

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 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 Government Factory was issued to the Accounting Officer on 18 May 2022 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 08 June 2022 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 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 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) 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 been implemented.

1.6 Comments on Financial Statements

1.6.1 Accounting Deficiencies

(a) Non-Revenue Receipts

Audit observation	Comment of the Accounting officer	Recommendation
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(i) In the consolidated balance sheet and ACA 3 model, the amount received from the treasury was Rs.267,582,744, but in the financial performance statement, the amount received from the treasury was Rs.570,453,873, a difference of Rs.302,871,129 was observed.	I will correct this error in preparing the financial performance statement in next years.	Receipts from the treasury should be properly identified and accounted for.
(ii) As per ACA3 Rs. 323,443,439 which was received from other sources was shown in the statement of financial performance as treasury remittances.	I will correct the error in the preparation of future financial statements.	Treasury remittances should be identified correctly and included in the financial performance statement.
(iii) closing imprest balance of the statement of financial performance as at 31 December 2021, should be equal to the sum of the balances as per the statement of imprest adjustment and ACA 03, it was not equal and the difference was Rs.20,894,810.	I will correct the error in the preparation of future financial statements.	The imprest balance should be recorded correctly as per Public Accounts Guidelines 2021/03.

(b) Stores Advance Accounts

Audit observation

Comment of the Accounting officer

Recommendation

According to audit calculations, the cost of stock issued in the year under review was Rs. 160,397,852, but according to the financial statements the stock issue value was Rs. 159,042,692 therefore It was observed that the cost of issue of stock in the year under review was understated by Rs. 1,355,160 .

These two values are different due to reasons such as cut-off of stock during the annual stock verification and non-costing of stationery items issued to other sections except from the warehouse.

Stock should be accurately calculated and accounted for.

(c) Work Done Advance Account

Audit observation

Comment of the Accounting officer

Recommendation

(i) According to Sri Lanka Public Sector Accounting Standard No. 7 Although an asset should be valued at carrying value which is cost less accumulated depreciation, the non-current assets in the work done advance account were valued at cost in the statement of financial position and accumulated depreciation was shown separately under net asset mass.

In preparing the final accounts for the year 2022, I will show the assets in the statement of financial position at a value of cost less accumulated depreciation.

Should be done as per accounting standards.

(ii) According to Sri Lanka Public Sector Accounting Standard No. 7 opening depreciation, depreciation for the period and closing accumulated depreciation for the period under review should have been clearly recorded in the financial statements had not been dealt with accordingly.

The opening depreciation and closing accumulated depreciation for the period under review are shown separately in the accumulated depreciation column of the statement of changes in equity.

Should be done as per accounting standards.

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| (iii) | The balance of Rs.460,155 of old machinery and equipment shown in the statement of financial position continues to show and they have not been removed from the accounts if they are not in use, or if they are in use, the useful life has not been calculated and re-stated in the accounts in the correct manner. | We are unable to obtain detailed information from the files we have regarding the machine account (old) and will take appropriate action in the future. | Assets actually used should be identified and accounted for. |
| (iv) | The depreciation fund of Rs.24,032,253 was not invested externally by the department and was retained in a common deposit account in the year under review , had been credited to income. However, it was listed as an investment in the statement of financial position as of 31 December 2021. | I will take actions to remove the amount contained in the depreciation Fund investment account from the books in future. | Actual existing assets should be properly identified and accounted for. |

(d) Property plant and equipment

Audit observation -----	Comment of the Accounting officer -----	Recommendation -----
(i) Although the total value of the Other machinery& equipment in the statement of non-current assets was Rs.278,401,997 ,a variation of Rs.141,738 was observed due to the fact that the value was recorded as Rs.278,543,675 in Form ACA 6.	Department of State Accounts had been informed to correct this value.	Variances should be identified and corrected.
(ii) The building assessment value issued by the Government Valuation Department was Rs.327,400,000 but in the form (ACA – 6) its value was Rs.387,400,000, a variation of Rs.60,000,000 was observed.	The information had not been updated, and the data will be updated during the presentation of accounts in the next year.	Valued amount should be shown in the financial statements.

1.6.2 Failure to maintain documents and books

Audit observation	Comment of the Accounting officer	Recommendation
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vehicle register was not maintained properly and up-to-date as per Finance Regulation 1647 (e) .	It will be maintained from this year.	must be maintained regularly and up-to-date as per regulations .

1.6.3 Lack of Evidence for Audit

No Audit evidence was presented regarding following transactions.

Audit Observation	Comment of the Accounting officer	Recommendation
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(a) The detailed schedule in respect of depreciation reserve fund of Rs.1,682,924, stores advance stock account of Rs.100,738,529 and written off debtors worth Rs.53,161,909 was not submitted for audit.	No comments.	Relevant detailed schedules should be maintained for the balances in the financial statements.
(b) schedules were submitted only for Rs.519,373,709 out of Rs. 574,461,205 work done advance Debtors account,but Schedules had not been submitted for debtors amounting Rs.55,087,507.	I will take actions to include these balances in the schedules of the years 2010 and 2011 when preparing the final accounts in the future .	Relevant detailed schedules should be maintained for the balances in the financial statements.
(c) disposal values and destruction of goods related to the year 2020had not been submitted to the audit.	There were no fixed assets that were recommended for auction for the year 2020 and details regarding assets destroyed are submitted.	Relevant written evidence should be submitted to the audit.

(d) **Construction of a temporary building for the Transport Section of the Postal Department**

The Department of Posts had agreed to implement the project at an estimated cost of Rs.120,175,000 Presented by Sri Lanka State Engineering Corporation. Rs. 22,199,572 had been paid by March 06 , 2020. However, there was no progress in the project and no information was provided as to what purpose the above collected money was used for .

For this purpose, according to the original design, a three storey building was decided to be constructed in the Colombo Fort area and an advance of Rs.22,199,572 had also been paid . New plans and estimates will be obtained from the Department of Buildings and will be completed in the year 2022 .

Relevant details should be maintained for the balances in the financial statements.

2. Financial review

2.1 Work Done Advance Account

Audit Observation

Comment of the Accounting officer

Recommendation

Outstanding debtor balance for 5-20 years amounting to Rs.241,984,958 and the undisclosed debtor balance was Rs.55,087,495.

The unsettled debtor balance of less than 5 years is also significant and the settlement of debtor balances was in a very weak condition.

- For the debtor balances related to the years 2008 and 2009, a doubtful debt allocation has been made through the 2021 work done advance account and approval had been obtained from the State Ministry of Rural Housing and Construction and Building Materials Industry Promotion to settle the said loan balance. Furthermore
In order to recover these debts, the respective debtors have been notified through letters every year.

Debtor balances should be recovered.

- In the year 2022 , an amount of Rs. 58,181,072.53 has been collected from the debtors .

2.2 Advance Account of Public Officers

The following observations are made.

Audit Observation	Comment of the Accounting officer	Recommendation
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(a) of Rs.142,650 to be received from a suspended officer on December 31, 2021 was not settled for more than 05 years.	Although a case had been filed against the suspended officer , the court has been informed through the Attorney General that his address can not be found in order to summon him to the case.	Arrangements should be made to recover the loan balance.
(b) A loan amount of Rs.415,430 more than 05 years was to be collected from 11 officers who have left the service .	The reasons for defaulting on the loan include lawsuits, written requests from the police, installment payments and write-off requests.	Arrangements should be made to recover the loan balance.

2.3 Exceeding Limits

Below are the audit observations on exceeding and not approaching the limits set by the Parliament for the advance work of the government.

Audit Observation	Comment of the Accounting officer	Recommendation
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Although it was referred on January 12, 2022 for the approval to reduce the approved minimum credit limit of receipts in the work done advance account from Rs. 440,000,000 to 340,000,000, the approval had not been received till now.	It has been informed that the related cabinet paper has been submitted to the Parliament. I am submitting a copy of it herewith.	Care must be taken to adhere to the limitations.

2.4 Non-compliance with laws , rules and regulations

The following are the instances of non-compliance with the provisions of the Laws, rules and regulations observed during sample audits are analyzed below.

	observation -----	Comment of the Accounting officer -----	Recommendatio n -----
	Referance to laws , rules and regulations -----	Non-compliance -----	-----
(a)	Establishment code of the Democratic Socialist Republic of Sri Lanka		
	(i) Section 4.3.3 of Chapter XIX	Housing applications were not placed in a waiting list by the Housing Allotment Authority immediately upon receipt.	Further work should be done on the instructions of the director general of the institute. Applications should be placed on the waiting list as soon as they are received.
	(ii) Section 4.3.4 of Chapter XIX	A separate waiting list was not maintained for each housing grade.	Separate waiting list files were maintained for each service and separate files have been maintained since January this year. A separate waiting list should be maintained for each housing grade.
(b)	National Procurement Agency Circular No. 08 dated 25 January 2006 Code of Government Procurement Guidelines		
	(i) Section 8.9.1 (b).	A formal contract agreement was not written and signed for a contract of goods exceeding Rs.500,000.	Since the required materials and services are to be procured expeditiously and procured according to the required specifications and in the required quality, the objective has been achieved and there is no interest in signing a contract. Should be done in circular manner.

(ii) Section 5.4.10 (c).	Preferably not less than ten percent of the estimated contract amount. No performance security was obtained in cash.	Goods required without delay. There are cases where performance bonds are not obtained and formal contracts are not signed when given in terms of quality and standard.	-do-
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(c) **Asset Management Circular 05/2020 dated 02 October 2020**

Paragraph 03

Information on repaired vehicles had not been submitted to the Comptroller General's Office before January 15, 2021 for submission to Cabinet.	I would like to mention that it will be dealt with in the future according to the relevant circular provisions.	Should be done in circular manner.
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2 . 5 Entering into liabilities and obligations

Audit Observation

In the year under review there was an outstanding creditor balance of Rs.78,175,586 in relation to the stores advance account , of which Rs.294,737 were balances between years 02 to 05.

Comment of the Accounting officer

A committee had been appointed to take a decision on outstanding creditor balances. I kindly inform you that according to the committee decision, these creditor balances will be settled in the future.

Recommendation

Care should be taken to settle the debts properly.

2.6 Deposit Balances

Audit Observation

Comment of the Accounting officer

Recommendation

The outstanding tender deposit balance for more than two years was Rs.642,785.

Letters have been sent to the relevant institutions for the outstanding tender deposit balances for more than two years, and necessary arrangements are being made to credit the government revenue.

Settleable deposit balances should be identified and settled.

3. Operational review

3.1 Failure to Perform roles

The following observations are made.

Audit Observation

Comment of the Accounting officer

Recommendation

(a) The project of getting lamp posts from the Central Cultural Fund worth Rs.29,991,987 had stopped.

Although an agreement contract was requested for the work, the work was stopped as the agreement was not signed.

Projects should be implemented in proper period and proper performance should be achieved.

(b) The project worth Rs.1,640,000 to repair 2,000 date stamps of the Department of Posts was not completed as planned.

2000 postal stamps repair work Delayed due to covid pandemic. Its in progress during the year.

-do-

(c) The project worth Rs. 2,163,000 for preparing hospital equipment in Maharagama Apeksha Hospital was not completed.

The work could not be completed in the year 2021 due to the poor attendance of workers due to the Covid pandemic and difficulties in obtaining raw materials and will be completed in the year 2022 .

Projects should be implemented in proper period and proper performance should be achieved.

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| (d) | The project worth of Rs.. 231,578,258 was not completed to provide and install Hapugala water supply system of the Water Supply and drainage Board. | Although arrangements were made to purchase the necessary raw materials, they were rejected on several occasions due to the receipt of substandard raw materials. So it has not been able to be completed till now. Although the construction will be carried out in 2022 , due to the huge increase in the price of raw materials , only 3 out of 4 tank systems will be completed and the water supply board has also been informed about this and is waiting approval. | -do- |
| (e) | The project of Rs.159,024,118 for the preparation of the Baddegama water supply system of the Water Supply and Drainage Board was not completed. | All raw materials are imported and supplied for this project were not of standard, so the work could not be done. And due to the rise of the dollar, the new prices are very high, the estimate of the work has increased from Rs.159 million to Rs.350 million. It has been informed to the National Water Supply and Water drainage Board and is awaiting approval. | -do- |
| (f) | The Sri Lanka Land Development Corporation's project worth Rs.114,376,100 to supply 06 gates to the Oliamulla pumping stations was not completed. | This work has also been delayed due to difficulties in procuring raw materials. The work is being done in 2022 using alternative materials in consultation with the officials of Sri Lanka Land Development Corporation. | Projects should be implemented in proper period and proper performance should be achieved. |
| (g) | The wildlife conservation department's project worth Rs. 53,463,000 to repair the iron bridge in Lunugamwehera National Park had been stopped. | When purchasing the material as per plan, due to the increase in the price of raw materials the estimated price was revised and submitted for approval, but the work was suspended due to the lack of approval. | -do- |

3.2 Delays in Project Performance

The following observations are made.

Audit Observation	Comment of the Accounting officer	Recommendation
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(a) 05 million rupees had been allocated for the construction of three water control gates in Alikotaara project and its financial and physical progress was as low as 26 percent .	The construction was delayed due to the Covid epidemic and has been arranged to be completed in 2022 .	Projects should be implemented in proper period and proper performance should be achieved.
(b) For the construction of an office building using iron frames and templates for the Postal Department, Rs. 32 million had been allocated, but the financial progress was 13.1 percent and the physical progress was 41 percent.	The initial plan was for 3 storey building. Later it was changed to a single storey, so the work had to be stopped midway. But before the construction of the wall around the land, the construction of a front fence has been completed. Hence physical progress has slowed down.	Projects should be implemented in proper period and proper performance should be achieved.
(c) In the year under review, out of the target allocation of 80 million rupees for the construction and installation of water treatment tanks for the National Water Supply and Drainage Department,. Only 13 percent physical progress had been achieved by spending only 10 million.	Although the National Water Supply Board made efforts to purchase raw materials (stainless steel) for the construction of Hapugala water treatment tanks, they were rejected on several occasions due to the receipt of non-standard raw materials. Hence, physical progress slowed down.	-do-

3.3 Asset Management

The following observations are made.

Audit Observation	Comment of the Accounting officer	Recommendation
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(a) Underutilized assets		
It was observed that the following lands and buildings are underutilized.		
(i) The site of the demolished old workshop no.07	In this section , the project plan for the construction of a building for the printing of vehicle number plates in the year 2023 is presented. Currently used for parking.	These assets should be identified and utilized.
(ii) Remaining area of 01 acres, 03 rudes, 11 perches of the land where 03 employee houses are situated in Mendiswatte	Here, the part of the officer's houses with gardens and entrances is identified as stated.	-do-
(iii) 30 quarters belonging to the department remained unused and underutilized.	These quarters have been allotted according to the requirement of the officials of the Government Factories Department and the houses are to be allotted according to their request.	-do-
(b) The department does not have the deeds for 03 lands used by the department and the divisional secretary had not taken steps to confirm the ownership based on the survey plan.	From 04.04.2022 , the surveying department is carrying out the survey work. Transfer documents are to be received after completion the survey.	-do-
(c) According to the stock verification reports under the stores and work done advance accounts, the stock maintained in all sections without release for a significant period of time incurs maintenance costs for this purpose annually , blocks space in warehouses , spends unnecessary labour and time for stock verification, and makes stocks obsolete. Their		

value was also observed to decrease. Details are given below.

(i)	Stock worth of Rs.21,058,352 out of stock as on 31 December 2021 as per stock verification reports in Work Done Advance Account.	Stock items that the audit has shown are not obsolete yet and the stock items are kept in the warehouse for the urgent needs.	These assets should be identified and utilized.
(ii)	152 items worth Rs.1,019,183 in warehouse Section A of stores Advance Account	-do-	-do-
(iii)	G(SP) Items worth Rs.30,912	-do-	-do-

4. Human Resource Management

Audit Observation

Comment of the Accounting officer

Recommendation

The sanctioned strength of the department was 770 and the actual strength was 380. Accordingly, the department had not taken steps to fill 390 vacancies.

Interviews, practical tests have been conducted for recruitment, gazette notices have been published and applications have been invited, while competitive examination results are awaited for some vacant posts.

The department should arrange to fill up the vacancies.