

## Head 438 – State Ministry of Co-operative Services, Marketing Development and Consumer Protection

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### 1. Financial Statements ---

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#### 1.1 Qaulified Opinion

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The audit of the financial statements of the State Ministry of Co-operative Services, Marketing Development and Consumer Protection 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 Co-operative Services, Marketing Development and Consumer Protection was issued to the Accounting Officer on 25 May 2022 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 of 2018. The Annual Detailed Management Audit Report relating to the State Ministry in terms of the Section 11(2) of the National Audit Act was issued to the Accounting Officer on 29 June 2022. 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 of the State Ministry of Co-operative Services, Marketing Development and Consumer Protection give a true and fair view of the financial position of the State Ministry as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with the Generally Accepted Accounting Principles.

#### 1.2 Basis for Qualified Opinion

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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, under those audit 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 evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### 1.3 Responsibilities of Chief Accounting Officer and the Accounting Officer for the Financial Statements

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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 State Ministry 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 State Ministry..

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 State Ministry 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 Responsibilities 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 the report of the Auditor General 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 State 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 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 and Regulatory Requirements**  
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I express the following matters in accordance with 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 Recommendations made by me on the financial statements of the preceding year had been implemented.

1.6 Comments on Financial Statements

1.6.1 Non-compliance of Financial Statements with Circular Provisions

Audit Observation	Comments of the Accounting officer	Recommendation
As per paragraph 7.2 of the state accounts guideline No 2021/03 dated 26 November 2021, the income collected by institutions reported on behalf of the other revenue accounting officers should not be included in the financial performance statement and such income should be adjusted in the imprest reconciliation statement. However, the difference between the ledger account receipts and payments Rs. 4,165,213 had been included in the financial performance statement insted of it being included in the imprest reconciliation statement. Due to this reason the balance of the financial performance statement had differed in an equal amount.	It had been informed that the financial performance statement and the imprest reconciliation statement prepared correctly in accordance with the insructions, were sent along with the letter dated 08 04 2022.	Financial statements should be prepared as per the state accounts guidelines.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Accounting Officer	Recommendatin
Although the capital acquisition under investment activities in the cash flow statement should have been indicated as Rs. 4,920,497, it had been indicated as Rs. 9,838,866 therby overstating a sum of Rs. 4,918,369.	It had been informed that, since the period of useful life is enhanced through improvement of capital assets, a sum of Rs. 4,506,524 as capitel assets improvement expenditure and a sum of Rs. 411,844 as staff training expenditure which envisages to bring in future benefits, had been included as investment expenditure.	Accounts should be prepared by correctly identifying investment activities.

## 2. Financial Review

### 2.1 Management of Expenditure

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) The provision totalling Rs. 200,000 made for 02 recurrent items of expenditure had been transferred to other items of expenditure through Financial Regulation 66.	The total provision was transferred to required items of expenditure due to the non occurrence of expected improvements.	Action should be taken to prepare the estimates realistically.
(b) Of the provision totalling Rs.200,000 made to the item of expenditure of improvement and rehabilitation of machins and plants, a sum of Rs. 106,044 or 53 per cent had been saved.	Provision has been saved due to non occurrence of expected improvements.	Action should be taken to prepare the estimates realistically.
(c) The office of the Ministry had estimated a sum of Rs. 3,500,000 for the item of expenditure 438-01-01-1301 in the year under review and a sum of Rs. 1,600,000 had been transferred through Financial Regulation 66. Although the total provision amounted to Rs. 5,100,000, due to the expenditure incurred for repairing the vehicles attached to the Ministry office amounted to Rs. 7,507,726, approval had not been obtained for amounts incurred exceeding provision from other items of expenditure.	Since provision granted under Item of expenditure 438-1-1-1301 was not sufficient and the need arose to carry out the necessary repairs to the vehicles belonging to the Ministry, expenditure had been incurred under 438-1-2-1301 and the relevant officers were informed to act in accordance with your instructions in future.	Approval should be obtained for incurring expenses from other items of expenditure exceeding provision.

## 2.2 Incurring Liabilities and Commitments

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
As per 94 (2) and (3) under Note (iv) of the financial statement, although the liabilities that should be shown under 94 (2) and (3) amounted to Rs. 318,695, a sum of Rs. 1,055,294 had been shown instead, including liabilities not taken under that category.	A sum of Rs. 3,403,634 had been shown as all liabilities related to year 2021 Note (iii) of the final financial statement and only incurred liabilities have been shown in Note IV as per 94 (2) and (3) .	Action should be taken to indicate the Liabilities accurately.

## 3. Operational Review

### 3.1 Management Weakness

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
Development Officers had been attached by the Ministry to the Consumer Affairs Authority and the National Cooperative Development Cooperation and a sum of Rs. 21,885,087 had been paid in 2021 as salaries to these officers. However, no supervision or evaluation had been done on the performance of these officers by the Ministry.	The relevant officers have been made aware of this situation through the letter No SMCMC/03/36 dated 04.05.2021.	Proper supervision and evaluation should be carried out on the performance of the relevant officers.

## 4. Human Resources Management

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
The approved cadre for the State Ministry stood at 120 whereas the actual cadre stood at 79 and hence there was a shortage of 41 officers for vacant posts. The number of approved posts at senior level stood at 16 and out of that number, 4 posts had fallen vacant representing 25 per cent of approved cadre and 40 per cent of approved cadre at secondary level had also fallen vacant.	Requests have been made on several occasions to the Ministry of public Services, Provincial Councils and Local Government, to send officers for posts fallen vacant in this Ministry.	Action should be taken to fill the essential vacant posts by taking into consideration the service requirement.