>(ii) 01 acre 03rudes and11 perches land with 03 employees' houses in Mendiswatta</p>	<p>This area of land, road and the Turning Circle are used to accommodate the 3 old houses. The land belonging to the barrel shed has been converted into a temporary shed to accommodate the security unit and a workshop is being planned to repair trains</p>	<p>Action should be taken to identify and utilize the assets</p>
<p>(iii) 01rude Barrel shed measuring 08.87 perches</p>	<p>proposed by the government factory in the future.</p>	<p>Action should be taken to identify and utilize the assets</p>
<p>(iv) Non utilized Machinery and equipment</p>	<p>Straight Machine - Difficult to identify due to incorrect positioning. This machine is used for various purposes from time to time. Burner - This device is difficult to identify correctly. Power Hack Saw Machine - This device is also difficult to identify accurately. Arrangements have been made to auction off these old machines and equipment. The reason for not handing over 06 official quarters belonging to the department due to lack of officers who applied.</p>	

- (v) 06 quarters were not handed over and utilized
- (b) Unauthorized occupants had occupied the remaining 01 acre, 03 rudi and 11 perches of land where the government factory workers' quarters were located due to the failure to protect the lands owned by the department by using boundary walls or a permanent fence. When 07 acres, 01 rudi and 38 perches of this land were handed over to the Urban Development Authority in 2011, the remaining amount had been occupied by unauthorized occupants. The Urban Development Authority has already been informed to take necessary legal action in this regard. Action should be taken to ensure security of assets.
- (c) The Department did not have deeds for 03 lands owned by the Department and no action had been taken to confirm the ownership by the Divisional Secretary based on the survey plan. The job to draw the survey plan had been granted to the Survey Department and the work to assess the property had been handed over to the valuation Department. Action should be taken to ensure ownership.
- (d) Fourteen government quarters belong to the department were leased out to outsiders by the officers who obtained them. Officials have taken steps to take over the Houses to the Department, which had illegally leased out to an outside party. Should act in accordance with the agreement.
- (e) It was observed that plates, metal ware and imported accessories worth Rs. 2,382,546 were kept in the premises without any use for the production. These devices are not the most common in the market and most have to be imported. Many of these devices are used for emergency repairs in irrigation projects and are stored in the main warehouse as they need immediately for repair works in irrigation projects. Raw materials should be fully utilized.
- (f) During the year under review was not involved with running the Department of Vehicle 06, but for the year of Rs 105 , 717 in expenses had incurred. Several vehicles belonging to the department are in need of major repairs and steps are being taken to repair those vehicles expeditiously.

4. Human Resource Management

Audit Observation

The approved number of employees in the department was 770 and the actual number of employees was 412. Accordingly, the department had not taken action to fill the 358 vacancies.

Comments of the Accounting Officer

Vacancies have been requested to be filled up by the Ministry of Public Services and the vacancies will be updated online to the PACIS system of that Ministry on a monthly basis.

Recommendation

The department should take action to fill the essential vacancies.