

## **Head 419 - State Ministry of Regional Co-operation**

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### **1. Financial Statement**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the State Ministry of Regional Co-operation for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance 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 State Ministry of Regional Co-operation was issued to the Accounting Officer on 21 June 2021 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report of the State Ministry was issued to the Accounting Officer on 05 July 2021 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 State Ministry of Regional Co-operation as at 31 December 2020 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**

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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 the Accounting Officer on Financial Statements**

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

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the 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.

The Accounting Officer shall ensure that an effective internal control system is maintained for the financial control of the State 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**

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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 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 the appropriateness of the accounting policies followed, fairness of accounting estimates and related disclosures made by Management.
- 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 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

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

As the State Ministry of Regional Co-operation is a Ministry that was established in the year under review, there had not been a need to prepare financial statements for the preceding year .

## 1.6 Comments on Financial Statements

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### 1.6.1 Imprest Adjustment Account

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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
----- Even though there was a minus imprest balance of Rs. 48,064,517 had remained as at 31 December 2020 as per the statement of financial performance prepared for the year under review, an imprest adjustment account had not been prepared to adjust it.	----- An imprest account has not been prepared as the Treasury had not provided the imprests separately under the Expenditure Head of this State Ministry for the year 2020 .	----- Financial statements should be prepared in accordance with Guideline No. 06 issued by the Department of State Accounts.

### 1.6.2 Statement of Financial Position

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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
----- Even though the capital assets amounting to Rs. 1,810,407 had been purchase during the year under review, it had not been stated in the statement of financial position under the Property Plant and Equipment and in the Property Plant and Equipment Reserve.	----- Actions will be taken to include the entries related to the values as at 31 December.	----- Financial statements should be prepared in accordance with Guideline No. 06 issued by the Department of State Accounts.

### 1.6.3 Financial Performance Statement

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#### Audit Observation

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Even though the receipts and payments of advances to public officers as per the Treasury computer printout were Rs. 382,221 and Rs. 2,608,620 respectively, the advance receipts and payments in the statement of financial performance had been shown as Rs.380,683 and Rs.763,957 respectively. Accordingly, a difference of Rs.1,538 and Rs.1,844,663 were observed.

#### Comments of the Accounting Officer

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The reason for the difference is the value of the debit and credit entries for which the relevant corrections were made.

#### Recommendation

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The statement of financial performance should be prepared as per the computer printout of the Treasury in accordance with Guideline No. 06 issued by the Department of State Accounts.

### 1.6.4 Cash Flow Statement

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#### Audit Observation

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A cash flow statement (ACA - (c) Format) had not been prepared for the year ended 31 December 2020 as per the Guideline No. 06 of the Department State Accounts .

#### Comments of the Accounting Officer

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Receipts and payments of imprests have been made with regard to the State Ministry during the year 2020 for the preparation of a cash flow statement under the Head of the State Ministry .

#### Recommendation

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Financial statements should be prepared in accordance with Guideline No. 06 issued by the Department of State Accounts.



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| <p>(b) Even though there were debit entries totalled to Rs.50,329,524 belonging to the State Ministry within the consolidated trial balance prepared for the Ministry of Foreign Affairs, the total of credit entries therein was Rs.423,421. Accordingly, even though the minus imprest balance was Rs. 49,906,103 , the minus imprest balance had been recorded as Rs. 48,064,517 as per the accounts submitted.</p> | <p>The reason for the difference was the acquisition of the opening debit balance in respect of the public officers' advance account .</p> | <p>Actions should be taken in accordance with Guideline No. 06 issued by the Department of State Accounts.</p> |
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**1.6.7Lack of Evidence for Audit**

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The following observations are made.

<b>Audit Observation</b> -----	<b>Comments of the Accounting Officer</b> -----	<b>Recommendation</b> -----
<p>(a) Even though the expenditure reported under previous expenditure object descriptions should be transferred to the relevant Ministry by the journal entries in terms of Budget Circular No. 06/2020 dated 30 November 2020, the journal entries relating to the transferring of expenses amounted to Rs. 33,219,960 were not submitted to the audit.</p>	<p>The journal entries relevant to the expenditure object descriptions which were transferred for the year 2020 are presented with this.</p>	<p>Submission of relevant journal entries for the specified value should be made.</p>

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| <p>(b) The journal entries with regard to the purchase of non-financial assets during the year under review amounting to Rs. 1,810,407 and the journal entries on the transferring of non-financial assets and deposit balances transferred by the Ministry of Foreign Affairs were not submitted to audit.</p> | <p>Actions have been taken to account for the transferring of other values after checking the Treasury computer printouts for the year 2020 .</p> | <p>The journal entries relating to the transferring of non-financial assets and deposit balances should be submitted.</p> |
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**2 Financial Review**  
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**2.1 Expenditure Management**  
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<b>Audit Observation</b> -----	<b>Comments of the Accounting Officer</b> -----	<b>Recommendation</b> -----
<p>It was the responsibility of the Accounting Officer to prepare the estimates as completely and accurately as possible in accordance with Financial Regulations 50 (II) . Nevertheless, due to not doing so, the provision totalled to Rs. 32,670,128 ranging from 55 per cent to 100 per cent of the budget allocation out of the provisions of 25 expenditure objects including 03 expenditure objects which had increased allocations through transfers under Financial Regulations 66/69 had been underutilized.</p>	<p>These savings have occurred because of bad environment remained in the country and also it had to act as per the instructions timely issued by the Government for the control of the expenses for the completion of projects as planned at the time of preparing the Budget for the year 2019 in relation to the financial year 2020.</p>	<p>The estimates should be prepared as completely and accurately as possible.</p>

## 2.2 Certifications to be made by the Accounting Officer

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Even though it was required to certify in the following matters by the Accounting Officer as per the provisions of Section 38 of the National Audit Act No. 19 of 2018, actions had not been taken accordingly.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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The Chief Accounting Officer and the Accounting Officer should ensure that an effective internal control system is set up and maintained for the financial control of the State Ministry and necessary changes should be made to ensure that the system runs efficiently by carrying out reviews on the effectiveness of that system and although those reviews should be made in writing and a copy submitted to the Auditor General, statements that such reviews were carried out, had not been submitted to the audit.	Comments have not been furnished.	It should act in accordance with the provisions of Section 38 of the National Audit Act No. 19 of 2018 .