

## **Head 243- Department of Development Finance**

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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 Development Finance for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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. In terms of Section 11(1) 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 Development Finance was issued to the Chief Accounting Officer on 02 June 2020. In terms of Section 11(2) of the National Audit Act, the Annual Detailed Management Audit Report relating to the Department was issued on 17 December 2020 to the Accounting Officer. This report which should be read in conjunction with Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka is submitted to Parliament in terms of Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, the accompanying financial statements prepared in accordance with the provisions of the State Accounts Circular No. 271/2019 dated 03 December 2019 give a true and fair view of the financial position of the Department of Development Finance as at 31 December 2019 and of its financial performance and its 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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Chief Accounting Officer are 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 such internal control 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.

As per Sub-section 38 (1) (c) of the National Audit Act, the Accounting Officer shall ensure that effective internal control system for the financial control of the Department exists 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**

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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 General'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,

- 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 appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the structure and content of the financial statements containing the disclosures and the transactions and events that underlie the financial statements in an appropriate and reasonable manner.

I communicate with the 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

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As required by Sub-sections 6 (1)(d) and Section 38 of the National Audit Act, No.19 of 2018, I state the followings.

- (a) That the financial statements are consistent with the preceding year,
- (b) The recommendations made by me on the financial statements furnished in the previous year had been executed.

## 2. Financial Review

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### 2.1 Expenditure Management

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The following observations are made.

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(a) The provision totalling Rs.11,995,799,491 had been saved from 28 per cent to 99 per cent out of provision totalling Rs.15,988,107,000 in 21 Object Codes for recurrent expenditure.	The requirements to maximum utilization of provisions were made.	It was also informed that this savings were made on non-receipt of imprest for provisions allocated to payment interest reliefs for senior citizens amounting to Rs.8,455 million out of this, a sum of Rs.3,541 million was for other relief payments and that it depends on the existing demand, that the subsidies requested from the Bank for the last quarter of the year would be paid in the first quarter of next year as per agreements were entered into with the banks, that the remaining provisions would be allocated for the commitments of the year 2019.

(b) The total provision of 03 Recurrent Object Codes amounting to Rs.15,000,000 had been saved.	-do-	It was informed that the loans were given in the last quarter of the year through the loan schemes related to these Object Codes, based on those requests and that the subsidies would be paid in the first quarter of next year and that the remaining provisions would be allocated for the commitments of the year 2019.
(c) A sum totalling Rs.977,731,556 or 57 per cent had been saved out of provision totalling Rs. 1,727,490,000 of 04 Object Codes for capital expenditure.	-do-	It was informed that the funds were saved under the project due to the Asian Development Bank (ADB) had made a change in its operating procedures in providing funds for the year 2019 and that the balance provision had increased due to a sum of Rs.215 million was refunded in the Athwela loan scheme.

## 2.2 Entered with Liabilities and Commitments

----- <b>Audit Observation</b> -----	----- <b>Recommendation</b> -----	----- <b>Comments of the Accounting Officer</b> -----
Although the balance to be paid as interest subsidies for fixed deposits of senior citizens as at 31 December 2019 was Rs.50,038,492,608 , it was not stated as liability in the financial statements.	Requirement of disclosure of liabilities at the end of the year in the accounts as per the relevant provisions	It was informed that the value of the total interest subsidy as at 31 December 2019 could not be paid due to lack of adequate budgetary allocations from 2015 onwards for the interest subsidy payment programme for senior citizens' fixed deposits, lack of imprest and managing the budget by cancelling the provisions and further it was informed that since there was no system in place to record such accounting in the public expenditure accounting system, that accrued expenditure could not be recorded as expected.

### 3. Operational Review

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#### 3.1 Failure to Achieve Functions

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According to a budget proposal in 2015, 15 per cent interest would be paid on fixed deposits held by senior citizens for Rs.1.5 million or less in the licensed commercial banks and special licensed banks from 2017 onwards. The Treasury would reimburse to the relevant banks for the difference between the normal interest rate and the 15 per cent interest rate paid. The total interest subsidy payable to 07 State Banks and 22 Private Banks was Rs.50,038,492,608 as at 31 December 2019. The net provision was Rs.9,697,360,000 as at 31 December 2019 for these payments for the year 2019 and out of it Rs.1,242,324,885 had been utilized. The balance was Rs.8,455,035,115. The following observations are made in this connection.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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(a) The balance of Rs.8,455,035,115 out of the allocations received had not been utilized for the payment of interest subsidies by the end of 2019.	The requirement to take immediate action to settle this growing liability in a timely manner	Treasury bonds amounting to Rs.59,605,490,495 were issued on 15 December 2020 for this amount to be paid and the balance amount of Rs.2,262,927,825 were settled on 18 December 2020. Accordingly, it had been informed that the interest subsidy payable to the commercial banks on fixed deposits maintained for senior citizens up to second quarter 2020 (30 June 2020) had been paid to the commercial banks in full by 18 December 2020.
(b) The action had not been taken to make any payments until end of the year 2019 for liabilities of Rs.6,156,498,396 and Rs.13,093,646,432 were being existed for the year 2016 and 2017 respectively.	-do-	-do-

**4. Human Resource Management**

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<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
The Approved Cadre in the entire staff was 45 at the end of the year under review. There were 18 senior level posts and one of those was vacant.	The requirement to steps should be taken to fill those vacancies if they are adversely affecting to the performance or to revise the Approved Cadre if they do not effect as such.	The comments had not been furnished.