

Report of the Auditor General on the Head 245-Department of Public Finance- Year 2015

The audit of the Appropriation Account, Advance Accounts Under Winding up and the Reconciliation Statements including the financial records, books, registers and other records of the Department of Public Finance for the year ended 31 December 2015 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Director General of the Department on 24 August 2016. The audit observations, comments and findings on the accounts and reconciliation statements were based on a review of the Accounts and Reconciliation Statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide audit coverage as possible within the limitations of staff, other resources and time available to me.

1.2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account, Advance Accounts Under Winding up and the Reconciliation Statements in accordance with the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions and Public Finance and Administrative Regulations. The responsibility includes; designing, implementing, maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

2. Accounts

2.1 Appropriation Accounts

The total net provision made for the Department amounted to Rs. 196.90 million and out of that Rs. 194.16 million had been utilized by the end of the year under review. Accordingly, the savings out of the net provision made for the Department amounted to Rs. 2.74 or 1.39 per cent. Details appear below.

Expenditure	As at 31 December 2015			Savings as a Percentage of Net Provision
	Net Provision	Utilization	Savings	
	Rs. Millions	Rs. Millions	Rs. Millions	
Recurrent	194.60	192.43	2.17	1.12
Capital	2.30	1.73	0.57	24.78
Total	196.90	194.16	2.74	1.39

2.2 Advances to Public Officers Account

The limits authorized by Parliament for the Advances to Public Officers Accounts Item No.24501 relating to the Department and the actual amounts are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
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Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions
2.78	1.65	1.50	1.97	13.00	7.64

2.3 Audit Observation

According to the Financial Records and Books for the year ended 31 December 2015, it was observed that the Appropriation Account, Advance Accounts Under Winding up and the Reconciliation Statements of the Department of Public Finance for the year ended 15 December 2015 have been prepared satisfactorily subject to the Audit Observations appearing in the Management Audit Report referred to in paragraph 1.1. The material and significant Audit Observations out of the Audit Observations included in that Management Audit Report appear in paragraph 3 herein.

3. Material and Significant Audit Observations

3.1 Appropriation Account

The following observations are made

- (a) The entire provision amounting to Rs.300,000 made for an Object had been saved without being utilized for any purpose.
- (b) Excess provision had been made for an Object and as such the savings, after the utilization of provisions by the end of the year had been 31 per cent of the net provision of the respective Object.
- (c) Contrary to the Financial Regulation 94(1), commitments amounting to Rs.334,718 had been incurred exceeding the savings after the utilization of the net provision made for one Object.

3.2 Advance Accounts Under Winding-up Operations

According to the Decisions of the Cabinet of Ministers No.64 and No. 13 dated 16 July 1997 and 20 May 1998 respectively, the Department had been entrusted to wind-up of two Advance Account Activities by settling the transactions. The winding-up operations of the following two Advance Accounts Activities by settling their transactions should have been completed within the shortest possible time.

3.2.1 Advance Account Item No.0999-08 Purchase and Sale of Tea, Rubber and Coconut Products and other Trading Goods and Formic and Acetic Acid including the Administration Expenditure of the of the Department of Commodity Purchase.

The following observations are made in this connection.

- (a) According to the Financial Regulation 518 (3) winding-up should be completed within two years. But the winding-up had not been completed by settling its transactions even by 31 December 2015 despite the lapse of 19 years.
- (b) According to the Treasury Computer Printouts, the balance of the Advance Account as at 31 December 2015 amounted to Rs.83,925,299 and that had been shown as Rs.59,292,299 in the financial statements, thus indicating a difference of Rs.24,663,000
- (c) The Committee on Public Accounts held on 19 March 2013 had given approval for the write off of the accumulated working loss of Rs.89,879,747 as at 31 December 2012. Out of that, a sum totalling Rs.30,587,448 had been written off by utilizing the savings available in the Department in the year 2013 and as at 31 December 2014. Although the Department had requested provisions from the Department of National Budget on 03 April 2016 for the write off of the further remaining loss amounting to Rs.59,292,299, the Department had failed to write off of that loss even by 15 June 2016 and as such it could not be possible to wind-up the Advance Account Activity.

3.2.2 Advance Account Item No.999/407- Purchase, Collection and Sale of Local and Other Products, supply of Cold Room Facilities and Hospital Facilities Supplies of the Department of Marketing Development.

The following observations are made in this connection.

- (a) According to the Financial Regulation 518 (3) winding-up should be completed within two years. But the winding-up had not been completed by settling its transactions even by the end of the year under review despite the lapse of 26 years.
- (b) According to the Special Grant under Section 6(1) of the State Lands Ordinance(Chapter 454), if the transferred asset has been used by the Urban Development Authority for purposes other than applicable activities, such property should be taken over by the Democratic Socialist Republic of Sri Lanka. But no follow-up action had been taken on that property.
- (c) According to the Treasury Computer Printouts, the balance of the Treasury Authorized Advance Account as at 31 December 2015 amounted to Rs.222,860,785 and that had been shown as Rs.222,681,406 in the financial statements, thus indicating a difference of Rs.179,379.
- (d) The Committee on Public Accounts held on 19 March 2013 had given approval for the write off of the accumulated working loss of Rs.222,681,022 as at 31 December 2012.

Although the Department had requested provisions from the Department of National Budget on 03 April 2016 the Department had failed to write off that working loss even by 05 June 2016. As such it could not be possible to wind up the Advance Account Activity.

3.3 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with Laws, Rules and Regulations observed during the course of audit test check are analyzed below.

Reference to Laws, Rules and Regulations	Value	Non-compliance
(a) Statutory Provisions		
Section 4 (h) and (j) of the Stamp Duty (Special Provisions) Act No.12 of 2006.		According to the schedule submitted by the Provincial Council, the Stamp Duty amounting to Rs.11,897,715 relating to the Batticaloa Municipal Council had not been paid to the Municipal Council even up to 31 December 2015.
(b) Public Administration Circulars		
Circular No.15/2009 dated 26 August 2009		The Department had issued 04 circulars in English during the year under review. Those circulars could not be obtained in Sinhala and Tamil languages in terms of the Public Administration Circular from the Department webpage listed in the website of the Ministry of Finance and Planning.
(c) Circulars of the Ministry of Finance and Planning	\$ 1690	
(i) Circular No. M.O.F.P.01/2010/01 dated 11 October 2010 and Paragraph 03 of the Circular No. M.O.F 01/2015/01 dated 15 May 2015.		The incidental allowance which should be paid only when the Foreign State/ Donor Institution does not pay any amount to meet the incidental expenditure such as travelling and telephone charges in the foreign country had been paid for 06 officers in 9 instances despite the payment of that allowance by the Foreign State/ Donor Institution and the full payment of \$1690 had been paid regardless of the above payment.

- (c) Paragraph 06 (v) of the Circular No. M.O.F.P. 01/2010/01 dated 11 October 2010.

An officer had participated in a workshop titled “ Seminar on Infrastructure Construction and Planning for Sri Lanka” held in China from 19 March 2015 to 07 April 2015. Even though 15 days had elapsed from her proceeding abroad, the approval of the Deputy Secretary to the Treasury had not been obtained therefor. The officer had obtained reimbursement of \$ 1,025 and £75 respectively as incidental allowance and Warm Clothing Allowance in respect of this foreign tour.

3.4 Performance

The observations on the progress of the Department according to the Annual Action Plan, 2015 are given below.

- (a) According to the Budget proposals 2013, the revision of the Financial Regulations had been entrusted to this Department and this had been continuously shown as a key function in the Action Plans from the year 2013. Nevertheless, it had not been made ready for the implementation even by 31 December 2015.
- (b) In terms of the Diplomatic Missions Circular No.2/92 dated 13 August 1992, the motor vehicles imported to this country by the officers in the Foreign Missions in Sri Lanka for the official purposes are sold in the local market on their departure to their own countries. Herein, the Department acts as a mediator to deal with the duty to be paid to the Government and only a fee of Rs.295 at one motor vehicle thus demanded for selling is recovered by the Department. As the provisions in the above circular was not effective, the attention of the Ministry of Finance had been drawn from the year 2012 on the revision of the relevant Circular and increase the Government revenue by raising the charge up to Rs.1000. Nevertheless, no forward steps whatsoever had been taken in that respect during the year under review.
- (c) A guidance relating to the management of Funds had been given by the Public Finance Circular No. P/F 423 of 22 December 2006. Accordingly, it had been stated in the Performance Report that the monitoring of about 60 Funds was carried out by the Department. According to the above Circular, the annual financial statements of those Funds should be furnished to the Auditor General and the financial statements together with the Performance Reports to the Department of Public Finance within the period of 2 months from the close of the financial year. Nevertheless, financial statements of 18 Funds had not been so presented even by 04 July 2016, the date of audit.
- (d) In terms of Paragraph 3.3 of the Public Finance Circular No. P/F 423 of 22 December 2006, it had been stated that if there are reasonable grounds to further maintain the

Non-statutory Funds, those should be reported to the Department by citing the relevant reasons in a manner enable such Funds to be incorporated by an Act of Parliament. Except for the Dambulla Economic Center the other the Economic Centers were in operation after establishing a Trust Fund only through a deed prepared by a private Attorney-at-Law and 03 Economic Centers had not even submitted the deed prepared in that manner to the Department even by 31 December 2015.

- (e) It had been a function of the Department to review and revise, from time to time, the methodology on the recovery of charges in the supply of services by the Government Ministries or Departments. Reviewing of only one or a few items had been done up on the requests made by various institutions by the end of the year 2015. Therefore, the charges recovered by certain institutions that had not made requests had remained unchanged over a long period without being revised and as such the opportunity for the achievement of the expected objectives had been deprived of.
- (f) The preparation of methodology for ensuring safety of the assets owned by the Government institution through the proper management and increasing the revenue receivable to the Government through the disposal of excess and unusable assets had been entrusted to the Department. Accordingly, in terms of the Revenue Proposal 8.51 of the Budget Estimate, 2015, the Department had issued the Circular No.02/2015 dated 10 July 2015 giving instructions for the disposal of condemned and unusable motor vehicles owned by the Government institutions.

The motor vehicles identified to be disposed of according to the Circular should have been disposed of within a period of 3 months from the date of issue of the Circular in pursuance of the provisions of the Circular. Even though 172 institutions had identified 2668 vehicles for disposal in the year 2015, no action had been completed in respect of 2236 motor vehicles even by 31 December 2015.

- (g) In terms of the above Circular, if a certain institution does not have any motors vehicles to be disposed of , it should be compulsorily reported to the Director General of the Department of Public Finance before 15 July 2015. Nevertheless, 261 institutions had not submitted reports accordingly.
- (h) It had been a function of the Department to take follow-up action on the Audit Reports presented by the Auditor General relating to the Government institutions and the implementation of the directives issued by the Committee on Public Accounts. The Department had taken action only to send the follow- up letters to the respective institutions regarding the Audit Reports. Further, the Committee on Public Accounts meetings had been conducted relating to 52 Departments in the year 2015, whereas only 27 Committee Minutes had been received by the Department and the Audit had been informed that the follow-up action thereon had been taken. It represented only 52 per cent of the Committee meetings conducted. However, when taking follow-up action on the Audit Reports received in the year 2016, although the number of Audit Reports referred for the follow-up action was 86, replies had been received only for 02 of them.

3.5 Human Resources Management

(a) Approved Cadre and Actual Cadre

The position on the cadre as at 31 December 2015 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
(i) Senior Level	27	18	09	-
(ii) Tertiary Level	04	01	03	-
(iii) Secondary Level	35	31	05	01
(iv) Primary Level	17	17	-	-
Total	83	67	17	01

The following observations are made.

- (i) Although three officers had been appointed under the Post of Plan Implementation Assistant over a number of years, formal approval thereon had not been taken even by the end of the year under review.
- (ii) Although there were vacancies of two posts of Senior Level, 29 instances were observed where, the officers of the Department had proceeded abroad for the foreign workshops, training programmes, seminars and personal tours during the year under review. Accordingly, it was observed that the existence of two vacancies had not affected the performance of the Department.