

## Report of the Auditor General on Head 238 - Department of Fiscal Policy -- Year 2016

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The audit of the Appropriation Account, Revenue Accounts and the Reconciliation Statements including the financial records, books, registers and other records of the Head 238 – Department of Fiscal Policy for the year ended 31 December 2016 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 18 September 2017. 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 an 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

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The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account, Revenue Accounts 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. This responsibility includes: designing, implementing and 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

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### 2.1 Appropriation Account

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#### Total Provision and Expenditure

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The total net provision made for the Department of Fiscal Policy amounted to Rs.77.35 million and out of that, Rs.53.14 million had been utilized by the end of the year under review. Accordingly, the savings out of the net provision of the Department amounted to Rs.24.21 million or 31.30 per cent. Details appear below.

Expenditure	As at 31 December 2016			Savings as a Percentage of the Net Provisions
	Net Provision	Utilization	Savings	
	Rs.Millions	Rs.Millions	Rs.Millions	
Recurrent	74.75	52.00	22.75	30.43
Capital	2.60	1.14	1.46	56.15
<b>Total</b>	<b>77.35</b>	<b>53.14</b>	<b>24.21</b>	<b>31.30</b>

## 2.2 Revenue Accounts

The Department had prepared Revenue Estimates totalling Rs.5,000.00 million in respect of 02 Revenue Codes for the year 2016 and Revenue totalling Rs.8,029.97 million had been collected in the year under review. It had been 160.60 per cent of the estimated revenue. Details appear below.

Revenue Code	As at 31 December 2016			Excess as a Percentage of Estimated Revenue
	Estimated Revenue	Actual Revenue	Excess	
	Rs. Millions	Rs. Millions	Rs. Millions	
10.02.10.00	-	3,029.97	3,029.97	-
20.05.01.00	5,000.00	5,000.00	-	-
<b>Total</b>	<b>5,000.00</b>	<b>8,029.97</b>	<b>3,029.97</b>	<b>60.6</b>

## 2.3 Advances to Public Officers Account

Limits authorized by Parliament for the Advances to Public Officers Account, Item No.23801 of the Department and the actual amounts are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
3.00	2.96	1.3	1.78	12.00	7.62

## 2.4 Audit Observation

The Appropriation Account, the Revenue Accounts and the Reconciliation Statements for the year ended 31 December 2016 of the Department of Fiscal Policy have been prepared satisfactorily subject to the Audit Observations appearing in the Management Audit Report referred to in paragraph 1.1 above. The material and significant Audit Observations out of the Audit Observations included in the said Management Audit Report appear in paragraph 3.

### **3. Material and Significant Audit Observations**

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#### **3.1 Appropriation Account**

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##### **3.1.1 Budgetary Variance**

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The following observations are made in this connection.

- (a) The entire provision amounting to Rs.1million made for a Capital Object had been saved by the end of the year under review without being utilized.
- (b) Excess provisions had been made for 09 Objects and as such the savings, after the utilization of provisions, ranged between 12 per cent and 61 per cent of the net provisions relating to the respective Objects.

#### **3.2 Revenue Accounts**

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The duties relating to the preparation of Revenue Estimates, collection of Revenue, Accounting and the presentation of Accounts relating to 02 Revenue Codes had been assigned to the Head of Department as the Revenue Accounting Officer. The following deficiencies were observed during the course of the test audit of those Revenue Codes.

##### **(a) Revenue Code 10.02.10.00 - Social Responsibility Levy**

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The following observations are made.

- (i) In terms of the State Accounts Circular No.254/2016 of 22 December 2016, the Revenue Accounts for the year 2016 should be furnished to the Auditor General before 31 March 2017. Nevertheless, the Revenue Account for the year 2016 had been furnished to Audit on 19 April 2017.
- (ii) The revenue for the year 2016 relevant to the Revenue Account had not been estimated and the revenue of Rs.9.00 million had been collected in the year under review.
- (iii) Even though the Director General had ensured that all figures indicated in the Revenue Account are reconciled with the Treasury Books, according to the Revenue Account, the net revenue collected in the year 2016 totalled Rs.3,029,972. However, according to the computer printouts, it had been Rs.8,999,016 thus, indicating a difference of Rs.5,969,044.
- (iv) In terms of the Financial Regulation 128(2)(c) and paragraph 08 of the Fiscal Policy Circular No.01/2015 of 20 July 2015, the first half-yearly return on arrears in revenue for the year 2016 relating to the social responsibility levy, should be furnished before 31 July 2016. Nevertheless, it had been furnished on 31 January 2017. Moreover, the returns on arrears in revenue as at 31 December 2016 had not been furnished to the Auditor General even by 18 September 2017.
- (v) The Sri Lanka Customs had revealed by the returns on arrears in revenue relating to years 2012, 2013, 2014, 2015 and 2016 that the arrears in revenue on the social responsibility levy caused by public institutions and those loans had been granted with the approval of the General Treasury and as such, the arrears in revenue can be recovered from ensuing

budget provisions. However, the Department had not taken action to recover the said arrears in revenue accordingly or to confirm the accuracy of those arrears in revenue.

(vi) According to the information presented to Audit by the Department of Inland Revenue and the Sri Lanka Customs, there was a difference totalling Rs.2,527,281 between the balances of arrears in revenue and the balance indicated in the Revenue Account as at 01 January 2016.

(vii) Even though it had been stated in the Account that continuous reminders are sent for the recovery of arrears in revenue, action had not been so taken in the year 2016. Moreover, information on the arrears in revenue relating to each Division as well had not been made available.

**(b) Revenue Code 20.05.01.00 - Central Bank Profits**  
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The following observations are made.

(i) Even though revenue had not been collected in the preceding year under the said revenue code, the original estimate for the year under review had been estimated as Rs.12,000 million. Subsequently, that estimate had been revised up to Rs.5,000 million.

(ii) According to the financial statements of the Central Bank of Sri Lanka in the year 2016, the profit allocated for the Consolidated Fund from the after tax net profit, amounted to Rs.6,378.27 million. However, net revenue amounting to Rs.5,000.00 million had been received under the Profit Revenue Code of the Central Bank in the year 2016. Further, a sum of Rs.1,300.00 million had been granted for the programme on payment of interests of the savings of senior citizens and the Department had informed the Audit that the remaining amount had been credited to the Consolidated Fund.

**3.3 Advances to Public Officers Account**  
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In terms of the National Budget Circular No.118 of 11 October 2004, action should be taken to recover the loan balance as a lump sum from officers who had gone on transfer to a Provincial Council. Even though the loan balance of an officer who had gone on transfer to a Provincial Council amounting to Rs.64,488 in May 2002 had remained unrecovered over a period of 06 years, the Department had failed to recover that loan balance even by the end of the year under review.

**3.4 Accountability and Good Governance**  
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**Annual Action Plan and Procurement Plan**  
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As differences were observed between the budget estimate and the Procurement Plan prepared by the Department, the Procurement Plan had not been compiled with the budget estimate.

### 3.5 Unsettled Liabilities

Liabilities of Rs.182,000 payable to the Ministry of Finance according to the Register of Liabilities, had not been settled even by 31 May 2017, the date of audit.

### 3.6 Non-compliances

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

Instances of non-compliance with provisions in laws, rules and regulations observed during the course of audit test checks are analyzed below.

References to Laws, Rules and Regulations	Value	Non-compliance
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	Rs.	
(a) <b>Establishments Code of the Democratic Socialist Republic of Sri Lanka</b>		
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(i) Section 9.6 of Chapter XV	Rs.47,450	A sum of Rs.47,450 had been paid as warm clothing allowances to three officers who had proceeded abroad. Even though the relevant officers should furnish certificates, as early as possible, to the effect that the amount so obtained had been spent therefor in terms of Section of the Establishments Code, those certificates had been furnished after returning to the Island after a period of delay from 03 months to 06 months.
(ii) Section 9.4 of Chapter XV	-	Even though the warm clothing allowance should be granted only once in 05 years, the Department had not maintained a register in an updated manner for confirming that.

### 3.7 Performance

The following observations are made on the progress of the Department according to the Annual Action Plan for the year 2016.

- (a) The following observations are made at the audit test checks carried out by the Department, on the manner in which action had been taken for the forecasting of the entire revenue of the Government.

- (i) According to the Annual Budget Estimate -2016, the total revenue of the Government amounted to Rs.2,005 billion and the actual revenue had been Rs.1,725 billion. Accordingly, revenue of 86.03 per cent of the revenue estimated in the year under review had been collected. Revenue had been collected by exceeding the revenue, estimated under 32 revenue codes by an amount ranging from 10 per cent to 3098 per cent in the year under review. Moreover, revenue had been under collected by amounts ranging from 11 per cent to 100 per cent of the revenue, estimated under 32 revenue codes.
- (ii) Revenue estimates relating to 47 revenue codes had been revised in the year under review. However, revenue had been collected exceeding the revised revenue estimate by amounts ranging from 11 per cent to 2,775 per cent from 32 out of the said revenue codes. Moreover, revenue could not be collected by an amount ranging from 13 per cent to 90 per cent of the revised estimated revenue from other 15 revenue codes.
- (iii) Even though revenue had been collected from several revenue codes in the preceding year and in the year under review, instances of non-preparation of an original estimate or a revised estimate for the year under review were observed. However, the Department had informed the audit that those revenue codes had been abolished and the arrears in revenue are collected from those revenue codes.
- (iv) Even though the revenue estimate had been revised by deducting the revenue indicated in the original revenue estimate, out of 09 revenue codes of the revised estimates so prepared by the end of the year under review, revenue had been collected exceeding the original revenue estimate. As such, revenue estimates of those revenue codes had not been revised realistically.
- (v) Information for keeping records or carrying out analysis on the collection of actual revenue of Pradeshiya Sabhas and for Developed Revenue had not been made available to Audit.
- (vi) Original estimates had not been prepared for the revenue code of Liquor Tax No.1002.05.02. Even though the revised estimates at a cost of Rs.50 million had been prepared for that Revenue Code, no revenue whatsoever had been collected in the year under review.
- (vii) Original estimates to the total value of Rs.151,230 million had been prepared for 02 revenue codes. However, out of that, only a sum of Rs.5,000 million had been collected as revenue in the year under review. Moreover, attention had not been paid on the collection of revenue from revenue codes and as such, steps had not been taken even to revise the revenue estimates of those revenue codes.
- (viii) Instances of increase in the variance between the estimated and actual revenue were observed in audit test checks due to preparation of estimates to the high value and making revision without considering the estimates

submitted by the Revenue Accounting Officers. The Department had informed the audit that revisions will be made by paying attention to matters such as values of estimates/ revised estimates submitted by the Revenue Accounting Officers regarding this, expected variances of the macroeconomic variables, expected behaviour of exchange rates, interest rates etc. and the performance of the revenue in the first few months of the preceding year as well as in the year under review.

- (ix) Guidelines / instructions including detailed information on the revenue to be accounted under each revenue code, had not been issued by the Department of Fiscal Policy or by the relevant Accounting Officers. As such, instances of increase in repayments from the revenue as well as the rectification of errors were observed in audit test checks as compared with the preceding year.
- (b) Providing Value Added Tax relief for Tsunami reconstruction and rehabilitation activities was one of the functions indicated in the Action Plan of the Department of the year under review and a sum of Rs.5,676,375 had been settled therefor in the year under review. Moreover, a contractor who had carried out constructions of the Saraswathie Vidyalaya at Kalmunai, Ampara, had been facilitated with the said Value Added Tax relief. Further, a copy of a tax invoice dated 12 November 2007 and copies of invoices dated 07 April 2014, which were directly sent to the Department under the Letterhead of "People in Need" had been sent as information in that connection. No information whatsoever except for the said information relating to these payments, had been made available to Audit.
- (c) The Department had maintained an un-updated Register on projects for providing Tsunami tax relief as shown by the Audit in the preceding year. However, payments were being made as usual with a view to taking a policy decision in respect of those payments. According to that Register, a sum of Rs.39,376,949 had been allocated for the said Project. However, the percentage of the work done of the Project had become zero even by 27 December 2016. Further, it had been informed that the monies to be recovered relating to the said tax will be recovered and debited to the Object 238-1-1-0-1405 and the relevant tax will be exempted and reports thereon will be sent to the Department. However, information on the receipt of that report had not been made available to Audit even by 18 October 2017.
- (d) According to provisions of the Value Added Tax Act, No.14 of 2002, reports relating to exemption of Value Added Tax should be furnished to the Minister of Finance once in 03 months. However, the audit had been informed that the exemption of Value Added Tax levied on assets for the Goods imported to this country, based on grants provided by projects which are implemented by the non-Government organizations had been discontinued from 24 October 2016 and that thereafter, the relevant reports had not been issued. Moreover, it had been further informed that only one report relating to the period from 01 June to 31 August 2016 had been issued finally by the Department and the value thereof amounted to Rs.126,132,194.

### 3.8 Uneconomic Transactions

Details on uneconomic transactions entered into, revealed during the audit test checks are given below.

Even though provisions had been made by the Department for the printing of Annual Reports of the Ministry of Finance, those Reports for the years 2015 and 2016 had been printed by the Ministry of Finance itself. According to the information presented to Audit and the Register prepared as a printing requirement, about 75 per cent of the printed Reports (Sinhala) had been planned to be printed for schools. Even though the number of copies in Sinhala, English and Tamil, received during June 2016 stood at 2,800, 1,300 and 1,150 respectively, out of those copies, 2,276, 635 and 794 copies had remained respectively without distributing. The Department had distributed a part of Annual Reports so remained relating to the years 2014 and 2015 by spending Rs.1,007,675 to schools and universities by post in the year 2016. The total cost of those reports amounted to Rs.5,645,386. Despite having the capability to view this report through the web site with modern technology, it was observed in audit that printing of Reports exceeding the requirement is uneconomic.

### 3.9 Human Resources Management

#### Approved Cadre and Actual Cadre

The position on the cadre as at 31 December 2016 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	20	14	06
(ii) Tertiary Level	03	02	01
(iii) Secondary Level	23	16	07
(iv) Primary Level	14	11	03
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<b>Total</b>	<b>60</b>	<b>43</b>	<b>17</b>
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The following observations are made.

- Four posts in the senior level had been vacant for many years and the Department had not taken action to review the requirement of those posts and to find a solution therefor. However, the Department had informed the Audit that these vacancies had not been filled due to inadequate space of the Office.
- Even though 03 posts such as the Senior Economist, Economist and Statistician had been vacant since the inception of the Department, those posts had been abolished through the review of the staff in the year 2016. However, an officer of the Department of Inland Revenue had been appointed to the post of Tax Consultant of the Ministry for a period of 02 years from 01 April 2014 and the service of that officer had been extended by 02 years, that is, up to 31 March 2018.
- Moreover, a post of Translator in the tertiary level as well had been vacant for many years and the Department had informed the Audit that there was no need of filling that vacancy.