

## **Head 245 – Department of Public 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 Public Finance for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021, 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 including my comments and observations on the financial statements of the Department of Public Finance was issued to the Accounting Officer on 27 May 2022 in terms of Section 11(1) of the National Audit Act, No.19 of 2018. The Annual Detailed Management Audit Report relating to the Department in terms of Section 11(2) of the Audit Act, was issued on 02 August 2022. This report is presented in Parliament in pursuance of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, the financial statements of the Department of Public Finance give a true and fair view of the financial position of the Department 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 for the Financial Statements are further described in the Auditor's Responsibilities section of this report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **1.3 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Financial Statements**

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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 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 of the Department.

As per Sub-section 38 (1) (c) of the National Audit Act, the Accounting Officer shall ensure that an 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 Responsibility 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'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 scepticism 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 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 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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I express the following matters in accordance with Section 6 (1) (d) of National Audit Act, No. 19 of 2018.

- (a) That the financial statements are consistent with the preceding year,
- (b) The recommendations made by me on the financial statements relating to the preceding year had been implemented.

## 2. Financial Review

### 2.1 Management of Expenditure

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) The net provision totalling Rs.1,750,000 made for a Recurrent Object and 2 Capital Objects had been saved without being utilized for any purpose whatsoever in the year under review.	The Director General of the Department of National Budget was informed on 08.09.2021 to freeze the entire provision of Rs. 17,500,000 made under the said Object as it was notified to limit expenses due to restriction of foreign travels as a result of the Covid – 19 pandemic and as per the Cabinet Paper No. 21/1596/304/134 namely “Review of Public Expenditure”.	In terms of Financial Regulation 50, Annual Expenditure Estimates should be prepared as accurately and realistically as possible.
(b) Excess provision totalling Rs. 38,164,000 had been made for 9 Recurrent Objects and 3 Capital Objects and as such, savings after utilization of provision of Rs.28,326,231, amounted to Rs.9,837,769. That savings had ranged between 8 per cent and 92 per cent of the net provision made for each Object.	According to the Cabinet Paper No. 21/1596/304/134 namely “Review of Public Expenditure” and Cabinet decision relating thereto, the Director General of the Department of National Budget has been informed on 08.09.2021 to freeze the provision of Rs.9,092,890.	In terms of Financial Regulation 50, Annual Expenditure Estimates should be prepared as accurately and realistically as possible.

- (c) A sum of Rs.6,641,072 should have been indicated under the construction or purchase of physical assets and acquisition of other investments under incurring of cash flow arising from investing activities of the cash flow statement of the year 2021. As such, payment of Rs.7,186,339 including the expenditure of 545,267 incurred for capacity building had been shown under the construction or purchase of physical assets and acquisition of other investments.
- The total expenditure of Rs.7,186,339.00 relating to public investments indicated in ACA – 2(ii), has been shown under “construction or purchase of physical assets and acquisition of other investments” under the total cash flow spent for investing activities in the cash flow statement format introduced by the State Accounts Guideline No. 2021/03.
- The value of acquisition of physical assets mentioned as per the cash flow statement should be tallied with the value of acquisition of financial and non-financial assets of the year mentioned in the statement of financial position.

## 2.2 Non-compliance with Laws, Rules and Regulations

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The following non-compliances were observed.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>	
<b>Reference to Laws, Rules, Regulations</b>			
(a) Paragraph 03 of Public Administration Circular No.30/2016 of 29 December 2016	Even though consumption of fuel should have been tested in vehicles owned by the Department, it had not been so done even by the end of the year under review as per the Circular provisions.	In terms of paragraph 03 of Public Administration Circular No.30/2016 dated 29.12.2016, fuel tests on pool vehicles have been carried out and recorded them in Log books.	Consumption of fuel should be tested in vehicles and recorded as per the Circular.

(b) F.R. 1645 (a)	Even though vehicle Log books should be completed and maintained in a regular and formal manner, shortcomings in the maintenance of Log books were observed.	Vehicle Log books have been completed in a regular and formal manner in terms of F.R.1645 (a).	Vehicle Log books should be maintained in a regular and formal manner in terms of Financial Regulations by making remedies to shortcomings observed therein. .
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### 3. Operating Review

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#### 3.1 Non –achievement of expected Output Level

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) Fifty nine requests had been received in the year 2021 relating to losses and write offs and necessary measures had been finalized relating to only 43 requests of them.	Once studying the requests submitted to this Department on losses, write offs and waivers, if any further measures are observed relating to recovery of damages, losses and waivers, they are returned to the relevant Ministry or Department after considering in that regard, taking necessary measures thereon and notifying to re-submit to this Department. Moreover, if any matters to be further solved in regard to the relevant incident are observed or if any shortcomings are observed in the documents submitted, further action will be taken to look into them as well.	Key functions of the Department should be performed efficiently.
(b) In terms of Public Finance Circular No.02/2018 of 18 August 2018, it had been recommended to close 13 Funds. However, 09 of those Funds had been closed after obtaining a sum of Rs.1,769,693,149 remained	Necessary action is being taken to re-establish two Funds and loan balances of another Fund remains recoverable. As such, action will be taken to close that Fund after recovery of those loan balances.	Proper plans should be prepared and implemented relating to performance of key functions of the Department.

therein, to the Treasury. Matters had not been finalized even by the end of the year under review relating to the other four Funds.

- (c) Drafting and passing the Fiscal Management (Responsibility) Act which was initiated by a budget proposal of 2015, had not been carried out even by 31 December 2021.

The Secretary to the Treasury had given instructions on suspending the matters of drafting the Fiscal Management (Responsibility) Act and according to instructions received at the meeting held on 20.01.2020 chaired by the Secretary to the Treasury, circulars relating to fiscal policy of previous years have been cancelled and circular Nos.01/2020 and 2/2020 dated 28.08.2020 have been issued.

Action should be taken to achieve expected objectives through budget proposals.

#### 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>
Out of the 15 posts remained vacant by 31 December 2021, eight posts were of Senior Level.	Action has been taken presently to attach 07 officers for posts of Senior Level. However, two Senior Level Officers have transferred out under annual transfers of year 2022. Moreover, action has been taken to brief the Ministry of Finance on the remaining vacancies and further measures will be taken accordingly.	Action should be taken to fill vacancies or to revise the cadre.