

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the State Ministry of Batik, Hand Loom and Local Apparel Products for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 of the State Ministry of Batik, Hand Loom and Local Apparel Products in terms of Section 11(1) of the National Audit Act, No.19 of 2018 was issued to the Chief Accounting Officer on 18 May 2022. The Annual Detailed Management Audit Report was issued to the Chief Accounting Officer on 03 June 2022 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. The report of the Auditor General in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 10 of the National Audit Act, No.19 of 2018 will be tabled in Parliament in due course.

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 as at 31 December 2021, 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 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 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.

- (a) The financial statements are consistent with the preceding year,
- (b) Regarding the observations mentioned in 1.6.2 of this report, the recommendations mentioned in my report on the financial statements related to the previous year had not been implemented.

1.6 Comments on Financial Statements

1.6.1 Capital expenditure

The following deficiencies were observed while accounting for capital expenditure related to financial statements.

Audit observation	Comments of the Accounting Officer	Recommendation
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(a) In the years 2020 and 2021, the Ministry has reported that it has purchased non-current assets with a total value of Rs.4,581,375, as per Treasury Printed Statement SA 82 (Summary Report of Non-Moveable Assets), only reported Rs.3,093,716 under machinery and equipment as the value of purchased assets.	Through the online accounting system that the treasury has recently introduced for asset management, it has been identified that some errors have occurred in entering them into the assets, and they have been corrected according to the instructions given to the treasury.	Assets purchased during the year should be reported to the treasury.

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| <p>(b) The value of 12 vehicles with a total value of Rs.80,430,000 was included in the Ministry's non-current assets as 9 vehicles with a total value of Rs.58,930,000 received from the Ministry of Industry and 3 vehicles with a total value of Rs.21,500,000 from the Ministry of Finance, which have not been transferred to the Ministry. Out of the 12 vehicles mentioned above, the value of 6 vehicles with a total value of Rs.36,230,000 was also included in the financial statements of the Ministry of Industry. Due to this, the non-financial assets and equipment reserves in the statement of financial position were overstated by Rs.80,430,000.</p> | <p>The 12 vehicles with a total value of Rs.80,430,000 have been allocated to this Ministry and handed over by letter. Although their ownership has not been transferred to this ministry, all the economic benefits of those vehicles are received by this ministry and all fuel costs and maintenance costs are borne by this ministry, since it was found that it is more reasonable to show them in the financial statements, so those values have been included.. But since the audit observations showed it to be an error, it was decided to remove the treasury assets from the register in April 2022.</p> | <p>Legal ownership of vehicles should be taken over and accounted for.</p> |
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1.6.2 Failure to maintain records and books

The following documents had not been maintained by the Ministry and it was observed during the sample audits that certain documents were not maintained regularly and up-to-date.

Audit Observation	Comments of the Management	Recommendation
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<p>(a) <u>Statement of Liabilities</u> A record of liabilities had not been maintained as per Financial Regulation 214.</p>	<p>That a separate register was not maintained in writing as entry of all liabilities through the CIGAS accounting system every month is a basic part of the</p>	<p>In terms of Financial Regulation 214, such liabilities should be recorded in a Register of liabilities so that the liabilities can be checked regularly.</p>

accounting process, and as it was shown by the audit to be a shortcoming, the officers were informed to start and update a register of liabilities.

(b) **Votes Ledger**

Departmental Appropriation (Votes) ledger as per Financial Regulation 447 had not been updated.

That it will be maintained properly from this year.

A Departmental Appropriation (Votes) Ledger shall be maintained as per General Form 138 incorporating the provisions mentioned in Finance Regulation 447.

(c) **General Deposit Register**

Had not been updated

Updates are currently not working properly, but that has been corrected

It should be updated and maintained.

(d) **Record of Damages and Losses**

Record of losses and damages had not been maintained as per Financial Regulation 110.

As damages and losses had not been reported during the year, a register had not been started and the same has now been corrected.

As per the provisions of Financial Regulation 110, a register of damages shall be maintained in the form prescribed thereunder.

1.6.3 Certifications to be made by the Accounting Officer

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) According to the provisions of Section 38 of the National Audit Act No. 19 of 2018, the Accounting Officer shall ensure that an effective internal control system is developed and	Since a officer has not been received for the position of internal auditor, even though the work has been stalled, efforts are being made to resolve it quickly.	Audit should be done in accordance with the provisions of the Act.

maintained for the financial control of the Ministry and That the effectiveness of that system should be reviewed from time to time and accordingly the necessary changes should be made to make the system effective, those reviews should have been done in writing and a copy of the same should have been submitted to the Auditor General, but statements that such reviews had not been done and had not been submitted to the audit.

- (b) Although the accounting officer should have ensured that there is an effective system for the proper execution of the internal audit functions, as per the observations mentioned in paragraph 4 of the report, that requirement was not fulfilled.

A request has been forwarded to the Ministry of Public Administration to immediately provide an officer for the vacant post of Internal Auditor. Expecting to successfully complete those activities in the future.

An internal audit should be implemented.

2. Financial Review

2.1 Entering into liabilities and obligations

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) In the Statement of incurring of commitment made in terms of Financial Regulations 94 (2) and (3), the expenses of Rs.996,091 incurred in the year 2022 for the year under review were not included as liabilities.	That the officials were informed to take necessary actions to prevent such errors from happening in the future.	All entered liabilities related to the year should be included in the liability statement.

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| <p>(b) For the year under review, the Ministry had entered Rs.4,359,899 in liabilities, but due to non-reporting of the amount to the Treasury, no information regarding the liabilities was included in the Treasury's Monthly Credits / Reserves Summary Report (SA 90).</p> | <p>Every month in the reporting of expenses through the new CIGAS accounting system, firstly entered as Commitment and secondly as Liability and as the last step, payments are made and due to failure to clearly identify the year, although the above deficiencies have occurred, other liabilities have been properly reported to the treasury. It was also observed that since the treasury accounts are on a cash basis and are not related to the year's expenses, there is no significant impact on the financial results.</p> | <p>All liabilities incurred must be reported to the treasury.</p> |
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3 Operational Review

3.1 Performance

Audit Observation	Comments of the Accounting Officer	Recommendation
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<p>(a) According to the revised action plan presented on 06 September 2021, Rs. 500 million had been allocated and on 31 December 2021, Rs. 302.31 million had been spent. Projects with an estimated value of Rs.15 million had not been implemented in the year 2021 and although Rs.30 million were allocated to establish 30 local garment villages, only 19 villages had been implemented. Several Cabinet papers have been submitted for the promotion of local batik and garment products, but no follow-up action has been done on the implementation of the projects.</p>	<p>Due to the corona epidemic in the country in 2020 and 2021, the implementation of the projects was delayed due to the difficulty of identifying the projects of the desired programs at the rural level due to the imposition of quarantine. Accordingly, it has become difficult to implement the estimated value Rs. 15 million projects in the specified period and according to the decision of the Cabinet of Ministers on the review of public expenditure on 30 August</p>	<p>Full advantages should be taken from the provisions given.</p>

2021, according to the notification to save the provision, the provision of Rs. 500 million has been reduced to Rs. 339 million. Accordingly, Rs. 302.1 million had been spent on 31 December 2021 and a financial progress of 89 percent had been achieved. At present, most of the vacancies of staff officers have been filled, so that in the future, the follow-up process is able to be carried out in an orderly manner.

3.2 Procurement

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>Pursuant to Section 4.2.1 of the Procurement Guidelines Code 2006 and Section 4 of Circular 2020/02 dated 28 August 2020, the Accounting Officer should prepare the annual procurement plan for the implementation of the Ministry's annual recurrent and capital programs and obtain the approval of the Chief Accounting Officer and obtain a copy of it from the Procurement Committee and should be forwarded to the Auditor General and State Finance Department, the Ministry had not prepared a procurement plan for the year 2021. Accordingly, the capital allocation of Rs. 3,550 million for the year 2021 had not been made in a proper plan.</p>	<p>That supplies have been arranged and necessary approvals have been obtained in due time for 2022 and arrangements have been made to avoid such errors in the future.</p>	<p>Procurement guidelines should be followed.</p>

3.3 Security of Public Officers

Audit Observation	Comments of the Accounting Officer	Recommendation
According to Finance Regulations 880 and Public Finance Circular 01/2020 dated 28 August 2020 paragraph 9, Security deposit had not been made for the officers required to deposit security.	That the officers in charge have been informed to re-examine and correct the officers who should be kept security and that it will be corrected in the future.	Action should be taken according to the Financial Regulation

3.4 Losses and damages

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) On 22 November 2021, an initial report should be issued as per Section 104 (3) of the Finance Regulations regarding the accident that occurred to vehicle No. KS - 2354 and the necessary actions to uncover the nature of the accident and its extent had not been done till the date of audit. And this was not disclosed in the financial statements under the Statement of Losses and Waivers.	That there has been no loss as it has agreed to award the full claim from the Sri Lanka Insurance Company regarding the accident of the vehicle bearing KS – 2354. However, the non-conduct of the investigation under Article 104 (3) is a deficiency and that the work is being carried out.	Action should be taken Regarding accidents according to Financial Regulations.
(b) Cab No. PE –1858 had met with an accident on 13 January 2021. In terms of Finance Regulation 104 (3) the issuance of the initial report was delayed to 29 October 2021 and the submission of the	Although the cab bearing number PE-1858 given to the Honorable Minister of State met with an accident on 13.01.2021, the accident was reported to the Ministry on 21 July	As per the Financial Regulations, it should be included in the financial statements without delay.

full report in terms of Finance Regulation 104 (4) was delayed to 10 February 2022. This was not disclosed under the Statement of Losses and Waivers in the financial statements.

2021. That an uncontrollable external factor was caused to delay the investigation as the environment in the country due to the Covid-19 epidemic situation.

3.5 Informal Transactions

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>Although the proposal regarding the project of distribution of equipment required for the production of ready-made garments for garment manufacturing companies in Kurunegala District was submitted to the Secretary of the Ministry on 26 July 2021 by the Secretary of the Ministry of Roads, Transport, Housing and Construction, Industry and Rural Development, which should be purchased Preparation of equipment, quantities, cost estimates and necessary purchase activities had been delayed until 29 November 2021. Accordingly, a cheque of Rs. 26,436,790 bearing number 388109 was written to the Sri Lanka State Trading (General) Corporation for the necessary purchases on 31 December 2021, but the cheque was not issued until 06 April 2022, the date of the audit, and the necessary goods had not been received. Although approving, certifying and paying officers are responsible to the accounting officer for the correct acceptance of the relevant goods and that every voucher is complete in respect of every payment in terms of Financial Regulations 137, 138, 139 and the said payment had not been made in accordance with the terms mentioned in the above regulations.</p>	<p>It was planned to establish 30 small-scale garment industries, but due to the Corona epidemic situation in the country at that time, it was delayed to identify suitable places and Arrangements were made to issue the cheque after the inspection of all the equipment and technical committee and after receiving the order to hand over the relevant goods and since the confirmation had not been received that the equipment was brought and hand over, it was unable to issue the cheque and that the cheque written on December 31, 2021 was withheld because the Sri Lanka State Trading (General) Corporation is a government agency.</p>	<p>All payments should be made in accordance with the terms mentioned in the Financial Regulations.</p>

4 Good Governance

Audit Observation	Comments of the Accounting Officer	Recommendation
An internal auditor had not been appointed in accordance with the provisions of Section 40 (2) of the National Audit Act No. 19 of 2018.	Even though all possible efforts have been made so far, no officer has been found for the position of internal audit and it is expected to be resolved soon.	An internal audit should be conducted.

5. Human Resource Management

5.1 Expenditure on attached staff, actual staff and personnel salaries

Audit Observation	Comments of the Accounting Officer	Recommendation
The Department of Management Services had approved 59 employees for 21 posts and it was observed that there are 31 vacancies for 13 posts out of the actual number of 28 employees on 31 December 2021. This situation had directly affected the administrative work and performance of the Ministry. In these vacancies, there were senior level positions like Senior Assistant Secretary, Director, Assistant Director, Assistant Secretary, Internal Auditor. An Assistant Secretary, who was not included in the approved staff, was recruited on a temporary basis for Trade Unions and Employee Relations as per the decision of the Cabinet of Ministers.	That all actions for staff vacancies will be resolved promptly in the future.	Action should be taken to maintain an approved and adequate staff.