

Head 149 – Ministry of Industry

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ministry of Industry 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 Ministry of Industries in terms of Section 11 (1) of the National Audit Act No. 19 of 2018 was issued to the Chief Accounting Officer on 24 May 2022. Annual Detailed Management Audit Report related to the Ministry in terms of Section 11 (2) of the Audit Act was issued to the Chief Accounting Officer on 21 June 2022. This Report is presented to the Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka 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 Ministry of Industry 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 responsibility for the financial statements is 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 Chief 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 Ministry 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 Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Ministry 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 judgement 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 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 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) 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 Commenting on Financial Statements

1.6.1 Property plant and equipment

The following deficiencies were discovered while accounting of property, plant and equipment.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
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(a) According to the statement of non-financial assets as of 31 December 2020, the value of office equipment and transportation equipment were Rs.65,612,794 and Rs.480,098,759 respectively. In the statement of non-financial assets as on 01 January 2021, a difference of Rs.19,275,111 was observed from their opening balance values of Rs.81,862,905 and Rs.483,123,759 respectively, and the reasons for the change were not disclosed in the financial statements.	It is accepted that the reasons for the difference in the opening balance have not been specifically disclosed in the financial statements and at the time of conducting the audit, the reasons related to that value and the copies of the journal related to the adjustment of the balance were presented to the relevant auditors. After identifying the difference, a journal has been submitted to the Public Accounts Department of the Treasury for the necessary corrections and relevant adjustments have been made through the CIGAS program.	The reasons for the change should be disclosed in the financial statements for outside parties to know
(b) 4 vehicles with a value of Rs.52,290,000 registered in the name of the Ministry had not been identified and accounted for as assets.	Since the ownership of these 04 vehicles has been transferred to the name of the Ministry, necessary arrangements are being made to account for their value as assets of the Ministry.	Assets owned by the Ministry should be disclosed through financial statements.

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| (c) | A vehicle valued at Rs.12,000,000 transferred to another ministry had not been removed from the asset account of the Ministry of Industry. | Documents have been submitted for the transfer of this vehicle to the Ministry of Finance and after confirming the transfer of ownership, I inform you that the assets will be removed from the accounts of the Ministry of Industry. | Assets not owned to the Ministry should be removed from the financial statements. |
| (d) | The amount of Rs.15,550,000 worth of 3 vehicles given to other ministries on a temporary basis registered in the name of the Ministry of Industry had not been accounted as an asset of the Ministry of Industry. | Like to inform that 03 vehicles have been allocated for use to an institution under this ministry. The concerned vehicles will be accounted for as assets of the Ministry. | Assets owned to the Ministry should be disclosed through financial statements. |
| (e) | 09 vehicles with a value of Rs.20,100,000 had been received from various ministries to the Ministry of Industry and by 31 December 2021, the ministries in which those vehicles were registered had been closed. Although the vehicles were used by the ministry, their value had not been accounted for anywhere. | After taking over the relevant items, necessary arrangements are being made to account for all these 09 vehicles as assets of the Ministry. | Acquisition should be done promptly and disclosed in the financial statements |
| (f) | The books in the Ministry's library had not been valued and recognized as an asset and had not been included in the financial statements. | All the books currently available in the Ministry Library were listed. A committee will be appointed for that and actions will be done to value the books in the future. | Assets owned to the Ministry should be valued and disclosed in the financial statements. |
| (g) | Although the value of the buildings constructed at the expense of the ministry should be disclosed in its financial statements, the value of 14 administrative buildings constructed in 30 industrial zones since 1997, amounting to Rs.105.878 million, was not capitalized in any office. | Regarding the accounting of these assets, discussions were also held with the Public Accounts Department of the treasury, and according to the instructions received, the relevant officials have identified each asset separately under each category and are working to match the accounts as non-financial assets of the Ministry. | Capitalized expenditures should be included in the financial statements. |

1.6.2 Failure to Maintain Records and Books

Audit observation	Comments of the Chief Accounting Officer	Recommendation
A register of damages as per Financial Regulation 110 had not been maintained/updated.	A damage register will be maintained from now on	As per the provisions of Financial Regulation 110, a register of damages should be maintained in the form prescribed thereunder.

2. Financial Review

2.1 Expenditure Management

Audit observation	Comments of the Chief Accounting Officer	Recommendation
(a) In relation to the year under review, there was a savings in the range of 53 percent to 100 percent of the net allocation made under 25 budget heads.	In general, during this year too, the smooth running of office work as planned, the initiation of new projects and the continuous implementation of existing projects did not happen as expected, which led to many savings.	That accurate expenditure estimates should be prepared in accordance with Financial Regulation 50.
(b) While Rs.1,200,000 was allocated for the expenditure head 149-1-1-0-2003 during the year, another Rs.10,500,000 was obtained as a supplement and thus the total net allocation was Rs.11,700,000. Even so, by the end of the year, Rs. 10,581,045 was saved and it was 90 percent. A supplementary estimate of Rs. 10,500,000 was obtained for the vehicles of the ministerial staff when even the amount allocated in the estimate had not been spent due to not properly preparing the expenditure estimates.	According to the instructions received from the Honorable Minister in the letter of the Secretary of the Ministry No. MIC/FIN/12/12/2021 and dated 07.04.2021, due to the insufficiency of the allocations allocated at that time, an additional provision of Rs.10.5 million was requested. Quotation had been received for only 02 vehicles during call for quotations. Those prices were higher than our rough estimate. Accordingly, since the amount was not enough to repair even one vehicle and since the repair is not effective at such a high cost, the National Budget Department was	That supplementary allocations should not be made without planning.

informed to transfer the additional allocation of Rs.10.5 million back to the Treasury.

2.2 Entering in to Liabilities and Commitments

Audit observation -----	Comments of the Chief Accounting Officer -----	Recommendation -----
In the January and February 2022 voucher check, the commitment and liabilities for the year 2021 were Rs.1,932,762 and as per the SA-92 treasury print, the liabilities were Rs.9,981,985. Even so, the Ministry has not submitted a statement of liabilities for the year 2021 including the above commitments incurred in the year 2022 with the 2021 financial statements.	As on 31.12.2021, there were no liabilities and commitments. All the bills and vouchers we had till that date had been paid by 31.12.2021. But since some vouchers and bills related to the year 2021 were received after 01 January 2022, those bills were paid in January and February 2022.	A statement of liabilities including commitments should be presented with the financial statements.

2.3 Non-compliance with Laws, Rules and Regulations

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

Reference to Laws, Rules and Regulations -----	Audit observation ----- Non-compliance -----	Comments of the Chief Accounting Officer -----	Recommen- dation -----
(a) Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
F.R. 396 -	14 cheques worth Rs.617,007 which were issued but not presented for payment beyond 06 months were not acted as per Financial Regulations.	On 20.01.2022, all these cheques were temporarily credited to the Ministries General Deposit Account and were currently being updated through the	Actions should be done according to Financial Regulations.

relevant information system. Then I will take necessary actions to send the money to the relevant institution.

(b) Public Administration Circular No. 30/2016 dated 29 December 2016

A re-fuel check should be carried out after a period of 12 months after each fuel check or after 25,000 km or after an engine-related repair, whichever occurs first. However, out of 71 vehicles belonging to the ministry, only 11 vehicles have had their fuel checked for the year 2021, but fuel checks have not been done for 60 vehicles.

Kindly inform that these checks were carried out as far as possible during normal traffic.

The circular rules should be followed.

(c) No. CA/1/17/1/ and Section 3.1 of the Presidential Office Circular dated 14 May 2010

Although it is stated that the maximum number of official vehicles allocated for the use and security of the honorable ministers should be 03, in addition to the 3 vehicles given to the Minister of the Ministry of Industry, a double cab vehicle of Lanka Mineral Sand Company had been used since March 2021. Lanka Mineral Sand Company had paid Rs.18,000 for income licenses for the cab for the years 2021 and 2022, Rs.2,260 for the environmental certificate, and Rs.1,138,140 for the salary and overtime for the driver from March to December 2021.

The Ministry has nothing to do with providing a vehicle of Lanka Mineral Sands Company for the use of the Minister.

The circular rules should be followed.

3. Operational Review

3.1 Failure to perform duties

The following observations are made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
(a) Development Section I was established with the aim of promoting local industries for the production of quality goods that can face competition in the international market and to identify the needs of the local market and develop the necessary industrial sectors to meet those needs. During the performance check, there was 0 (Zero) progress in 03 out of 06 programs included in the plan.	Projects could not be implemented due to the prevailing Covid situation.	Only tasks that can be completed should be included in the plan.
(b) Development Sector II was established with the aim of providing the necessary facilities to strengthen the local industrial sectors, thereby creating a situation where they can conquer the international market by producing products with high output and quality, and during the inspection of its performance, there was 0 (Zero) progress in the 03 programs included in the plan.	Projects could not be implemented due to the prevailing Covid situation.	Only tasks that can be completed should be included in the plan.
(c) Small and Small Scale Industries Leadership and Entrepreneurship Improvement Project III Although loans were issued to industrialists through commercial banks and private banks, the fund did not maintain a system that could calculate the amount of loan given to an industrialist, loan premium, interest, loan premium and interest balance etc. . For that, an	Major banks have been selected for this loan scheme. These institutions have established a very reliable Loan Automation System on the instructions of the Central Bank and this loan scheme is being implemented in accordance with the agreements signed with the banks. The project management unit has the	Efforts should be made to establish an automatic loan system.

amount of Rs.757,025 had been spent to establish an automatic loan system in 2016 and an amount of Rs.174,200 was spent to enter data in 2017 by hiring two trained officers. The project had been suspended and due to this the fund had not been able to accurately identify the amount due from each debtor on a specific date. The fund had no ability to calculate the accuracy of the amount of money actually due from the borrowers, other than assuming that the loan premiums and interest received from the banks were correct and accounted semi-annually.

correct information regarding the loans issued by the ministry and the loan installments and interest sent by the bank to the project management unit are forwarded to us after checking by the bank's audit section.

However, efforts were made to establish an automatic loan system with the aim of getting information about the loan scheme immediately. Also, data entry into one system was done. As the data was stored in the main server of the ministry, due to an error in the main server, the server has been disabled, so it is not possible to recover the data entered in it. However, even though the re-establishment work has been started, it has been difficult to restore the system due to the fact that the work of the institution has remained inactive.

3.2 Not achieving the desired level of Outputs

The following observations are made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
(a) Out of 1001 plots of land in 33 industrial zones under the Ministry, 791 plots of land were given to industrialists for various investment activities and 78 plots of land that is 4968.2 perches remained vacant. 08 out of 38 plots of land in Nalanda Industrial zone in the Central Province have been running industries since 2018 without the approval of the Ministry and only 8 out of 31 plots of land in the Northern Province had been given to industrialists.	The existing 31 vacant land plots are to be given to the investors after obtaining the approval of the Cabinet of Ministers. The vacant plots of land in Nalanda Industrial Estate are to be taken forward after the settlement of the current cases. The orientation of industrialists to invest in the northern and eastern provinces is at a minimum level.	Suitable investors should be selected, land should be given and industries should be set up.

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| (b) | Under Small and Small Scale Industries Leadership and Entrepreneurship Improvement Project III, loans were to be provided for 2 sub-projects under the General loan Scheme and the Technical Transfer Cooperative loan Scheme, but loan facilities had been provided only on the basis of the General loan Scheme. | The businessmen who have applied for loans through this loan scheme have been informed about this technology transfer loan scheme, but the requests made for it are very low. However, in the past years, loans have been issued to several businessmen under the technology transfer loan scheme according to business needs. Also, in the future, I will also make arrangements to raise awareness in this regard. | Efforts should also be made to expand the technical transfer cooperative loan scheme. |
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3.3 Asset Management

The following observations are made.

Audit observation -----	Comments of the Chief Accounting Officer -----	Recommen- dation -----
(a) 5 vehicles owned to the Ministry were kept at the Ministry premises without repair for a period of 1-4 years. These 5 vehicles included 02 cars bought in 2013, 2014. Also, a vehicle that is at a level that should be disposed of should be dealt with according to Section 13.2 of Part I of the State Finance Circular No. 01/2020 dated 28 August 2020 and in accordance with FR 770 (4), but the Ministry had not acted accordingly.	About Rs. 8 million are allocated for the repair of vehicles in a year and if this provision is allocated for the repair of these vehicles, it will not be possible to repair the vehicles that are running on a daily basis. Therefore, due to lack of adequate provision, the vehicles were parked in the ministry premises without repair. At present, the Ministry has appointed committees on 25.03.2022 to identify and dispose of the vehicles to be disposed of and the necessary activities are being carried out.	Actions should be taken to remove the vehicles at the level of disposed and Repairs should be carried out as soon as possible.
(b) 03 vehicles which had been sent to private garages for repairs for more than 03 years had not been repaired and put into operation by 15 March 2022.	<u>Vehicle No. KG – 8980</u> On 18 March 2019, vehicle was handed over to the Ministry on a bond subject to the case. As the case is over now, once the case report is received, the vehicle should be repaired on legal advice.	Actions should be taken to remove the vehicles at the level of disposed and

Vehicle No. PD - 6293

Co-operative Insurance Company was informed on 25.10.2021 to amend the amount approved by the Co-operative Insurance Company for the repairs as the garage informed that it was not adequate.

Repairs should be carried out as soon as possible.

Vehicle No. PE 1898

Neither the insurance company nor the concerned police station was informed that the car had been damaged in an accident. Due to lack of awareness, insurance compensation could not be obtained. The repair has been delayed due to the inability to find the necessary spare parts due to the recent covid epidemic situation and the curfew and movement restrictions in the country.

- (c) The administrative building built in the Bata Ata Industrial Zone in the Southern Province was unusable and in a dilapidated condition. According to the report given by the Ambalantota Divisional Secretary, there is a risk of using this building. Action should be taken to repairs or removed very early.

3.4 Losses and Damages

The following observations are made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
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According to the goods survey report conducted by the Ministry of Industry for the year 2021, there were differences in the actual balance and ledger balance of some items in the legal department. According to the goods survey reports of the years 2020 and 2021, in the South, Uva-Badulla and Sabaragamuwa Regional Industrial Service Centers, unusable goods from the year 2020 are remain the same in the year 2021 and they have not been disposed of.	Due to a delay in the entry in the ledger, the actual balance of several items in the legal section differed with the ledger balance, so after correcting the errors, the ledger balance and the actual balance were equal. Due to the situation of covid epidemic, it was not possible to carry out the disposal of goods in the regional industrial service centers, would like to inform you that we are going to carry out the disposal activities in this year.	Unusable goods should be disposed.

3.5 Management Weaknesses

The following observations are made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
<p>(a) On 11 June 2002, 2 acres of land was given to a private company in Minuwangoda Industrial Estate for assembly of auto parts imported from Japan. According to the inactive and underutilized project reports of the Ministry, it had agreed to invest Rs. 500 million and generate 100 job opportunities. However, the business activities here had been stopped for almost 9 years and it was revealed that since the Land Reform Commission has not given a lease deed to this institution, it has to pay a large amount of tax. During the field inspection, vehicle assembly was not being carried out at this location and 2 buildings of about 3000 square feet were idle. Thus, by not providing a large land for productive activities, a large number of employment opportunities and a large amount of income that should be credited to the government revenue had been lost.</p>	<p>It has been informed that it has not been possible to resume this business due to pending litigation on vehicle registration and other legal issues. The concerned industrialist has informed the Ministry that the work of this industry will be started after it is resolved, as a situation has arisen where it is not possible to start the work until this legal issue is over. As this is a pending matter in court, the Ministry cannot intervene until it is resolved.</p>	<p>Focus should be on industries where legal issues do not arise.</p>
<p>(b) Although it was decided to construct a public facility and an administrative building on a plot of land consisting of 29 perches in Minuwangoda Industrial Estate, the administrative building had not been constructed or had not been distributed for any business purpose.</p>	<p>This piece of land was reserved for the construction of public facilities and administrative building of the industrial estate and appropriate action will be taken in the future.</p>	<p>Arrangements should be made to provide the land for useful purposes.</p>

- (c) Plot No. 06 of 49.5 perches in Mahara Industrial zone was provided to a private company on 19 January 2007 for manufacturing steel and wooden houses and office furniture. According to the field inspection carried out by the audit, It was discovered that business activities are not carried out in accordance with the information presented in the project report and instead of 100 employees, only three people are engaged in business activities and insufficient production is being done and as per the letter of the Mahara Divisional General Secretary 00/00/2/5-4 dated 27 December 2021 and it was found that this institution has failed to pay taxes since 2007.
- The Ministry has periodically inquired from the Metalwood Institute about the fact that this institute is not carrying out the production work properly and in this connection the Regional Industrial Service Committee has also been called and made inquiries. It was learned by the Land Commissioner's Department that a one-year grace period was given for the payment of lease rent to this institution. Accordingly, the committee decided to postpone taking a decision until the advice of the Land Commissioner or Mahara Divisional Secretary is received.
- Arrangements should be made to provide the land for useful purposes.
- (d) About Rs. 120 million had been spent to purchase the machines needed to start the Center of Excellence for Robotics (CERA) project and to modernize a Ceylon Industrial Development Board building by the decision of the Cabinet bearing 00/00/16/1424/723/039. Although the executive officer has been hired for the implementation of this project and paid Rs. 725,000 per month for the period from September 2017 to October 2018, a total of Rs. 11 million as salaries and allowances for this officer, but registered as a company and recruited the necessary staff and started the project had not been done. Due to the failure of this project, which was under the Ministry of Industry, was assigned to the Ministry of Science and Technology by the Gazette of 2013/14 dated 28 December 2018 and was again assigned to the Ministry of Industry from August 2020.
- The implementation of this project was slow due to frequent changes of ministries and disagreements. However, this project is currently planned to be implemented under the Ceylon Industrial Development Board.
- Efforts should be made to implement the project without allowing the amount spent to be wasted.

After that, this project was approved by a cabinet decision අංශ/20/1725/320/025 dated 01 December 2020 to establish this project as a limited company under the Companies Act No. 7 of 2007 and to appoint a chairman and a board of directors on the recommendation of the minister in charge of industry. However, the project was not implemented due to the appointment of a Chairman and Board of Directors by the Treasury Secretary without the approval of the former Industry Minister. However, from the year 2017 until the end of April 2022, that is, for more than 05 years, these equipment in the new floor building of the Lanka Industrial Development Board have been kept dead. The Center of Excellence for Robotics was started with the aim of encouraging, enhancing and supporting the development of Sri Lankan industries, but so far it has not been fulfilled.

4. Human Resource Management

 The following observations are made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
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4.1 Cadre		
(a) As on 31 December 2021, the approved cadre of the Ministry was 391 and the actual staff was 314. Accordingly, 78 vacancies and one post surplus had been observed. That is, there were 15, 02, 46 and 15 vacancies in senior, tertiary, secondary and primary levels respectively.	Vacancies have been notified to be filled but not filled till now.	Vacancies in essential posts should be filled..

- (b) 06 officers of the Industrial Development Board were assigned as the staff of a renaissance for the nation, a life for the industry project implemented by the Minister's Office. There are the staff of the minister's office, but the staff of the Industrial Development Board had been employed for this project and the Industrial Development Board had paid Rs.1,101,244 as salaries and allowances to those officials from September to December 2021.
- The Ministry does not have any information in this regard.
- Staff must be employed for the purposes for which they were recruited.