

## **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 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 Development Finance in terms of Section 11 (1) of the National Audit Act No. 19 of 2018 was issued to the Accounting Officer on 30 June 2022. Annual Detailed Management Audit Report related to the Ministry in terms of Section 11 (2) of the Audit Act was issued to the Accounting Officer on 10 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 Development Finance 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 on 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 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 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.
- 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 declare 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 related to the previous year had been implemented.

## 2. Financial Review

### 2.1 Expenditure Management

The following Observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) According to the statement of financial performance for the year 2021, the imprest balance as at 31 December 2021 had been a negative value amounting to Rs.18,646,267,760. As per the statement of imprest reconciliation mentioned in the revised ACA – 7 form, the imprest adjustment balance as at 31 December 2021 had been a negative value amounting to Rs.18,646,267,760. When that balance had been adjusted with the imprest balance of the statement of financial performance, it had been a negative value amounting to Rs.37,292,535,520. However, the balance of the imprest account had not been rationally presented as a zero value as per the notes mentioned in the statement of financial performance since it had not been presented correctly in the revised ACA Form 7 even though the imprest adjustment balance should have been a positive value amounting to Rs. 18,646,267,760.	The imprest balance of the Department as at 31.12.2021 is a negative value amounting to Rs.18,646,267,760 when the total expenditure is deducted from the net revenue receipts and non-revenue receipts as per the statement of financial performance for the year 2021. The value of ACA 7 form is also a negative value amounting to Rs.18,646,267,760.	The financial statements should be prepared rationally according to the Guidelines No. 2021/03 dated 26 November 2021 of the Department of State Accounts.
(b) Provision totalling to Rs.341,314,861 had been saved due to utilizing only a total of Rs.307,337,639 out of that provision due to over-allocation totalling to Rs.648,652,500 had been made for 08 recurrent Objects and 07 capital Objects. Accordingly, provision in the range of 23 percent to 98 percent out of the net provision made for each Object had been saved.	The planned activities could not be carried out in the year 2021 due to the COVID 19 pandemic, which had affected the entire country equally.	Annual expenditure estimates should be prepared accurately and rationally in terms of FR 50.
(c) The internal examination had been weakened as all the functions such as maintaining the cash book, writing cheques, making payments and depositing money in the bank had been performed by a single officer.	Agreed.	Action should be taken in a way that the internal examination is conducted.

### 3. **Operational Review**

#### **Performance**

The following observations are made

	<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a)	Approved lending institutions had given a sum of Rs. 63 million to 62 loan applicants under the “Sigithi” school loan scheme. The Department should have paid 50 percent of the interest for the loans obtained under the loan scheme to the respective banks. The Department should have paid interest amounting to Rs.1,175,779 to the commercial banks by 31 December 2021.	Provision has not been adequate.	Action should be taken to make adequate provision.
(b)	A sum of Rs. 44.4 million had been granted to nine loan applicants by the approved lending institutions under the “Rakavarana” loan scheme. The Department should have paid 75 percent of the interest for the loans granted under that loan scheme to the respective banks. The Department should have paid interest totalling to Rs.2,290,831 to the commercial banks by 31 December 2021.	Late submission of interest subsidy claims to the Department.	Action should be taken to obtain the claims for the relevant interest subsidies promptly.
(c)	A sum of Rs. 650.50 million had been granted to 729 loan applicants by the approved lending institutions under “Mage Anagathaya” loan scheme. The Department should have paid 100 percent of the interest for the loans obtained under this loan scheme. Accordingly, interest amounting to Rs.7,627,617 should have been paid to the commercial banks by 31 December 2021.	Provision has not been adequate.	Action should be taken to make adequate provision.
(d)	A sum of Rs. 230.99 million had been granted to 175 loan applicants by the approved lending institutions under the “Arambama” loan scheme. The Department should have paid 100 percent of the interest for the loan obtained under this loan scheme. Accordingly, Rs. 4,763,064 should have been paid as interest to the commercial banks by 31 December 2021.	Provision has not been adequate.	-Do-

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| (e) | A sum of Rs. 157.6 million had been granted to 453 loan applicants by the approved lending institutions under the “Rivi Bala Saviya” loan scheme. The Department should have paid 75 percent of the interest for the loan obtained under this loan scheme. Accordingly, Rs. 1,452,873 should have been paid as interest to the commercial banks by 31 December 2021.           | As claims of interest subsidy had not been submitted by the relevant banks by the second week of December, the remaining provision was transferred to another Object. | Action should be taken to obtain claims of relevant interest subsidy promptly. |
| (f) | A sum of Rs. 21,357.4 million had been granted to 1,000 loan applicants by the approved lending institutions under the “Jaya Isura” loan scheme. The Department should have paid 50 percent of the interest for the loan obtained under this loan scheme. Accordingly, a sum of Rs. 934,728,127 should have been paid as interest to the commercial banks by 31 December 2021. | -Do-  | -Do-   |
| (g) | A sum of Rs. 791.5 million had been granted to 242 loan applicants by the approved lending institutions under the “Haritha Naya” loan scheme. The Department should have paid 50 percent of the interest for the loan obtained under this loan scheme. Accordingly, a sum of Rs. 28,165,682 should have been paid as interest to the commercial banks by 31 December 2021.     | Late submission of interest subsidy claims to the Department.   | Action should be taken to obtain claims of relevant interest subsidy promptly. |
| (h) | A sum of Rs. 413.3 million had been granted to 572 loan applicants by the approved lending institutions under the “Diri Saviya” loan scheme. The Department should have paid hundred percent of the interest for the loan obtained under this loan scheme. Accordingly, a sum of Rs. 12,848,075 should have been paid as interest to the commercial banks by 31 December 2021. | -Do-  | -Do-   |
| (i) | A sum of Rs. 613.8 million had been granted to 178 loan applicants by the approved lending institutions under the “Riya Shakthi” loan scheme. The Department should have paid 75 percent of the interest for the loan obtained under this loan scheme. Accordingly, a sum of Rs. 25,571,440 should have been paid as interest to the commercial banks by 31 December 2021.     | Provision has not been adequate.  | Action should be taken to make adequate provision.                             |

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| (j) | A sum of Rs. 76.9 million had been granted to 258 loan applicants by the approved lending institutions under the “Madya Aruna” loan scheme. The Department should have paid hundred percent of the interest for the loan obtained under this loan scheme. Accordingly, a sum of Rs. 1,127,807 should have been paid as interest to the commercial banks by 31 December 2021.      | Late submission of interest subsidy claims to the Department.   | Action should be taken to obtain claims of relevant interest subsidy promptly. |
| (k) | A sum of Rs. 538.46 million had been granted to 1,198 loan applicants by the approved lending institutions under the “Sancharaka Poddo” loan scheme. The Department should have paid 50 percent of the interest for the loan obtained under this loan scheme. Accordingly, a sum of Rs. 16,266,641 should have been paid as interest to the commercial banks by 31 December 2021. | -Do-  | -Do-   |
| (l) | A sum of Rs. 52.1 million had been granted to 8 loan applicants by the approved lending institutions under the “City Ride” loan scheme. The Department should have paid 75 percent of the interest for the loan obtained under this loan scheme. Accordingly, Rs. 426,637 should have been paid as interest to the commercial banks by 31 December 2021.                          | -Do-  | -Do-   |
| (m) | A sum of Rs. 2,958.3 million had been granted to 14,834 loan applicants by the approved lending institutions under the “Sonduru Piyasa” loan scheme. The Department should have paid 50 percent of the interest for the loan obtained under this loan scheme. Accordingly, Rs. 61,712,790 should have been paid as interest to the commercial banks by 31 December 2021.          | As claims of interest subsidy had not been submitted by the relevant banks by the second week of December, the remaining provision was transferred to another Object. | Action should be taken to obtain claims of relevant interest subsidy promptly. |
| (n) | A sum of Rs. 4,585.2 million had been granted to 1,282 loan applicants by the approved lending institutions under the “Home Sweet Home” loan scheme. The Department should have paid 56.7 percent of the interest for the loan obtained under this loan scheme. Accordingly, Rs. 99,262,678 should have been paid as interest to the commercial banks by 31 December 2021.        | Late submission of interest subsidy claims to the Department.   | Action should be taken to obtain claims of relevant interest subsidy promptly. |

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| (o) | A sum of Rs. 1,332.5 million had been granted to 247 loan applicants by the approved lending institutions under the "Sihina Maliga" loan scheme. The Department should have paid 75 percent of the interest for the loan obtained under this loan scheme. Accordingly, Rs. 4,541,908 should have been paid as interest to the commercial banks by 31 December 2021.   | -Do-  | -Do-   |
| (p) | A sum of Rs. 11,469.3 million had been granted to 7,970 loan applicants by the approved lending institutions under the "Ran Aswenna" loan scheme. The Department should have paid 50 percent of the interest for the loan obtained under this loan scheme. Accordingly, Rs. 157,409,834 should have been paid as interest to the commercial banks by 31 December 2021.  | As claims of interest subsidy had not been submitted by the relevant banks by the second week of December, the remaining provision was transferred to another Object. | Action should be taken to obtain claims of relevant interest subsidy promptly. |
| (q) | An interest rate of 15 percent is paid for fixed deposits of Rs. 1.5 million or less maintained by senior citizens in Licensed Commercial Banks and Licensed Specialised Banks from the year 2017 as per a budget proposal – 2015. The Department reimburses to the respective banks the amount related to the difference between the normal interest rate and the 15 percent interest rate that is paid. Thereby, the interest arrears to be reimbursed by 31 December 2021 had been Rs. 50,964,760,952. | Provision allocated had not been sufficient and making payments through treasury bonds only until the first quarter of 2021.  | Action should be taken to make adequate provision.                             |

#### 4. Human Resource Management

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
Five (05) Posts in the Senior Level had remained vacant.	Agreed. Three (03) vacancies, out of 08 Senior Level vacancies and vacancy in Secondary Level have already been completed. Requests have been made to the Ministry of Public Services, Provincial Councils and Local Government in relation to the remaining vacancies on quarterly basis through the electronic online system, and I have informed the relevant Divisions once again to fill these vacancies as soon as possible.	Action should be taken to fill the vacancies of the staff essential to accomplish the role of the Department and to revise the approved staff when there is non-essential staff