

## **Head 116 Ministry of Trade, Commerce and Food Security**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

Head 116 - The audit of the financial statements of the Ministry of Trade, Commerce and Food Security for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 Ministry of Trade, Commerce and Food Security was issued to the Accounting Officer on 31 May 2023 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report of the Ministry was issued to the Chief Accounting Officer on 19 July 2023 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, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements prepared give a true and fair view of the financial position of the Ministry of Trade, Commerce and Food Security as at 31 December 2022 and its financial performance and cash flow 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 appear in Paragraph 1.6 of this report.

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 evidence 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 Chief Accounting Officer.

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 annual and periodic financial statements to be prepared.

The Chief Accounting Officer shall ensure that an effective internal control system is maintained for the financial control of the Ministry 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 exercise professional judgment and maintain professional skepticism throughout the audit. I also furthermore;

- Appropriate audit procedures were designed and implemented to identify and assess the risk of possibility of quantitative misrepresentations occurred in financial statements due to fraud or errors in providing a basis for the expressed audit opinion. More than the impact of quantitative misrepresentations due to misrepresentation, the effect of fraud is strong because of malpractice, forgery, intentional evasion, misrepresentation, or evasion of internal controls can lead to fraud.
- Although it is not intended to express an opinion on the effectiveness of internal control and obtained an understanding of internal control in order to plan appropriate audit procedures occasionally.
- 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.
- Evaluated whether the transactions and events underlying the structure and content of the financial statements are appropriately and fairly consisted in and presentation of financial statements including disclosures as a whole.

The Chief 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 consistent with the previous year,
- (b) The recommendations which I had made with regard to the financial statements of the preceding year had been implemented.

## 1.6 Comments on Financial Statements

### 1.6.1 Accounting Deficiencies

#### (a) Property, Plant and Equipment

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
A motor vehicle valued at Rs. 2,157,470 transferred during the year under review to the Ministry of Trade had not been accounted for under non-financial assets.	As a result of the information on the motor vehicle valued at Rs. 2,157,470 were not received by the Finance Division by 31 December 2021, that value has not been added in the statement of non-financial assets and it has been noted to take measures to correct in the year 2023 .	Assets belonging to the Ministry should be properly accounted for.

#### (b) Lack of Evidence for Audit

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
Even though the value of Rs. 15,940,000 had been entered in the Register of Fixed Assets (CIGAS Record) considering 02 vehicles belonging to the State Ministry	The respective vehicles are owned by the Ministry of Investment Promotion and the relevant activities are being carried out to take over by now.	There should be written evidences confirming that it belonged to the State Ministry.

which was merged into the Ministry during the year under review, written evidences confirming that it had belonged to the State Ministry was not submitted for audit.

## 2. Financial Review

### 2.1 Expenditure Management

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
<p>Even though the supplementary provisions had been obtained for 07 expenditure objects in the year under review, the savings of them had ranged from 48 per cent to 100 percent as a percentage of net provision. Further, there was no estimated provision for the expenditure object 116-01-01-2001 where there was 100 per cent savings out of that and the provision had been made available by the supplementary provisions.</p>	<p>Comments have not been given.</p>	<p>Supplementary provisions should be applied after properly determining the requirement.</p>

### 2.2 Entered into Commitments and Liabilities

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
<p>There were liabilities exceeding the savings under expenditure object 116-01-02-1409 amounted to Rs. 531,168 and actions had not been taken in this regard in terms of F.R. 94 .</p>	<p>Even though the commitments have been entered into in excess of the provisions of the prescribed accounting year, the provision has not been exceeded during the year because of the bills of December under the respective expenditure objects are presented in January of the following year</p>	<p>Actions should be taken in terms of Financial Regulations.</p>

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

Instances of non-compliance with the provisions of laws, rules and regulations observed in audit test checks are analyzed below.

Reference to the Laws, Rules, Regulations etc.	Audit Observation Non-compliance	Comments of the Chief Accounting Officer	Recommendation	
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Financial Regulations 1646	Although the running charts for each vehicle should be submitted before the 15th day of the following month, the running charts of 21 months for 07 pool vehicles had not been submitted for audit during the year under review.	Four vehicles out of these, have been assigned to the staff officers and the drivers of the vehicle pool of the Ministry have been made aware to be duly completed the daily running charts for the respective month .	Actions should be taken in terms of Financial Regulations
(b) Paragraph 3.1 of Public Administration Circular No. 30/2016 dated 29 December 2016	Although the fuel burn tests should be carried out again after a 12 month interval after each fuel inspection and after running a distance of 25,000 kilometers and after a major overhaul of the engine or after the initial occurrence of any of the following the fuel burn tests were not done for 7 pool vehicles of Ministry of Trade during the year 2022 or before.	The fuel tests were not carried out due to the economic crisis in the country during the year under review and the previous years along with the corona epidemic and existing acute fuel shortages and as a result, the existing queuing system and QR code system for getting fuel, a maximum of 20 liters per week was provided. Fuel tests have been done for pool vehicles in in the year 2023 .	Actions should be taken in terms of the Circular.	

- (c) Paragraph 04 of Public Finance Circular No. 02/2020 dated 28 August 2020
- Although the Procurement Plan of the next year should be prepared before 10<sup>th</sup> December of the current year and the approval of the Chief Accounting Officer should be obtained and copies of the same should be forwarded to the relevant institutions, arrangements had not been made in that manner in respect of the Procurement Plan of the Ministry of Trade for the year under review.
- The relevant Procurement Plan for the year 2023 has been approved by the Secretary of the Ministry on 04 January 2023 .
- Actions should be taken in terms of the Circular.

## 2.3 Improper Transactions

### (a) Unauthorized Payments

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(i) Even though a sum of Rs.1,258,526 and Rs. 1,564,328 had been paid respectively as monthly salary, fuel and transport allowances to two officers who were appointed as Coordinating Secretaries to the Secretary of the Ministry from 12 May 2020 to 22 March 2021, document records of arrivals and	Although it has been notified to provide the arrival and departure records of the two officers who worked as Coordinating Secretaries of the Secretary of the Ministry, the documents have not been provided to the Administration Division.	Payments should be made as per the arrivals, departures and performance records.

departures had not been maintained regarding reporting to the duties.

- (ii) Even though the fuel was supplied to the pool vehicle No. KR 1491 in the year under review and in the previous year, the running charts related to that vehicle were received only for 07 months. The said vehicle was used for the official residence of the Secretary and for the duties of the Secretary during that time as per the details included in the running charts submitted for the audit and while obtaining Rs.26,620, which was the monthly fuel allowance for the approved quantity of fuel liters per month as per Public Administration Circular No. 13/2008/(VI) dated 29 December 2021, a quantity of 1,006 liters of petrol valued at Rs.156,470 had been further given for the duties of the Secretary by fuel orders for the pool vehicle.
- Answers will be given in the future.
- Actions should be taken in terms of Circular.

## 2.4 Issuance and Settlement of Advances

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) Even though 02 officers had received advances totalled to Rs. 135,000 on two occasions, a considerable period between 09 days and 36 days had been spent in order to re-settle the amount provided without fulfilling the task of obtaining the advance .	The staff has been informed in writing in order to settle without delay after obtaining of advances in future.	Actions should be taken in terms of Financial Regulations.

## 3. Operational Review

### 3.1 Mission and Vision

The Ministry had failed to fulfill the following main objectives out of the objectives of the Ministry.

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) Applying the tariff policy as a tool to control market behavior so as to protect the rights of local producers and consumers through a national trade policy and encourage exports by providing tax concessions to local producers to encourage production.	Applying of tariff policy to control market behavior so as to protect the rights of local producers and consumers and the granting of tax concessions is done by the Ministry of Finance based on the fiscal policies taken by the government and providing tax concessions to encourage local manufacturers based on the tax concessions implemented by the government and the relevant awareness programmess, training programmes and export promotion	Arrangements should be made to achieve the main objectives.



programmes have been implemented regularly by the Export Development Board and the Consumer Affairs Authority has taken actions in respect of the control of the market behavior so as to protect consumer rights.

The necessary activities are being done by the Ministry of Trade to achieve the above tasks through a national trade policy.

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| <p>(b) Running a data system related to the institutions under the Ministry, updating those data systems and setting up the mechanism to link those data with external information providing institutions.</p> | <p>Setting up of the data system is being carried out .</p> | <p>Arrangements should be made to achieve the main objectives.</p> |
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### 3.2 Failure to Perform Tasks

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
<p>(a) Even though Rs. 50 million and Rs. 200 million had been given during the year under review and in the previous year respectively as provision to the Food Commissioner's Department in relation to maintaining a buffer stock of 8000 metric tons of rice in Sri Lanka, which was a major task planned to be accomplished by the Action Plan of the Ministry, no activity</p>	<p>Rice was imported by the State Trading Corporation using the allocation of Rs.200 million given to the Food Commissioner's Department in order to maintain the buffer stock of rice and distributed throughout the country through Sathosa. The availability of rice was made sufficient in the country through this and an active contribution was made to control the price of rice.</p>	<p>The Ministry should perform the monitoring role in a proper manner.</p>

whatsoever had been completed in this regard during the year under review and the previous year. The supervision activities of the Ministry had also not been done properly.

A provision of Rs. 50 million had been made available to the Food Commissioner's Department by Budget provisions of the year 2022 in order to maintain buffer rice stocks of 8000 metric tons. However, as this allocated amount of Rs. 50 million was not sufficient to maintain safe rice stocks of 8000 metric tons, the money could not be spent. Further, due to the curtailment of expenditure as per the Budget Circular 3/2022, the provision has been saved.

- (b) Although it had been stated in the Action plan of the Ministry that the 3 projects of establishing of the Commercial Trading Hub Project in Mihintale, the University of Bio systems Technology in Nuwara Eliya and the establishment of the Foreign Language University should be commenced under Mahapola Higher Education Scholarship Trust Fund, these projects had been abandoned as per the Decision of the Mahapola Board of Trustees due to the failure of acquisition of the land related to the Project and the lack of required approval from the Ministry of Education. Further, an amount of Rs. 1,770,000 had been spent for the basic works related to the Commercial Trading Hub Project in Mihintale.

The government has taken a policy decision to suspend the use the money of the Lalith Athulathmudali Mahapola Scholarship Trust Fund for capital investments and as it has been recommended by the Meeting of the Cabinet of Ministers held on 25 October 2022, the Board of Trustees has decided to suspend these projects.

Land acquisitions and related approvals should be obtained before incurring expenses.

### 3.3 Delays in Execution of Projects

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Modernization of 13 warehouses belonging to the Cooperative Wholesale Establishment		
(i) The Ministry had made a provision of 50,000,000 in the year 2021 for this Project with an estimate of Rs. 22,500,000. A sum of Rs. 82,525,681 had been spent for modernization of 13 warehouses by Cooperative Wholesale Establishment and the expenditure of Rs. 62,490,367 had been reimbursed as at 31 December 2020 by the Ministry. Although the modernization works of all these warehouses should be completed in the year 2020, as the progress of completion of 04 warehouses was in between 5 to 65 per cent up to 16 May 2023, it was observed that the monitoring activities of the Ministry were not properly done.	Eleven warehouses have been fully completed and 05 warehouses have been given to Lanka Sathosa on rental basis. Two warehouses have been given on lease basis to the private sector. At present, three more warehouses have been proposed to be leased out to Lanka Sathosa and the construction works of two warehouses have been in between 5% - 20%.	The monitoring activities related to the projects of the institutions under the Ministry should be properly carried out.
(ii) Further, as it has been indicated that the modernization works of 06 warehouses has been completed by 18 March 2020 and the modernization progress of other 07 warehouses had been in the	Eleven warehouses have been fully completed and 05 warehouses have been given to Lanka Sathosa on rental basis. Two warehouses have been given on lease basis to the	The monitoring activities related to the projects of the institutions under the Ministry should be properly carried out

range of 5 to 95 per cent by May 2022, the amount of Rs. 20,035,264 to be reimbursed by the Ministry to the Corporation had been returned to the Treasury in April 2023. The Ministry had not received a review on the progress of this or a full report on it.

private sector. At present, three more warehouses have been proposed to be leased out to Lanka Sathosa and the construction works of two warehouses have been in between 5% - 20%.

(b) The estimated cost of the Rajavasa Lanka Sathosa Mega Outlet Construction Project which is being constructed in Batticaloa by Sri Lanka State Trading (General ) Corporation (Company) was Rs. 47,725,462 and an amount of Rs. 22,924,908 had been given by the Ministry for this Project by 31 December 2021 and although the construction should be completed by 06 December 2021, the works had not been completed even by May 2023 .

The Ministry of Finance has issued Rs. 22,924,908 by 31 December 2021 for this Project and it has been given to the Lanka Sathosa on a lease basis without any expenditure to the government at present.

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### 3.4 Assets management

The following observations are made.

#### Audit Observation

(a) Even though the approval had been received to formally get transferred the vehicles belonging to other Ministries and Institutions currently being used by the Ministry, to the Ministry by the Decision of Cabinet of Ministers No. අමප/21/1543/313/053 dated 28 September 2021, fifteen

#### Comments of the Chief Accounting Officer

Actions have been taken to get transferred the vehicles.

#### Recommendation

The Decisions of the Cabinet of Ministers should be followed.

vehicles registered in the name of other government agencies had been not handed over to the Ministry out of the 28 vehicles still in use by the Ministry even by 15 March 2023 .

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| (b) | Three vehicles used by the Ministry had been sent to the agents and garages for repairs within a period of 05 months to a year and another vehicle had been parked in the Ministry premises for a year.   | Essential repairs have been done under Public Expenditure Management.                                    | Completion of the repair process should be done promptly as per instructions given by 02 (b) of Asset Management Circular No. 05/2020 . |
| (c) | Three vehicles valued at Rs 64,490,000 of the Ministry had completely destroyed by fire due to the conflict situation in the country on 09 May 2022 and even though riot insurance had been obtained for those vehicles, insurance compensation had not been received even up to now. | Insured process of One vehicle has been done. Insurance process for 03 motor vehicles are being updated. | The relevant insurance claim should be obtained and send the vehicle for repairs.   |

#### 4. Achieving Sustainable Development Goals

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) The provision of Rs. 20 million made in the year under review to grant loans to small and medium-sized rice mill owners to encourage local producers and entrepreneurs with the aim of reducing poverty through a subsidized price system by creating	A sum of Rs. 100 million was allocated in the year 2021 to provide credit facilities to small and medium-sized rice mill owners and that amount of Rs.100 million was disbursed to the District Rice Producers' Cooperative Societies under the	Sustainable Development Goals should be achieved.

sustainable economic growth under Goal 01, 100% had been saved. As a result of the lack of required guidance and supervision thereon, the progress in achieving the Sustainable Development Goals had remained less than 50% .

supervision of the respective Provincial Cooperative Commissioners. A sum of Rs. 30 million was given in the year 2022 as per the request of Gampaha District Rice Producers' Cooperative Society. As there were no other demands presented , a sum of Rs. 20 Mn. has been saved.

- (b) Maintain food stocks under the supervision of maintaining buffer stocks so that not to occur a shortage of food under Goal No.2 and although Rs.50 million had also been provided to the Food Commissioner's Department in the year under review for safe rice stocks to be maintained, the provision had not been utilized up to 31 December 2022. Therefore, it was observed that the performance of achieving Sustainable Development Goals had not been achieved.

As a SAARC country, it has been decided to maintain a safe rice stock of 8000 metric tons annually. Accordingly, although Rs. 824 Mn. allocation was applied for, a sum of Rs. 50 million have been received as allocations in the year 2022. Accordingly, as the sum of Rs.50 million is not sufficient at all to maintain a safe rice stock of 8000 metric tons, that provision has not been utilized.

In setting goals, it should study the barriers exists for the accomplishment

## 5. Good Governance

### 5.1 Internal Audit

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
<p>Although the Internal Audit Plan for the coming year should be prepared as a Risk-based Internal Plan before 15 December of each year and its copies should be submitted to the Management Audit Department and the Auditor General, in terms of Management Audit Circular No. DMA/01-2019(1) dated 24 December 2021, the Internal Audit Plan for the year 2022 had not been so presented. Further, that Plan had also not been approved in the Audit and Management Committee.</p>	<p>Internal Audit Plan for the year 2022 was approved by the then Secretary on 27.01.2022 and the Plan has not been approved in the Audit and Management Committee Meeting or forwarded to the Management Audit Department. It has been sent to the National Audit Office with a delay.</p>	<p>The Internal Audit Plan should be prepared and approved by the Audit and Management Committee and submitted to the Auditor General in terms of the Circular.</p>