

## **Head 241 – Department of Public Enterprises**

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### **1. Financial Statements**

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#### **1.1 Opinion**

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The audit of the financial statements of the Department of Public Enterprises – Head 241 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 statements 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 Department of Public Enterprises was issued to the Accounting Officer on 08 June 2022 in terms of Section 11(1) of the National Audit Act, No. 19 of 2018. The Annual Detailed Management Audit Report relating to the Department was issued to the Accounting Officer on 11 July 2022 in terms of Section 11(2) of the Audit Act. This report will be tabled in Parliament in pursuance of the 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, the financial statements give a true and fair view of the financial position of the Department of Public Enterprises 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 Opinion**

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility, under those standards is further described in the Auditor's Responsibility 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 opinion.

### **1.3 Responsibility of the Chief Accounting Officer and the Accounting Officer on the Financial Statement**

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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 in terms of Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as the Accounting Officer determines 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 annual and periodic financial statements to be prepared of the Department.

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 system and accordingly make any alterations as required for such systems to be effectively carried out.

### **1.4 Auditor's Responsibility for the Audit of the Financial Statements**

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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 judgement 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 Sri Lanka Navy'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, 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**

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As required by Section 6 (1) (d) of the National Audit Act, No.19 of 2018, I state the followings:

- (a) The financial statements are consistent with the preceding year,
- (b) The recommendations made by me relating to the financial statements of the preceding year, had been implemented.

## **2. Financial Review**

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### **2.1 Revenue Management**

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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) According to the financial statements, differences of Rs.21,603 million and Rs.831 million were observed respectively between the original estimate shown in the Revenue Codes 2002:03:00 and 2002:04:00 and the approved original estimate of the year 2021.	In terms of paragraph 03 of the Fiscal Policy Circular No.01/2015, the progress of the revenue estimated in the year 2021, which could be actually reached by our Department and the actual revenue, has been mentioned.	Figures mentioned in the approved budget estimate should be included in the financial statements.

- (b) The following deficiencies were revealed due to failure in forecasting and estimation of revenue in terms of paragraph 03 of the Fiscal Policy Circular No.01/2015 dated 22 June 2015 and the Financial Regulation 142.

**(I) Revenue Code  
20:02:03:00 - Profit**

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| <p>(i) Even though revenue of Rs.49,000 million had been estimated for the year 2021 for the Revenue Code 20:02:03:00 - Profit, only the revenue of Rs.25,919 million or 53 per cent of the said estimated revenue had been collected in the year under review.</p> | <p>Many institutions had reported a low profitability due to the Covid 19 pandemic prevailed during the year 2021 and working capital requirements were strictly taken into consideration when gaining profit.</p>  | <p>Accurate and realistic estimates of revenue should be prepared in terms of provisions in the Financial Regulation 85.</p> |
| <p>(ii) Even though 05 public enterprises had prepared estimates of revenue with a view to earning revenue of Rs.1,800 million in the year 2021, no revenue whatsoever had been collected in the year under review from those enterprises.</p>                      | <p><b>Board of Investment of Sri Lanka</b><br/>Remittance of profit was not made by considering the capital requirements necessary for programmes to be implemented during the year 2021.</p> <p><b>State Pharmaceuticals Corporation</b><br/>The estimated revenue of the Corporation was Rs.200 million whilst the actual revenue was</p> | <p>Accurate and realistic estimates of revenue should be prepared in terms of provisions in the Financial Regulation 85.</p> |

Rs.0.00 million.  
Payments to be made by the General Treasury are available for the purchase of drugs to the Medical Supplies Division from the State Pharmaceuticals Corporation.

**Sri Lanka Tourism Development Authority, Sri Lanka Tourism Promotion Bureau, Sri Lanka Foreign Employment Bureau**

The arrival of tourists was at a very low level due to the Covid 19 pandemic and proceeding abroad for foreign employment as well was limited. As such, profit estimated to be earned could not be earned.

- (iii) Even though profit revenue had not been estimated in the year under review by 05 public enterprises, profit revenue amounting to Rs.6,041 million had been collected from those enterprises. Remittance of profit was made from cash flows allocated for various programmes of those institutions due to the issue on capital of the Government, arisen severely at the end of the year 2021. Accurate and realistic estimates of revenue should be prepared in terms of provisions in the Financial Regulation 85.

- (iv) Six public enterprises had not made any contribution whatsoever as the profit revenue for over a period of 03 years.
- The State Mortgage and Investment Bank** Declaring any dividend whatsoever has been suspended until the minimum capital requirement imposed by the Central Bank as per the Basel 111 regulatory requirement issued in the year 2020, is fulfilled by the relevant bank.
- Necessary measures should be taken to collect profit revenue from public enterprises.

**State  
Pharmaceuticals  
Corporation**

Remittance of profit was not made due to the working capital issue arisen severely.

**Ceylon Electricity  
Board**

The Ceylon Electricity Board is running at a loss continuously due to lack of a Cost Reflective Pricing Policy. As such, the accumulated loss of the Ceylon Electricity Board by 31/12/2021 amounts to Rs.189 billion.

**Post Graduate  
Institute of  
Management**

Remittance of profit was not made by considering the existing issues on working capital.

**Sri Lanka  
Broadcasting  
Corporation/Sri Lanka  
Rupavahini  
Corporation**

Provision for settlement of salaries and other recurrent expenditure of these institutions were made by the General Treasury continuously and remittance of profit was not made due to working capital issues.

- (v) Even though the profit revenue had been estimated by 04 public enterprises, contributions ranging from 84 per cent to 471 per cent than the profit revenue estimated by those enterprises, had been made to the profit revenue.
- Remittance of profit was made from cash flows allocated for various programmes of those institutions due to the issue on capital of the Government, arisen severely at the end of the year 2021.
- Accurate and realistic estimates of revenue should be prepared in terms of provisions in the Financial Regulation 85.

**(II) Revenue Code  
20.02.04.00 – Dividend  
Revenue**

- (i) Even though revenue of Rs.6,000 million had been estimated for the year 2021 for the Revenue Code 20:02:04:00 – Dividend Revenue, only the revenue of Rs.4,672 million or 78 per cent of the
- Many institutions had reported a low profitability due to the Covid 19 pandemic and working capital requirements were strictly taken into consideration when gaining dividends.
- Accurate and realistic estimates of revenue should be prepared in terms of provisions in the Financial Regulation 85.

said estimated revenue had been collected by the end of the year under review.

- (ii) Contributions ranging from 40 per cent to 566 per cent exceeding the dividend revenue estimated to be earned from 11 public enterprises, had been made to the dividend revenue.
- Namunukula Plantations PLC and Elpitiya Plantations PLC**  
Treasury shareholding of these two Plantations had taken a value as low as 16 per cent and 21 per cent and as such, profit revenue had not been estimated. However, those two Companies had remitted Rs.32 million and Rs.31 million as annual dividends respectively for the year 2020.
- Sri Lanka Telecom**  
The amount of dividends per share declared by the company, has increased due to an increase in the earning per share of Sri Lanka Telecom. Accordingly, the actual dividend revenue has exceeded the estimated revenue.
- Lanka Leyland PLC**  
As the state shareholding of the Lanka Leyland PLC stands at a very low value, dividends had not been estimated.
- Accurate and realistic estimates of revenue should be prepared in terms of provisions in the Financial Regulation 85.



**National Housing  
Development Bank,  
Lanka Phosphate Ltd.,  
Manthai Salt Ltd.,  
Ceylon Fertilizer  
Company Limited, De  
La Rue Lanka Pvt Ltd,  
Lanka Industrial  
Estates Ltd, Ceylon  
Agro Industries**

As the dividends declared by the said institutions for the year 2020 stood at a high level, the actual revenue had taken a high value than the estimated value.

- (iii) The decrease in actual receipt of revenue than the revenue estimated as dividend revenue from 07 public enterprises had ranged from 20 per cent to 100 per cent.
- Kurunegala Plantations Ltd. and Chilaw Plantations Ltd.**
- The dividend of Rs.15 million declared by the Kurunegala Plantations Ltd. for the year 2019, had been paid in the year 2021 with a delay and dividends of Rs.20 million declared at a rate of Rs. 10 million by the Chilaw Plantations Ltd. for the years 2017 and 2019, had been paid in the year 2021 with a delay.
- As the estimation of revenue is carried out on cash basis, accurate and realistic estimates of revenue should be prepared in terms of provisions in the Financial Regulation 85.

(iv) Even though it had been estimated to earn a dividend revenue of Rs.670 million from 04 public enterprises for the year 2021, no dividend revenue whatsoever had been remitted by those public enterprises. - do - - do -

(v) No contribution whatsoever had been made to the dividend revenue during several preceding years by the following 07 public enterprises. **Airport and Aviation Services Sri Lanka (Pvt) Ltd.** Action should be taken to collect dividend revenue from public enterprises.

- Lankaputhra Development Bank
- Sri Lanka Savings Bank
- Independent Television Network
- Kahatagaha Graphite Lanka Ltd.
- Lanka Sugar Company
- Lanka Logistics Ltd.
- Sri Lanka Thriposha Ltd.

As this company had been operated as a profitable institution up to the year 2020 and as estimated remittance has been made in those years, a contribution of Rs.600 million was expected for the year 2021. However, the institution was unable to make the expected remittance due to the unprofitable situation of the institution, utilization of monies of the institution for the improvement of infrastructure facilities (Bandaranaike

International Airport – Phase II) essential for the promotion of tourism.

As the Independent Television Network is an institution which is running at a loss, dividends have not been paid since the year 2019.

**Lanka Sugar Company**

As a profit after tax was reported in the years 2014, 2015, 2016, 2017 and 2018, a request has been made at the Annual General Meeting held on 04.04.2022, to pay dividends to the General Treasury. Accordingly, the relevant dividends have not been paid to the General Treasury up to now due to the failure in deciding the dividend to be declared by the Board of Directors at the time. Action will be taken to expedite making remittance through the Treasury representative.

**Sri Lanka  
Insurance  
Corporation,  
Paranthan  
Chemicals Co.Ltd.**

Dividends less than the estimated revenue were remitted due to working capital requirements existed in these institutions during the year 2021.

**Colombo  
Commercial  
Fertilizer Ltd.,  
Lanka Triposha  
Limited, Rakna  
Arakshaka Lanka  
Ltd., Lankaputhra  
Development Bank,  
Sri Lanka Savings  
Bank, Kahatagaha  
Graphite Lanka  
Ltd., Lanka  
Logistics Ltd.**

No profit has been gained during the preceding year considering the working capital issues in the above mentioned institutions and the additional cash flows required for implementing expected programmes of those institutions.

## 2.2 Expenditure Management

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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
Provision of Rs. 118,240,000 had been made through supplementary budget estimates. In accordance with Guidelines of the Appropriation Act, No.7 of 2020 and the annual budgetary estimates, the provision so made should be utilized only for the relevant specific purposes. Nevertheless, contrary to that, a sum of Rs. 26,400,000 of provision so made, had been transferred for purposes of other Objects.	A sum of Rs. 26.5 million of provision made for the payment of salaries for the month of August of the State Development and Constructions Corporation by Supplementary Estimate No.560, had not been incurred for any purpose whatsoever. As such, the said provision had been utilized to settle the interest accrued for the long term loan payable to the People's Bank by Lanka Sathosa.	Action should be taken in accordance with Guidelines specified in the Annual Appropriation Act and the Annual Budget Estimate relating to provision made by supplementary allocations.

## 2.3 Entering into Liabilities and Commitments

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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
Liabilities and commitments of Rs. 274,649 had been entered into exceeding the amount of liabilities indicated in Note No. (iii) of financial statements.	Action will be taken to avoid such errors.	All liabilities entered into, should be disclosed in the financial statements.

## 2.4 Non-compliance with Laws, Rules and Regulations

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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
Action had not been taken in terms of Financial Regulation 396 (d) relating to value of cheques totalling Rs.18,493 issued under Bank current account of the Department as at 31 December 2021, but not presented to the Bank.	It is informed that it has been noted to take necessary action in terms of Financial Regulation 396 (d).	Action should be taken in terms of Financial Regulations.

## 3. Operating Review

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### 3.1 Performance

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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) The task of examining the tabling in Parliament of annual reports of institutions under the supervision of the Department of Public Enterprises, had been assigned under the main function of “safeguarding public interest”. Only the information of tabling annual reports of 119 enterprises of 300 public enterprises in Parliament subjected to the supervision of the Department, had been made available to Audit. Information of 181	A number of 300 institutions remained under the scope of the Department of Public Enterprises with equity of the General Treasury (under different equity percentage). However, annual reports are not directly tabled in Parliament by certain institutions including the minority shareholdings, subsidiaries, associate companies and regional plantation companies among them. Accordingly, the number of state corporations, statutory institutions and Government owned companies which should present annual reports in	Proper plans should be prepared and implemented relating to performance of main functions of the Department.

public enterprises supervised, had not been made available to Audit. According to information made available, financial statements of 11 public enterprises relating to the year 2020, had not been submitted for tabling in Parliament. According to paragraph 3.2 of Guidelines on Corporate Governance for State-owned Enterprises introduced in the year 2021, annual reports should be submitted at the Annual Performance Review meeting and accordingly, a methodology has been established for completing the requirement of submission of annual reports within a period of 05 months after the closure of the year. As such, necessary steps have been taken to correct these matters in future.

- (b) The Department of Public Enterprises had been re-established in the year 2002 with the main objective of implementing governance in statutory institutions through best practices relating to 07 public enterprises such as the Ceylon Electricity Board, Ceylon Petroleum Corporation, Co-operative Wholesale Establishment, National Water Supply and Drainage Board, Sri Lanka Ports Authority, Sri Lanka State Pharmaceuticals Corporation and the State Timber
- This Department does not directly involve in the supervision of subsidiaries specified in the Operational Manual and Guidelines for Public Enterprises issued on 16 November 2021 by the Department of Public Enterprises and the direct supervision and responsibility of those institutions lie with the Board of Directors of the parent company under the guidance of the line Ministry. State banks and other private banks come under the regulation and direct supervision of the Central Bank of Sri Lanka in terms of relevant legal provisions. However, the General Treasury which holds the ownership of state banks, involves itself in granting
- Action should be taken to achieve the objectives of re-establishment of the Department.

Corporation and the approval through acts and Bank of Ceylon, orders relating to the bank People's Bank, and in other relevant National Savings Bank, activities. State Mortgage and Investment Bank, Securities and Exchange Commission of Sri Lanka and the Board of Investment of Sri Lanka at the outset and subsequent implementation of the said practices for other institutions.

The supervision files of the Central Bank of Sri Lanka, Bank of Ceylon, National Savings Bank and the People's Bank, made available to Audit included matters such as requests made for reinstatement of casual and contract basis and untrained employees whose service had been terminated and requests made for establishment of new bank branches, for installation of ATM machines and complaints of customers. The Department of Public Enterprises had not been adequately involved relating to the said matters and had only forwarded the relevant requests to the institution. No follow up action either had



been taken in that regard. As such, the objective of re-establishment of the Department had not been achieved.

- (c) With the close down of the Pugoda Textiles Lanka Limited owned by the Government in the year 2010, the land of 14-95 perches in extent with the building located at Nos.223-227 on Main Street, Colombo 11 had remained as an asset owned by the General Treasury. At the time of close down of the Pugoda Textiles Lanka Limited, this building had been leased out to Ramona (private) Ltd. for a period of 2 years. With the end of the said lease period, the Ministry of Finance had leased out this building on short term to the same lessee on several occasions. The lessee had informed the Ministry of Finance that the building is not in useable condition and it is required to demolish the building and to construct a new building and a sum of approximately Rs.120 million should be
- The Land Commissioner General has made his observations by letter No.L2/SLO/COL/CoL/051 dated 24.09.2021 and arrangements have been made to prepare and submit a Cabinet Paper to the Minister's Office for leasing out the relevant property for a period of 15 years on long term basis.
- The utilization of assets owned by the Government, under other parties should be properly carried out and the progress thereof should be reviewed and action should be taken efficiently to obtain revenue receivable to the Government.

incurred therefor. As such, it was observed according to the file, that it has been decided to submit a Cabinet Paper to obtain approval for leasing out this property to Ramona (private) Ltd. on long term lease for a period of 15 years based on the valuation of the Government Chief Valuer. However, the Department of Public Enterprises had not been adequately involved in further action relating to this matter.

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| <p>(d) Supervision and control of public enterprises are included as the main objective of the Department. Even though the General Treasury had appointed a representative to represent the Board of Directors of many public enterprises, 105 non-compliances with laws, rules and regulations included in audit reports issued relating to 19 public enterprises in the year 2020, had been revealed. Motivating public enterprises to act in compliance with those laws, rules and</p> | <p>The Operational Manual and Guidelines for Public Enterprises dated 16 November 2021 have been issued for enhancement of good governance through strengthening operating activities of public enterprises. Moreover, submission of proposals for revision of their Corporate Plans and Action Plans with the intention of supervising the performance of public enterprises have been carried out by our Department and arrangements have been made to conduct training sessions to brief the Treasury representatives on how to act when representing the Board of Directors of public</p> | <p>Correct supervision should be carried out as to whether the public institutions had acted in compliance with laws and rules of the Government.</p> |
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regulations etc. could enterprises.  
not be achieved through  
the Treasury  
representative.

- (e) Out of 300 institutions under the supervision of the Department of Public Enterprises, 119 are subsidiaries owned by public enterprises and it was observed that these subsidiaries do not come under the direct supervision of the Department.
- This Department does not directly involve in the supervision of subsidiaries specified in the Operational Manual and Guidelines for Public Enterprises issued on 16 November 2021 by the Department of Public Enterprises and the direct supervision and responsibility of those institutions lie with the Board of Directors of the parent company under the guidance of the line Ministry.
- Improving the performance level of public enterprises through correct guidance and instructions.

#### 4. **Human Resource Management**

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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
The 11 vacancies in the Department as at 31 December 2021 comprised of 06 vacancies in Senior Level.	The Ministry of Finance has been requested from time to time to fill the vacancies in the cadre.	Action should be taken to fill vacancies if any, in posts required for performing the role of the Department and to revise posts in the approved cadre unnecessary for the Department, if any.