

## **Head 323 – Department of Legal Affairs**

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### **1. Financial Statements**

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#### **1.1 Opinion**

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The audit of the financial statements of the Department of Legal Affairs for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021, the statement of financial performance for the year then ended and cash flow statement 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 Department of Legal Affairs in terms of Section 11 (1) of the National Audit Act No. 19 of 2018 was issued to the Accounting Officer on 21 June 2022. The Annual Detailed Management Audit Report relevant to the Department in terms of Section 11 (2) of the Audit Act was issued to the Accounting Officer on 02 August 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 the financial statements give a true and fair view of the financial position of the Department of Legal Affairs 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 Opinion**

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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 Chief Accounting Officer and Accounting Officer for the Financial Statements**

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The Accounting Officer is responsible for 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. 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.

The Accounting Officer shall ensure that an effective internal control system is maintained for the financial control of the Department 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 express a reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue the Summary Report of the Auditor General that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, 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 performed 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.
- 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 Department's internal control.
- Evaluate the appropriateness of the accounting policies followed, fairness of accounting estimates and related disclosures made by Management.
- Evaluate 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 express the following matters in terms of Section 6 (1) (d) of the National Audit Act No. 19 of 2018.

- (a) The financial statements were consistent with those of the previous year.
- (b) The recommendations made by me on the financial statements relating to the preceding year had been implemented.

## 2. Financial Review

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### 2.1 Imprest Adjustment Balance

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The following observation is made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
According to the statement of financial performance for the year 2021, the imprest balance had been a negative value amounting to Rs.652,892 as at 31 December 2021. As per the imprest reconciliation statement in the revised ACA – 7 form, the imprest adjustment balance had been a negative value amounting to Rs.652,892 as at 31 December 2021. It was observed that indicating the imprest balance as 0 (zero) had not been done rationally as at 31 December 2021 due to the indication of the imprest adjustment balance in the statement of imprest reconciliation as a negative value even though it should have been a positive (+) value amounting to Rs.652,892.	Not agreed with the audit observation. The Department has prepared the financial statements for the year 2021 according to the letter of the Director General of State Accounts bearing No. SA/MAA/02/01/01 dated 30.12.2021. According to statement of financial performance of the Department for the year 2021, when the total expenditure is deducted from the net revenue receipts and non-revenue receipts, the imprest balance of the Department as at 31.12.2021 was a negative value amounting to Rs.652,892. Further, the imprest balance as at 31.12.2021 in the statement of financial performance should be the balance as per the books of the Department as at 31.12.2021 in the statement of imprest accounts (ACA 3). Its value was 0. Further, the imprest balance of the Departmental is accurate as per the requirements mentioned in 7.5 of the State Accounts Guidelines bearing the number mentioned above.	Financial statements should be prepared rationally in accordance with the Guidelines No. 2021/03 dated 26 November 2021 of the Department of State Accounts.

### 3. Operational Review

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#### 3.1 Non accomplishment of Functions

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) The Demutualization of the Colombo Stock Exchange Bill, Secured Transactions Bill, Local Treasury Bills Ordinance, Registered Stock and Securities Ordinance, Lady Lochore Loan Fund Act, Sri Lanka Insurance Institute (Incorporation) Bill and The Institute of Certified Management Accountants of Sri Lanka (Amendment) Act No. 23 of 2009 that had been scheduled to be approved in the year 2021 had not been passed even by 31 December 2021.	<p><b>Demutualization of the Colombo Stock Exchange Bill</b></p> <p>The Sri Lanka Securities and Exchange Commission Act No. 19 of 2021 has been passed in the Parliament on 21.09.2021 and since it was intended to table this Act in the Parliament subsequent to one year after passing that Act and therefore, it was not tabled in the year 2021.</p> <p><b>Secured Transactions Bill</b></p> <p>Negotiations are underway with the Central Bank of Sri Lanka to make necessary amendments further to the Local Treasury Bills Ordinance and the Registered Stock and Securities Ordinance.</p> <p><b>Lady Lochore Loan Fund Act</b></p> <p>A Cabinet Memorandum is being prepared to obtain the approval of the new Cabinet.</p> <p><b>Sri Lanka Insurance Institute (Incorporation) Bill</b></p> <p>This is a Private Member's Bill. The Parliament has informed to make the necessary amendments to the Bill by the Legal Draftsman and to resubmit it. Hence it was informed that it will be considered further.</p> <p><b>The Institute of Certified Management Accountants of Sri Lanka (Amendment) Act No. 23 of 2009</b></p> <p>A Cabinet Memorandum is being prepared to obtain the approval of the new Cabinet.</p>	Acts scheduled to be approved should be passed promptly.

- (b) Relevant Amendments had not been made to the following Acts, Sri Lanka Accounts and Auditing Standards Act No. 15 of 1995 to be amended in the year 2021, Financial Transactions Reporting Act No. 6 of 2006, Money Laundering Prevention Act No. 5 of 2006, Suppression of Terrorism Financing Convention Act No. 25 of 2005, Debt Recovery (Special Provisions) Act No. 2 of 1990, Bank of Ceylon Ordinance No. 53 of 1938, Insurance Industry Regularization Act No. 43 of 2000, Companies Act and Excise (Special Provisions) Act and had not been submitted to Parliament even by 31 December 2021.
- As the Acts mentioned here fall under the scope of each external institution, the final draft should be prepared in consultation with the said institutions. Accordingly, the final draft is being prepared.
- Acts scheduled to be amended should be amended promptly.
- (c) Although the Credit Regulatory Authority was scheduled to be established in the year 2021, it had not been established even by 31 December 2021.
- The final documents related to the establishment of the Credit Regulatory Authority are currently being examined. It will be completed within 02 weeks.
- The Credit Regulatory Authority should be established promptly.
- (d) The work of 09 files, prevailing from the previous year and 03 files that were sent in the year under review, to get observations of the Department of Legal Affairs for submitting to obtain advice from the
- The Attorney General's Department has filed cases for 07 files out of 9 files existing from last year for seeking the advice from the Attorney General. The Attorney General's Department is preparing the necessary documents to file cases for the remaining 02 files, and we are referring the necessary information and documents. Moreover, the Attorney General's
- Action should be taken promptly in relation to the files received for legal activities.

Attorney General's Department is making arrangements to file cases for the 03 files received during the year under review. Discussions are being held in this regard from time to time, and the related documents and necessary information will be referred by the Department.

**4. Human Resource Management**  
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The following observation is made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
<p>Although the approved cadre of the Department was 22, the actual number of employees was 15 and therefore, there were 07 vacancies in the cadre.</p>	<ul style="list-style-type: none"> <li>Out of the 07 vacant posts, the post of Director General is a post that should be appointed by the Cabinet of Ministers. When a Director General is appointed by the Cabinet of Ministers, arrangements will be made to fill the other remaining vacant posts of driver. Other vacancies have already been filled by now.</li> </ul>	<p>Action should be taken to promptly fill the staff vacancies that may adversely affect the performance.</p>