

Head 241 – Department of Public Enterprises

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Department of Public Enterprises – Head 241 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 including my comments and observations on the financial statements of the Department of Public Enterprises 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 relating to the Department of Public Enterprises was issued to the Accounting Officer on 07 July 2023 in terms of Section 11(2) of the Audit Act. This report will be presented 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 2022, and of its financial performance and cash flows 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 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 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 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 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 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 the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Chief 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) and Section 38 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 relating to the financial statements of the preceding year, had been implemented.

2. Financial Review

2.1 Management of Revenue

2.1.1 Weaknesses in Preparation of Revenue Estimates

The following observations are made.

Instances where action had not been taken for 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, were observed.

Audit Observation	Comments of Accounting Officer	Recommendation
(a) Revenue Code 20:02:03:00 - Profit		
(i) Even though revenue of Rs.34,700,000,000 had been estimated for the year 2022 for the Revenue Code 20:02:03:00 - Profit, it was observed that the actual revenue collected in the year under review was Rs.22,004,727,426 representing 63 per cent.	The Department of Public Enterprises had been able to collect 63 per cent of the estimated revenue under Revenue Code 20.02.03.00 for the year 2022 even under the unfavourable economic condition prevailed in the country.	Revenue estimates should be prepared more accurately by forecasting accurately on institutions from which revenue should be collected.
(ii) The decrease in the actual revenue as compared with revenue estimates of 09 institutions relating to the said revenue code ranged between 3 per cent and 98 per cent.	Reasons for the decrease in the actual revenue as compared with the revenue estimates had been made submitted.	Forecasting of revenue and keeping records on the collection of revenue should be formalized for taking accurate policy decisions, determining the budget gap and for monitoring and analyzing of policies.

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| (iii) Even though 09 public enterprises had prepared estimates of revenue with a view to earning revenue of Rs.10,160 million in the year 2022, no revenue whatsoever had been collected in the year under review from those enterprises. | Explanations had been made on 09 public enterprises which mentioned that no revenue whatsoever had been collected in the year 2022. | Forecasting of revenue and keeping records on the collection of revenue should be formalized for taking accurate policy decisions, determining the budget gap, and for monitoring and analyzing of policies. |
| (iv) Even though 03 public enterprises had not prepared estimates of revenue in the year under review, profit revenue of Rs.1,049.9 million had been earned by those enterprises. | Even though revenue had not been estimated by those institutions due to capital issues arisen in the Government severely in the year 2022, profit was remitted to the General Treasury. | Forecasting of revenue and keeping records on the collection of revenue should be formalized for taking accurate policy decisions, determining the budget gap, and for monitoring and analyzing of policies. |
| (v) Even though 05 public enterprises had prepared estimates of revenue, those enterprises had made contributions to the profit revenue ranging from 75 per cent to 540 per cent more than the estimated profit revenue. | It is agreed with the audit query. | Forecasting of revenue and keeping records on the collection of revenue should be formalized for taking accurate policy decisions, determining the budget gap, and for monitoring and analyzing of policies. |

(b)	Revenue Code 20:02:04:00 - Dividend Revenue	It is agreed with the audit query.	Forecasting of revenue and keeping records on the collection of revenue should be formalized for taking accurate policy decisions, determining the budget gap, and for monitoring and analyzing of policies.
(i)	A revenue of Rs.6,300,000,000 had been estimated for the year 2022 for the 20:02:04:00 – Dividend Revenue Code, and a revenue of Rs.6,087,754,386 or 97 per cent of the said estimated revenue had been collected in the year under review.		
(ii)	Contributions ranging from 33 per cent to 150 per cent exceeding the dividend revenue estimated to be earned from 05 public enterprises, had been made to the dividend revenue.	It is agreed with the audit query.	Forecasting of revenue and keeping records on the collection of revenue should be formalized for taking accurate policy decisions, determining the budget gap, and for monitoring and analyzing of policies.
(iii)	The decrease in receipt of actual revenue than the revenue estimated as dividend revenue from 11 public enterprises had ranged from 03 per cent to 67 per cent.	Earning estimated revenue was not possible due to matters such as reporting less profitability or net loss during the financial years in which working capital issues of these institutions are taken into account and making provision for institutional programmes proposed to be implemented. .	Forecasting of revenue and keeping records on the collection of revenue should be formalized for taking accurate policy decisions, determining the budget gap, and for monitoring and analyzing of policies.

2.2 Management of Expenditure

The following observations are made.

Audit Observation	Comments of Accounting Officer	Recommendation
(a) Even though it had been indicated in terms of National Budget Circular No.03/2022 dated 26 April 2022 that savings of provision that are provided to incur for expenditure within the year, should not be used for other expenditure prior to the end of the year, as it is traditionally done, provision had been transferred between the following mentioned Objects by the Department of Public Enterprises.		
(i) Provision totalling Rs.508,152,000 or ranging from 0.4 per cent to 125 per cent had been increased under Financial Regulation 66/69 due to inadequate estimated provision made relating to 4 Objects.	Transfers under Financial Regulation 66 were made due to reasons such as, <ul style="list-style-type: none">• Non-approval of provision for the Object 1205 of the year 2022• Increase in expenditure unexpectedly• Inadequate provision for the Object 241-1-1-2301 (30) for the settlement of the balance of Rs.25,565,718,757 relating to the Fuel Price Stabilization Fund.	Action should be taken in terms of circular instructions.
(ii) Provision had been decreased in the year under review by a sum totaling Rs.508,152,000 or ranging from 0.5 per cent to 99 per cent due to making provision exceeding the original estimated provision relating to 14 Objects.	The following matters had been attributed to savings of provision. <ul style="list-style-type: none">• Existing of vacancies of employees in the Department.• Control of expenditure to a certain extent as per National Budget Circular No.03/2022.• Restriction of foreign study tours and trainings	In terms of Financial Regulations, estimates should be prepared as accurately as possible.

- conducted using local funds.
- Restriction of provision of fuel to officers entitled to official vehicles.
- Extension of the lease period of the existing Agreement instead of entering into a new agreement.
- Inadequate imprests for the payment of dormant entitlement of the National Savings Bank.
- Restriction of property loans provided by the Bank

(c) In the examination of Objects, the following instances of non-reconciliation were observed. The relevant transaction has been recorded in the vote ledger by now and action will be taken to avoid such errors in future. Vote ledgers should be reconciled timely with Treasury printouts.

Object & Description	Expenditure of the year as per the Vote Ledger	Expenditure of the year as per Treasury Printouts	Difference
	Rs.	Rs	Rs.
241-1-1-2301-008 Capital Contribution – National Water Supply & Drainage Board	151,552,659	290,897,758	7,139,345,095
241-1-1-2301-30 Fuel Price Stabilization Fund	565,718,757	543,438,157	22,280,600

2.3 Incurring of Commitments and Liabilities

The following observations are made.

Audit Observation	Comments of Accounting Officer	Recommendation
(a) In addition to the value of liabilities indicated in Note No.(iii) of the financial statements, commitments and liabilities of Rs.361,218 had been incurred in the year under review.	Inclusion of liabilities incurred for the year 2022 in the Register of Liabilities had been avoided mistakenly and action will be taken to avoid such mistakes hereinafter.	Liabilities incurred with a view to settling in the ensuing year, should be disclosed in the financial statements accurately.
(b) In terms of F.R. 94 (1), no expenditure or commitment shall be incurred by any department for work, service or supply, unless financial provision exists therefor in the Annual Estimates. However, liabilities /commitments amounting to Rs.253,293 had been incurred exceeding the savings under 2 Objects.	In incurring of liabilities in future, action will be taken with more attention.	Action should be taken in terms of Financial Regulation 94(1).

2.4 Non-compliance with Laws, Rules and Regulations

Audit Observation	Comments of Accounting Officer	Recommendation
In terms of paragraph 10 of Public Finance Circular No.02/2022 dated 28 August 2020 and Section 16(2) of the National Audit Act, No. 19 of 2018, the Annual Performance Report along with the annual financial statements should be submitted to the Auditor General. However, the Department of Public Enterprises had not submitted the Annual Report of the year 2022 to the Auditor General by 28 February 2023.	The Annual Performance Report for the year 2022 of the Department of Public Enterprises is being prepared by now and it is informed that it will be submitted to the Auditor General as soon as possible.	Action should be taken in terms of circulars.

3. Operating Review

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) In terms of paragraph 7 of the Gazette Extraordinary No.1550/7 of 22 May 2008 issued by the Ministry of Finance, a surcharge of US\$ 60 or a sum equivalent to that amount shall be levied in respect of every passenger ticket issued or sold outside Sri Lanka for air travel originating in Sri Lanka regardless of the mode and manner of sale or issue of such ticket, in terms of paragraph 8 of the said Gazette, such surcharge collected should be credited to the Consolidated Fund in such manner as may be specified by the Director General of Civil Aviation. Accordingly, the Civil Aviation Authority had collected Rs.16,982 million as the said surcharge from 01 August 2008 to 31 December 2022. However, the said money had not been credited to the Consolidated Fund. Moreover, the Director General of the Department of Public Enterprises had been briefed by the Department of Legal Affairs on 12 June 2017 along with the letter issued by the Attorney General's Department dated 07 April 2017 mentioning that, "It is further possible to recover this surcharge, and that there is a legal obligation to credit such surcharge money to the Consolidated Fund", which is the opinion of the Attorney General's Department in this regard. However, the Department of Public Enterprises had not taken action to recover this surcharge money from the Civil Aviation Authority even by the date of audit.	The Department of Public Enterprises is assigned with the function of collecting levy and dividends from public enterprises as non-tax revenue of the Government and the Department of Fiscal Policy handles the collection of tax revenue. Moreover, it is observed that the aforesaid surcharge has not been credit to the Consolidated Fund and as such, it is informed that the Secretary to the Treasury has sent a notification dated 26.04.2023 to the Secretary to the Ministry of Ports and Aviation Services to recover the said surcharge and to credited to the Consolidated Fund with a copy to the Auditor General.	Proper plans should be made and implemented relating to collection of revenue, which is a main function of the Department.

(b) Capital Contribution

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(i) According to direct confirmation of balances submitted by 13 public corporations and public enterprises and public companies which hold shares, the capital contribution of those institutions as at 31 December 2022, was Rs.985,745 million and according to financial statements of the Government, the said balance was Rs.149,875 million, thus understating the capital contribution by Rs.835,870 million in the financial statements of the Government as at 31 December 2022.	Agreed with the Audit Query. Necessary steps have been taken to make relevant rectifications in the year 2023.	Action should be taken to confirm the accuracy of accounts by obtaining confirmations of balances periodically from institutions holding public shares.
(ii) Differences were observed between the direct confirmation of balances presented as at 31 December 2022 and the financial statements of the Government relating to the number of shares held by the Government in 07 institutions. Accordingly, the capital contribution of the Government had been understated by Rs.1,877 million in the financial statements of the Government as at 31 December 2022.	Agreed with the Audit Query. Necessary rectifications will be made in the year 2023.	Action should be taken to confirm the accuracy of accounts by obtaining confirmations of balances periodically from institutions holding public shares.
(iii) In the computation carried out at the audit according to the number of shares held in a public company and the nominal value, the value as at 31 December 2022 was Rs.5,141 million. However, it had been indicated as 14,476 million in the financial statements of the Government. As such, the capital contribution had been overstated by Rs.9,336 million in the financial statements of the Government as at 31 December 2022.	Agreed with the Audit Query. Necessary rectifications thereon will be made in the year 2023.	Action should be taken to confirm the accuracy of accounts by obtaining confirmations of balances periodically from institutions holding public shares.

- (iv) In view of improving the capital adequacy (Tier 1) of the Regional Development Bank, a number of 6,183,946 shares valued at Rs.175 million, had been issued on 15 December 2022 by setting off the loan amounting to Rs.175 million payable to the General Treasury previously obtained by the Lankaputra Development Bank as at 31 December 2022. However, it had not been accounted in the financial statements of the Government.
- Even though 6,183,946 shares valued at Rs.175 million had been issued on 15 December 2022, the certificate of issuance of shares had not been received to the General Treasury. As such, it had not been included in the financial statements of the Government and it is informed that action will be taken to include same in accounts immediately after receiving the said certificate.
- Action should be taken to confirm the accuracy of accounts by obtaining confirmations of balances periodically from institutions holding public shares.
- (v) According to financial statements of the Government, the increase in capital contribution of State owned enterprises during the year under review was Rs.1,405,204 million and of that, a sum of Rs.109,625 million representing 8 per cent comprised money released from the General Treasury for payment of loans, loan interest, salaries and wages of recurrent nature of each institution.
- The General Treasury is the sole owner of all these institutions. Accordingly, it is informed that the contribution of the General Treasury towards expenses of working capital nature of those institutions can be considered as capital contributions made towards the said institutions.
- As capital contributions of institutions are not increased through incurring expenditure of recurrent nature, proper methodologies should be followed therefor.
- (vi) According to financial statements of the Government, the increase in capital contribution of State owned enterprises during the year under review was Rs.1,405,204 million and of that, a sum of Rs.1,246,401million representing 89 per cent was observed as the effect due to values adjusted under transfer of identified liabilities of State owned enterprises to the Balance Sheet of the Government of Sri Lanka under Cabinet Decision No.CP23/0154/604/014 of 07 February 2023. Details are as follows.
- Agreed with the Audit Query. In terms of the Cabinet Memorandum No.MF/PE/001/CM/2023/005 of 20.01.2023 submitted on the topic, “Transfer of identified liabilities of State owned enterprises to the Balance Sheet of the Government of Sri Lanka”, liabilities of the Ceylon Electricity Board and the Ceylon Petroleum Corporation were transferred to the Balance Sheet of the Government.
- As the identified liabilities of State owned enterprises were transferred to the Government, a fiscal policy crisis could arise. As such, a proper methodology should be established to settle those liabilities.

No.	Institution	Value adjusted to the Balance Sheet of the Government under identified Liabilities of Government owned Businesses
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1	Ceylon Electricity Board	362,307,620,369
2	Ceylon Petroleum Corporation	884,093,386,477
	Total	----- 1,246,401,006,846 -----

(c) Taking follow up action on tabling of Annual Reports of institutions under the purview of the Department of Public Enterprises, in Parliament on due dates under the mission “To safeguard the public interest” was a function of the Department. The following observations were made in this regard.

- (i) Even though there were 305 institutions under the supervision of the Department, only 52 public enterprises had made information available to Audit and even those enterprises had submitted only information on tabling of Annual Reports in Parliament. As such, the said information relating to 248 institutions representing 83 per cent, was not made available to Audit.
- Of the 305 institutions, it has been identified that corporations, statutory boards, State owned enterprises should submit annual reports to Parliament and from among institutions 52 strategically important institutions are under the direct supervision of the Department of Public Enterprises. Annual Reports of inoperative public enterprises are not prepared and as regional plantations are owned by the private sector, it is not necessary to submit Annual Reports to Parliament. However, necessary guidance in this regard is provided by the Department of Public Enterprises to these institutions.
- Follow up action should be taken on information relating to tabling of annual reports in Parliament of all institutions under supervision.

The Annual Reports of minority shareholdings, subsidiaries, associate subsidiaries and associate companies are not directly submitted to Parliament and they are submitted as Consolidated Annual Reports through parent companies.

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| <p>(ii) According to information made available, of the said 52 public enterprises, only 23 public enterprises had submitted Annual Reports relating to the year 2021 for tabling in Parliament. However, of these 23 public enterprises, only 17 Annual Reports had been entered in the official website of Parliament by 24 May 2023, the date of audit.</p> | <p>It was recorded.</p> | <p>Follow up action should be taken on information relating to tabling Annual Reports in Parliament with regard to all institutions subject to monitoring.</p> |
| <p>(iii) Of the said 52 institutions, only 5 public enterprises had submitted Annual Reports by the date of audit to the Department of Public Enterprises for tabling in Parliament in the year 2022.</p> | <p>It was recorded</p> | <p>Follow up action should be taken on information relating to tabling Annual Reports in Parliament with regard to all institutions subject to monitoring.</p> |
| <p>(iv) According to paragraph 3.2 of Guidelines on Corporate Governance of State-owned Enterprises introduced in the year 2021, Annual Reports should be submitted at the Annual Performance Review meeting. However, it was observed that the intervention of the Department of Public Enterprises was at a minimum level even in the year under review.</p> | <p>It has been notified in writing by the Department of Public Enterprises that Annual Reports of all institutions under the supervision of Secretaries of relevant line Ministries relating to all these institutions, Chairmen of institutions and Treasury representatives, should be submitted to Parliament as at the due date.</p> | <p>Action should be taken as per Guidelines on Corporate Governance.</p> |

An awareness programme on submission of Annual Financial Statements was held at the Ministry of Finance on 24.11.2022 for Treasury representatives. Awareness programmes were held on 27.09.2022, 22.05.2023 and

25.01.2023 respectively by three Ministries which comprise the most number of public enterprises, namely the Ministry of Industries, Ministry of Education and Ministry of Health. Responsibility lies with the Board of Directors as well as the line Ministry relating to supervision on compliance with Laws, Rules and Regulations and guidance of these public enterprises. However, supervision of public enterprises had been expanded by the Department of Public Enterprises.

4. Human Resource Management

4.1 Attached Cadre and Actual Cadre

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) The 07 vacancies existed in the Department as at 31 December of the year 2022 comprised 03 vacancies in the Senior Level and there were 03 excess cadre in the Development Officers' Service in the Secondary Level officers while 4 vacancies existed in the Management Service Officers' Service.	The 03 vacancies in the Senior Level which existed in this Department as at 31.12.2022, have been reduced to 02 vacancies by now and the Ministry of Finance, Economic Stabilization and National Policies has been informed to notify the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government to attach qualified officers for the 02 relevant posts. One officer of the three excess officers in the Development Officers' Service transferred out to another department and the posts of the remaining two officers have been approved by the Department of Management Services. Accordingly, there is no excess in the Development Officers' Service by now. The 04 vacancies in the Management Services Officers' Service have been filled by now.	Action should be taken to recruit necessary cadre and if non-essential cadre is included in the approved cadre, the number of approved posts should be revised.

- (b) It was observed that a certain officer who is being paid salaries by the Ministry of Industries, is serving in the Department of Public Enterprises for 12 years from 01 January 2011.
- The relevant officer has served in the Public Enterprises Reform Commission and after closing down that institution, has been attached to this Department by a Cabinet Decision. According to the request of the relevant officer and the concurrence of the Ministry of Industries, this officer is discharging duties in the said Ministry on formal approval.
- Obtaining service of the relevant officer should be regularized.