

Head 243 - Report of the Auditor General on the Department of Development Finance Year 2017

The Appropriation Account and the Reconciliation Statement under Head and Item Number stated in the First Schedule and Third Schedule of the Appropriation Act, No. 24 of 2016 as amended by the Appropriation (Amendment) Act, No.32 of 2017 were presented to Audit by the Department of Development Finance. The financial and physical performance reflected by the said accounts and the reconciliation statements were audited in terms of Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Financial Management and Accountability

The Minister of Finance is charged with the raising of Revenue and the collection of other Government monies as well as with the general oversight of all the financial operations of Government in terms of Financial Regulation 124 of the Democratic Socialist Republic of Sri Lanka. The Chief Accounting Officers have been appointed by the Minister of Finance to discharge the above responsibility in terms of Financial Regulation 124(2). The Head of the Department will be the Accounting Officer in respect of all the financial transactions of his Department in terms of Financial Regulation 125(1)(a) and the Revenue Accounting Officer has been appointed by the Treasury. This responsibility includes designing, implementing and maintaining internal controls relevant to the maintenance, preparation and fair presentation of Accounts and Reconciliation Statements presented within the limitations imposed by Parliament 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, Government Financial Regulations and Administrative Regulations.

1.3 Scope of Audit

The audit of the Department of Development Finance – Head 243 for the year ended 31 December 2017 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka in respect of designing of financial and physical performance, Government expenditure, Government revenue, management of human and physical resources, apply of internal control systems, compliance with laws, rules and regulations and maintenance of books, registers, records and reconciliation statements in an updated manner, preparation and presentation of accounts in timely manner, issuance of performance reports to respective parties based on the performance indicators. The Management Audit Report for the year under review was issued to the Director General of the Department on 06 September 2018. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the plans, accounts, reconciliation statements and performance reports 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.

1.4 Audit Observation

The audit observations of the Department of Development Finance for the year ended 31 December 2017 revealed in audit, appear in the Management Audit Report in detail, mentioned in paragraph 1.3 above. The material and significant audit observations out of those observations appear from paragraph 2.1 to 2.8 of this report. It was observed that the accountability as the Accounting Officer had been satisfactorily executed, to ensure the adequacy of the financial administration subjected to the following summarized audit observations revealed in the execution of the provisions of the Financial Regulation 128 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

	Accountability of the Accounting Officer in terms of Financial Regulation 128(1)	Non-compliance with that Provision by the Accounting Officer	Reference to the Paragraph of the report which included the Observation
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Financial Regulations -----			
128(I)(a)	That the work of his department is planned and carried out with due dispatch, having regard to the policy laid down by the Government and the intentions of Parliament in granting him financial provision for the activities authorised and that an endeavour is made to complete the programme of work laid down for the year and/or to attain the targets specified ;	1. Non-preparation of budget estimates realistically. 2. Deficiencies in preparation of imprest estimates 3. Non-maintenance of registers and books	2.5 2.6 2.7
128(I)(d)	That an adequate system of internal check for receipts, payments and issues is maintained and tested from time to time;	Weaknesses in human resources management	2.8
128(I)(e)	That adequate and proper arrangements are made for the safe custody and preservation of money, stores, equipment and other assets belonging to the Government, or is in its custody, and that these are verified from time to time; and, where they are disposed of, such disposal is according to prescribed Regulations and instructions;	Deficiencies in assets management	2.2
128(I)(i)	That the activities of his department are undertaken with due regard to economy, efficiency, propriety and integrity expected in the transaction of public business;	Management weaknesses	2.4

2. Material and Significant Audit Observations

2.1 Performance

2.1.1 Failure in obtaining expected Output

According to the Annual Action Plan, provisions of Rs.4,686 million had been utilized for 09 projects under 37 functions. However, the performance indicators of those functions had not been mentioned and as such, it could not be examined whether the performance had been achieved as expected.

2.2 Assets Management

Non-Utilization of Assets owned by the Government with maximum Efficiency

Action had not been taken even up to now to make use of the granary of Embilipitiya of which constructions had been completed by spending a sum of Rs.253.8 million. The Director General had informed the Audit that steps were being taken to open this granary before 30 October 2018.

2.3 Commitments and Liabilities

In terms of Financial Regulation 94(i), commitments exceeding savings cannot be incurred. However, commitments of Rs.18,091 million had been incurred for an Object, exceeding savings.

2.4 Management Weaknesses

The following observations are made relating to the Scheme of Reimbursement of Interest Subsidy for Fixed Deposits of Senior Citizens.

- (a) Provisions of Rs.10,027.07 million had been made by Supplementary Assistance Services and Emergency Requirements Programme 240-02-02 (Supplementary Estimates) for reimbursement of interest subsidies for senior citizens. The Department of National Budget had cancelled a sum of Rs.8,000 million out of provisions so obtained, on non-receipt of imprests.
- (b) Out of provisions obtained through supplementary estimates, a sum of Rs.255.5 million had been saved as at 31 December 2017 without being utilized. However, steps had not been taken to use that saving to settle a part of the sum of Rs.19,618.65 million payable as at that date.

- (c) A sum of Rs.30,217.77 million remained accrued as at 31 December 2017 and only a sum of Rs.10,599.11 million including Rs.840 million set off against dividends payable to the General Treasury by the Bank of Ceylon had been settled by that date. It was an amount as less as 35 per cent of the total subsidies payable.
- (d) Out of the sum of Rs.19,618.65 million remained as at 31 December 2017, no amount whatsoever had been settled to the relevant banks even by 25 July 2018.
- (e) According to the above information, it is observed in Audit that if the amount of payments (settlements) existing at present continues in future as well, the payable interest amounting to Rs.19,618.65 million remaining from 31 December 2017 would increase even further in the year 2018 and become a heavy liability to the Government.

2.5 Utilization of Provisions made available by Parliament for Performance of Functions

Details on provisions made for the Department during a period of 05 years ended 31 December 2017, utilization and savings thereof and audit observations relating to the year under review appear below.

Year	Type of Expenditure	Net Provision	Utilization	Savings	Savings as a Percentage of Net Provisions
		Rs.Millions	Rs.Millions	Rs.Millions	
2013	Recurrent	408.02	337.41	70.62	17.3
	Capital	2,566.20	1,210.57	1,355.63	52.8
	Total	2,974.22	1,547.98	1,426.25	47.9
2014	Recurrent	575.89	463.36	112.53	19.5
	Capital	7,388.16	6,841.13	547.03	7.4
	Total	7,964.05	7,304.49	659.56	8.3
2015	Recurrent	3,608.66	3,586.08	22.57	0.6
	Capital	3,430.79	3,254.17	176.62	5.1
	Total	7,039.45	6,840.25	199.19	2.8
2016	Recurrent	7,256.70	6,869.85	386.85	5.3
	Capital	2,313.92	2,288.38	25.53	1.1
	Total	9,570.62	9,158.23	412.38	4.3
2017	Recurrent	5,608.08	4,770.95	837.13	14.9
	Capital	8,449.10	8,105.20	343.90	4.1
	Total	14,057.18	12,876.15	1,181.03	8.4

The following observations are made relating to the year under review.

(a) Preparation of Budget Estimate

Supplementary provisions of Rs.5,042 million had been made through the Supplementary Assistance Services and Emergency Requirements Programme 240-02-02 without specifically obtaining provisions for the Department by the Annual Budget 2017 for 05 Objects. The Director General had informed the Audit that the provisions required for these Objects had been made as supplementary estimates under 240-02-02 programme.

(b) Appropriation Account

(i) Non-utilization of Provisions

The entire net provision amounting to Rs.2 million made for 02 Objects had been saved, without being utilized for any purpose whatsoever.

(ii) Excess Provisions

Excess provisions totalling Rs.1,381.7 million had been made for 21 Objects and as such the savings, after the utilization of provisions totalling Rs.709.8 million ranged between 27 per cent and 100 per cent of the net provisions relating to the respective Objects.

2.6 Imprest Account

There was no balance in the Imprest Account under the Department by 31 December 2017.

According to the imprest estimate prepared by the Department for the year under review, details of imprests expected to obtain monthly, imprests applied monthly and imprests received are shown below.

Month	Imprest applied as planned	Imprest applied	Imprest received	Difference between imprest applied and imprest received
	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions
January	7,786.16	7,786.16	110.34	7,675.82
February	64.72	64.72	38.45	26.27
March	2,110.95	2,110.95	566.92	1,544.03
April	130.06	130.06	83.05	47.01
May	157.76	157.76	621.74	(463.98)

June	1,189.64	1,189.64	525.65	663.99
July	1,941.64	1,941.64	83.80	1,857.84
August	2,267.79	2,267.79	1,032.49	1,235.30
September	2,267.79	2,267.79	149.80	2,117.99
October	2,342.47	2,342.47	86.76	2,255.70
November	8,016.47	8,016.47	66.54	7,949.93
December	116.36	116.36	109.25	7.11
Total	28,391.81	28,391.81	3,474.79	24,917.01

The following observations are made in this connection.

- Even though the total imprest applied in the year under review amounted to Rs.28,392 million, the imprest received had been only Rs.3,475 million. Accordingly, the imprest received had been only 12 per cent of the applied imprest.
- Provisions had not been made by the budget for payment of interest subsidies for senior citizens for the year 2018 as well and provisions of Rs.19,000 million had been made under Supplementary Assistance Services and Emergency Requirements Programme 240-02-02. However, no interest subsidies whatsoever had been paid to the relevant banks even by 25 July 2018 due to non-receipt of imprests.
- The amounts of interest subsidies that should be reimbursed to state and Non-Government banks in this manner by 31 December 2017 and 26 April 2018, were as follows.

	As at 31 December 2017	As at 26 April 2018
	Rs.Millions	Rs.Millions
State banks	13,564.49	15,223.51
Non-Government banks	6,054.16	6,955.54
	19,618.65	22,179.05

2.7 Non-maintenance of Registers and Books

It was observed during audit test checks that the Ministry had not maintained the following registers while certain other registers had not been maintained in the proper and updated manner.

Type of Register	Relevant Regulation
Register on Motor Vehicles	Financial Regulation 1647
Register on Fixed Assets on Computers and Accessories and Software	Circular No. IAI/2002/02 dated 28 November 2002

2.8 Human Resources Management

Approved Cadre, Actual Cadre and Expenditure on Personal Emoluments

The position of the approved cadre, actual cadre and vacancies as at 31 December 2017 is as follows. The Department had spent a sum of Rs.26.12 million for the Category of Personal Emoluments for the year under review. As such, the annual per capita expenditure had been Rs.768,306.

	Category of Employees	Approved Cadre	Actual Cadre	Vacancies
(i)	Senior Level	17	13	04
(ii)	Tertiary Level	01	01	-
(iii)	Secondary Level	11	10	01
(iv)	Primary Level	12	10	02
		41	34	07
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The following observations are made in this connection.

(a) It was observed that attention had not been paid to find out whether the existence of 07 vacancies representing 17 per cent of the approved cadre could adversely affect the performance of the Department and to fill those vacancies and if there is no such affect, to revise the approved cadre. The Director General had informed the Audit that the Ministry had been made aware of all vacancies.

(b) **Training the Staff**

The number of officers who had not undergone any kind of training or at least a training of 08 hours during the year stood at 06.