

Head 295 – Department of Commerce

1. Financial Statement

1.1 Opinion

The audit of the financial statements of the Department of Commerce 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 containing my comments and observations on the financial statements of the Department of Commerce was issued to the Accounting Officer on 31 May 2022 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report pertaining to the Department was issued to the Accounting Officer on 31 May 2022 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, the financial statements prepared give a true and fair view of the financial position of the Department of Commerce as at 31 December 2021 and its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidences I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of the Chief Accounting Officer and Accounting Officer on Financial Statements

Preparation of financial statements in a manner that reflects a true and reasonable position and determines the internal control required to enable financial statements to be prepared without inadequate false statements that may result from fraud and error in accordance with Generally Accepted Accounting Principles and the provisions of Section 38 of the National Audit Act, No. 19 of 2018 is the responsibility of the Accounting Officer.

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.

The Accounting Officer shall ensure that an effective internal control system is maintained for the financial control of the Department in terms of Sub-section 38 (1) (c) of the National Audit Act and it should be periodically reviewed the effectiveness of the system and make any necessary changes to keep the system running efficiently.

1.4 Auditor's Responsibility on Audit of Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercised professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of its internal control.
- Evaluate that the underlying transactions and events are appropriately and fairly included in the financial statements for the structure and content of the financial statements that include disclosures.
- 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.

The Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

1.5 Report on Other Legal Requirements

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

- (a) The financial statements are in consistent with those of the preceding year.
- (b) The recommendations made by me regarding the financial statements of the preceding year had been implemented.

2. Financial Review

2.1 Expenditure Management

Audit Observation	Comments of the Accounting Officer	Recommendation
Although it is the responsibility of the Accounting Officer to prepare the estimates as completely and accurately as possible in terms of Financial Regulation 50 (II), the total value of Rs. 976,961 ranging from 60 per cent to 88 per cent out of the amount allocated for 03 expenditure objects had been underutilized due to not doing so.	Due to the cancellation of training programmes, trade discussions, conferences and programmes planned to be held in foreign countries, there were savings in expenditure objects due to spread of Covid-19 virus during the year under review. Similarly, it is stated that the due to non-claim of transport allowances paid with salary , there were savings in the transportation expenditure object.	Estimates should be prepared as completely and accurately as possible..

2.2 Non-compliance with Laws, Rules and Regulations

The following observations are made.

Reference to the Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Financial Regulations of Democratic Socialist Republic of Sri Lanka Financial Regulations 1647 (e)	A Register of Vehicle had not been maintained as per Regulations.	The Register of Vehicles was prepared for the year 2022 .	Actions should be taken in accordance with Regulations.
(b) Paragraph 06 of State Accounts Guidelines Circular No. 2021/03 dated 26 November 2021	<p>The following formats had not been presented with the financial statements during the preparation of the financial statements.</p> <ul style="list-style-type: none"> • Note (i) Statement of Losses and Waivers • Note (ii) Statement of write offs from books. <p>The trial balance generated by CIGAS Desktop Application and final Treasury Account Statements obtained by new CIGAS Web Application System.</p>	<p>It is mentioned that the Losses and Waivers and 02 Write-off Forms were noted to be included in the financial statements. It is further mentioned that it was noted to present the financial statements including formats of trial balance (generated by CIGAS application) and final Treasury account statements in preparation of financial statement and to prevent such mistakes from happening in the future.</p>	Actions should be taken in accordance with Circulars.

- | | | | | |
|-----|--|--|---|---|
| (c) | Paragraph 3.1.6 of State Finance Circular No. 5/2016 dated 31 March 2016 | Although the Annual Board of Survey for the year 2021 should be done and the reports should be submitted to the Auditor General before 17 March 2022 the reports had not been submitted even by 10 May 2022. | Although the Board of Survey has been appointed for the year 2021 the report could not be submitted on the scheduled date due to certain delays in the activities of the Board of Survey. | Actions should be taken in accordance with Circulars. |
| (d) | Public Administration Circular No. 30/2016 dated 29 December 2016 | There were 07 vehicles in running condition in the Department and fuel tests had not been conducted with regard to 04 vehicles out of that as per the Circular. | Due to non-appointing of successor officer despite transfer of Transport Officer there were delays in carrying out the fuel tests formally in the year 2021 . This activity is expected to be completed in the year 2022 . | Actions should be taken in accordance with Circulars. |
| (e) | 2006 Code of Government Procurement Guidelines Guideline 2.8.1(b) | Although the Technical Evaluation Committee regarding the contract valued at Rs. 10,751,459 for the partition of the building established by the Department should consist of subject matter expert and one member who has adequate knowledge of procurement function, it had consisted of a | The Technical Evaluation Committee consulted the Technical Officer of the Line Ministry for the subject matters related to this contract. Accordingly, it is mentioned that the Technical Evaluation Committee has contacted the Technical Officer for the preparation of detailed bill of quantities and | Actions should be taken in terms of the instructions of procurement guidelines. |

Commercial Director and two Assistant Commercial Directors. estimates, participation in pre-bid negotiations, providing necessary advice, comparison of prices offered for additional works with market prices and giving reports etc.

2.3 Issuance and Settlement of Advances

 The following observations are made.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
(a) There was a difference of Rs. 278,944 in between the balance to be recovered as per Departmental Books and balance to be recovered as per Treasury Computer Printout in the Advances to Public Officers in "B" Account as at 31 December 2021 and that difference had remained for more than 15 years.	Accounting errors found in the reconciliation of accounts in the year 2006 have been rectified and reconciliation of the accounts of the previous years to find out this difference that still exists is being carried out and it is kindly informed that, arrangements have been made to correct the accounts of the following years on the progress of all these activities.	Arrangements should be made to compare and settle the difference in between Treasury Books and Departmental Books.
(b) It was observed that the any recovery pertaining to distress loan balances to be received from 04 officers as at 01 January 2021 totalled to Rs.60,319 was not carried out during the year under review.	The loan installments collected from salaries while one officer was assign to Singapore High Commission and 3 officers were assigned at Brazil, Turkey and Bangkok Embassies, could not be able to update the relevant credit balance because of failure to credit to the account of the Department of Commerce by the Ministry of External Affairs.	Actions should be taken to properly recover the outstanding loan balances and accurately record the recovered loan installments in the books.

3. Operating Review

3.1 Performance

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
-----	-----	-----
(a) Although the Department should update Sri Lanka's import and export information, tariff rates and other relevant records with the integrated data system of the World Trade Organization, the work was not done after the year 2017 .	Sri Lanka Customs has agreed during the discussion on 04 June 2019 to provide relevant data in the format required by the World Trade Organization . Nevertheless, Sri Lanka Customs has still failed to provide the relevant data in the required format. This situation has caused to the gap occurred in updating the data system.	Activities planned to update information should be performed in a timely manner.
(b) The import duty on agricultural products in Sri Lanka is 50 per cent since 50 years ago and as it is a lower figure as compared to developing countries, although it had been planned to develop a special protection mechanism it was impossible to achieve progress in the discussions held with the World Trade Organization.	Many developing countries including Sri Lanka (G 33 countries) are requesting this special protection mechanism. Nevertheless, many developed countries continuously oppose to it. The reason for this is that the consent of the all the member countries of World Trade Organization (currently 164) should be received. Therefore, achieving progress in those negotiations is beyond our control as a single country.	Actions should be taken to obtain the consent for a special protection mechanism.

(c) Although the Research and Development Division had set targets to carry out 14 research tasks to identify current development opportunities and threats in international trade, only four of the tasks had been completed according to the progress reports submitted to the audit.	Comments have not been given.	Activities should be carried out as planned.
---	-------------------------------	--

3.2 Assets Management

Audit Observation	Comments of the Accounting Officer	Recommendation
A car belonging to the Department had been in idle since 2019 due to failure of the emission test and further actions had not been taken on that asset.	Although the vehicle is in functional manner, remained in idle due to emission test failures. As a result of insufficient funds, a repair could not be done in 2019, 2020 and 2021 .	The relevant vehicle should be repaired and put into use.

3.3 Uneconomic Transactions

Audit Observation	Comments of the Accounting Officer	Recommendation
Even though the E-queue Management System was introduced, incurring Rs. 3,584,470 in the year 2019 for the efficient performance of services rendered by the Department to the public, this system had been removed from use by the end of the year under review.	A project to issue Certificates of Origin under online method is currently being carried out with the support of the Government of German in order to face the situation of Covid virus pandemic. Since its first phase is scheduled to be commenced in June 2022, the Electronic Queue Management System is not needed again.	The public money should be spent economically and effectively, by identifying the requirements accurately.

4. Good Governance

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>Internal Audit and Appointment of Internal Auditor</p> <p>Although the Accounting Officer should appoint a suitable auditor to carry out the internal audit of the Department, in terms of Section 40 (1) and Section 40 (2)(1) of the National Audit Act No. 19 of 2018, an Internal Auditor had not been appointed even by the end of the year under review.</p>	<p>Even though the applications of F.R. 71 have been submitted to the Department of Management Services to get approved the post to appoint an internal auditor, receiving of the approval has been delayed as a result of the Department was attached under various Ministries from time to time depending on the policy decisions of the Government.</p>	<p>It should act in accordance with the provisions of the Act.</p>

5. Human Resources Management

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>Even though the approved staff of the Department for the year under review was indicated as 151, thus the actual staff was 115, the total number of vacant posts were 36. Out of those vacancies , 03 posts out of 10 approved posts in Special and Grade One, the two highest executive level posts including the post of Director General of Commerce and Additional Director General of Commerce were in vacant.</p>	<p>Cabinet approval for the post of Director General of Commerce has not been given up to now and the four most senior officers currently serving are not eligible for the post of Additional Director General of Commerce. Likewise, related activities are being done to appoint the officer who is qualified for the post of Commercial Director.</p>	<p>Arrangements should be made to identify accurately the requirements and to fill the vacancies based on the relevant approval.</p>