

Head 238 - Report of the Auditor General on the Department of Fiscal Policy - 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 Fiscal Policy. The financial and physical performance reflected by that account and the reconciliation statement 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 Fiscal Policy – Head 238 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 23 August 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 Fiscal Policy 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 the said observations, appear from paragraphs 2.1 to 2.7 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(1)(a)	That the work of his department is planned and carried out with due despatch, 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. Failure in including details on Sustainable Development Goals in the Action Plan. 2. Non-performance of functions 3. Failure in preparing budget estimates in a realistic manner.	2.2.1 2.2.2 2.3
128(1)(b)	That the organization for financial control and accounting in his department is effective, and provides adequately for the correct ascertainment, where necessary, of dues to Government, the systematic, complete and prompt collection of dues, and bringing to account of monies received, the authorisation of commitments on behalf of the Government, the supervision and examination of services and supplies rendered, and the prompt and correct payment therefor from public	1. Deficiencies in preparation of imprets estimates 2. Deficiencies in management of human resources.	2.5 2.6

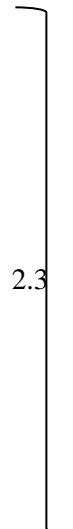
- funds;
- 128(1)(f) That such information, statements and returns as are called for by the Chief Accounting Officer or the Treasury, are rendered correctly and promptly; Failure in submitting the Annual Performance Reports on due date. 2.2.3

Accountability of the Accounting Officer in terms of Financial Regulation 128(2)

Financial Regulations

- 128(2)(a) Preparation of estimates of revenue relating to the Revenue Code completely, and as accurately as possible; Failure in collecting the expected revenue/failure in taking steps to revise the estimate of revenue in an increase or a decrease of revenue which can be collected.

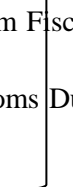
- 128(2)(e) That special arrangements are made for the expeditious collection of outstanding arrears of Revenue in consultation with the Accounting Officers and departments concerned in collection; Failure in summoning information on arrears of revenue from institutions by collecting revenue relating to the revenue code/Even though information had been summoned, those institutions had not submitted information thereon.



2. Material and Significant Audit Observations

2.1 Key Functions of the Department

- (i) Formulation and implementation of Fiscal Policy and Medium Term Fiscal Strategy by coordinating public, private and international agencies.
- (ii) Formulation of Tax Policy and related statutes other than the Customs Duty and the Special Commodity Levy.
- (iii) Management and review of Fiscal Out-turn and Fiscal Performance including government revenue and receipts.
- (iv) Implementation of requirements under Fiscal Management Responsibility Act including all Reporting



2.2 Performance

2.2.1 Planning

Sustainable development targets should be implemented in terms of the Sri Lanka Sustainable Development Act, No.19 of 2017 named by Parliament and circulars issued by the Government, in compliance with the 2030 “Agenda” of the United Nations for Sustainable Development. The Department had not paid attention to identify the sustainable development goals and indices and to prepare and implement the Action Plan of the year so as to reach those goals. However, it was not observed according to documents of the year 2018 that even such identification whatsoever had been carried out.

2.2.2 Non-performance of Functions

The following observations are made.

- (a) Management and review of Fiscal Out-turn and Fiscal Performance including government revenue and receipts is one of the key functions of the Department. The following observations are made in respect of the progress of the performance of the said function.
 - (i) It had been emphasized by the Circular No.01/2015 (v) of 30 December 2016 of the Department that the responsibility on revenue which cannot be specifically assigned to a Ministry or Department, should be held by the Heads of the revenue collecting Ministry/Department and Agency. However, it was observed at the physical verification carried out that a direct responsibility on revenue is not held by the Revenue Accounting Officer or Heads of the revenue collecting Department in terms of those circulars. Moreover, it was not observed that a direct monitoring had been carried out by the Department of Fiscal Policy.
 - (ii) An instance in which the Department of Fiscal Policy had not taken future steps or given instructions in requesting new revenue code by other Departments, was observed during the course of audit test checks.
 - (iii) An instance of retaining revenue of Rs.3.04 million in a bank account, which was received but not accounted in the Revenue Account by 31 December 2017, was observed during the course of audit test checks.
 - (iv) Even though the reporting of revenue should be carried out on cash basis, revenue totalling Rs.697,600 received in the year 2017 from 04 revenue units of the Department of Export Agriculture, had been brought to account as revenue in the year 2018 instead of accounting.
 - (v) In terms of Financial Regulations 570 and 571, unclaimed deposits should be credited to Revenue considering as lapsed deposits. However, 04 deposits valued at Rs.3.98 million had not been credited to the Revenue.

- (vi) It was revealed in audit test checks that fees for issuance of licences carried out under the Animal Feed Act, had not been reviewed relating to the year under review and the period of non-reviewing those fees ranged from 4 years to 11 years.
 - (vii) The revenue of Rs.1.20 million received had been retained in the Deposit Account instead of crediting to the Revenue Account without proper approval for incurring expenditure relating thereto.
- (b) In the estimation of revenue, the Department had not estimated the revenue based on proper reviews and analysis and as such, the following deficiencies were observed.
- (i) Favourable variances ranging from 11 per cent to 380 per cent and unfavourable variances from 11 per cent to 100 per cent were observed between the original estimate of revenue of the year under review and the actual revenue collected during the year.
 - (ii) Favourable variances ranging from 01 per cent to 100 per cent and unfavourable variances from 01 per cent to 99 per cent were observed between the revised estimate of revenue of the year under review and the actual revenue collected during the year.
 - (iii) Even though revenue of Rs.117.05 million and Rs.101.91 million had been collected in the preceding year and in the year under review respectively, instances of failure in preparing an original estimate or revised estimate, were observed.
 - (iv) Even though revenue had been collected during the year by preparing original estimates relating to 06 revenue codes, unfavourable variances of 87 per cent were observed between the original estimate of revenue and the actual revenue. However, it had not been considered in the preparation of revised estimates of revenue.
 - (v) Guidelines /instructions including detailed information on revenue to be accounted under each revenue code had not been issued by the Department of Fiscal Policy or the relevant Revenue Accounting Officers. As such, it was observed at the audit test checks that there were 09 instances of increasing repayments made from revenue as well as rectifications of errors than the preceding year.
 - (vi) Three instances of collecting revenue without a budget estimate or revised estimate were observed in the year under review at the audit test checks.
 - (vii) Despite having an original budget estimate, 04 instances of failure in collecting revenue were observed at the audit test checks.
 - (viii) Even though the arrears of revenue valued at Rs.550.12 million had remained in a revenue code under the lease revenue over a period of many

years, it was not observed in audit that the Revenue Accounting Officer or the Department of Fiscal Policy had taken future steps for the recovery of those moneys.

- (c) Savings out of net provisions of Rs.24.14 million made for settling Value Added Tax of the year under review, amounted to Rs.23.74 million representing 98 per cent. Moreover, it was observed that the Department had maintained a non-updated register on projects for settling these taxes.
- (d) Execution of the Fiscal Management (Responsibility) Act, No.03 of 2003 including all reporting is one of the key functions of the Department and the following matters were observed in that connection.
- (i) According to the File, out of 4000 copies of the Annual Report, 885 copies representing 22 per cent had remained by 16 August 2018. The cost thereof amounted to Rs.1,280,612.
- (ii) In terms of Section 10 of the Act, a Mid-Year Fiscal Position Report should be published by the last day of the month of June of the relevant year or the lapse of six months from the date of 09 December 2017 of the passing of the Appropriation Act, that is on 09 June, whichever is later. However, the relevant report had not been published up to now.

2.2.3 Annual Performance Report

In terms of the Public Finance Circular No.402 of 12 September 2002, the Performance Report for the year under review should be tabled in Parliament by the Department within 150 days after closure of the financial year. However, that Report had not been tabled in Parliament even by 05 September 2018.

2.3 Utilization of Provisions made available by Parliament for the Performance of Functions

Information on entire net provisions made for the Department during the period of 05 years ended 31 December 2017, utilization and savings thereof and audit observations thereon are given below.

Year	Type of Expenditure	Net Provision Rs.Millions	Utilization Rs.Millions	Savings Rs.Millions	Savings as a Percentage of the Net Provision
2013	Recurrent	97.4	68.4	29.1	30
	Capital	2.1	1.9	0.2	12
	Total	99.5	70.3	29.3	29
2014	Recurrent	74.77	74.73	0.04	0.05
	Capital	1.12	1.0	0.12	10.37

	Total	75.79	75.73	0.05	0.08
2015	Recurrent	75.9	70.4	5.4	7
	Capital	2.5	2.2	0.3	11
	Total	78.4	72.6	5.7	
2016	Recurrent	74.8	52	22.8	30
	Capital	2.6	1.1	1.5	56
	Total	77.4	53.1	24.3	31
2017	Recurrent	3,730.6	51.7	3,678.9	99
	Capital	3.6	0.4	3.2	89
	Total	3,734.2	52.1	3,682.1	98.60

The following observations are made in respect of the Appropriation Account.

- (a) The expenditure out of entire net provision of Rs.3,734.19 million made for the Department relating to the year under review amounted only to Rs.52.05 million. Accordingly, savings out of the net provision amounted to Rs.3,682.13 million representing 99 per cent. Even though a sum of Rs.3,635 million had been allocated under the Object of the Department for the payment of US\$ 55 million which was agreed to pay by the Government during the years 2017, 2018 and 2019 relating to settling of issues of the Prima Lanka (Pvt) Ltd, at the International Arbitration held in Singapore in the years 2006/2007, payments had not been made therefor up to now and this had been attributed to the said matter.
- (b) Additional provisions totalling Rs.7.36 million or 245 per cent of the annual provision had been obtained under 02 methods such as supplementary estimate and Financial Regulation 66 – Transfers for an Object of which the annual provision amounts to Rs.3 million during the year 2017.
- (c) Decreases totalling Rs.2.63 million or from 03 per cent to 09 per cent of the annual provisions under Financial Regulations 66-69 of 02 recurrent sub-Objects of which the annual provisions totalled Rs.44.5 million and additions of 35 per cent to provisions of another Object of which the annual provision amounted to Rs.1.2 million.
- (d) Even though provisions had not been allocated through budget estimates for one Object, provisions of Rs.1.35 million had been transferred under the Financial Regulation 66.
- (e) Savings out of net provisions totalling Rs.3,676.91 million made for 11 recurrent objects and Rs.3.21 million made for 03 capital Objects, totalled Rs.3.69 million and represented from 13 per cent to 100 per cent of the net provision.

2.4 Estimated and Actual Revenue

The Department had not prepared revenue estimates for one revenue code for the year 2017, whilst a revenue estimate of Rs.5,000 million had been prepared for other revenue code. Revenue of Rs.3.03 million had been collected for the code for which revenue estimates had not been prepared and revenue had not been collected for other revenue code. Details appear below.

	Revenue Code	As at 31 December 2017			
		Estimated Revenue	Actual Revenue	Excess/(Deficit)	
		Rs. Millions	Rs. Millions	Rs. Millions	
The	10.02.10.00	-	3.03	3.03	
	20.05.01.00	5,000	-	(5,000)	following observations

are made during the course of the test audit of those Revenue Codes.

(a) Revenue Code 10.02.10.00 - Social Responsibility Levy

The following observations are made.

- (i) The annual revenue estimates had not been prepared relating to this revenue code. However, according to the computer printout of the Treasury, the actual revenue as Rs.1.9 million and Rs.9 million had been earned in the year under review and the preceding year respectively.
- (ii) Even though the total net revenue collected amounted to Rs.1.9 million according to the computer printouts and Form DGSA Revenue 1 of the Account, the total revenue collected in accordance with the arrears recorded in the year in the Form DGSA Revenue 11 had been Rs.1.9 million, thus indicating a difference of Rs.59,721. Out of that, a sum of Rs.58,654 had been credited to the Revenue Tax Code - 10.04.01.01.
- (iii) A detailed schedule on the balance of arrears of revenue amounting to Rs.72.32 million recoverable as at 31 December 2017 from the Department of Customs had not been made available.
- (iv) According to the Financial Regulation 128(2)(e), a Revenue Accounting Officer is responsible for taking adequate steps to ensure that special arrangements are made for the expeditious collection of outstanding arrears of Revenue in consultation with the Accounting Officers and departments concerned in collection. However, it was not observed in audit that timely and expeditious steps had not been taken to recover arrears of revenue relating to this revenue code.

(b) Revenue Code 20.05.01.00- Central Bank Profits

The following observations are made.

- (i) Even though the original estimate valued at Rs.5,000 million for the year under review had been maintained without being revised under this Revenue Code, no revenue whatsoever had been collected during the year. Even though it had been indicated that a sum of Rs.14,227.10 million should be credited to the Consolidated Fund after distributing the after tax net profit of Rs.48,356.37 million for the year 2017 of the Central Bank, no money whatsoever out of that, had been collected to this account as revenue.
- (ii) The after tax net profit of the Central Bank for the year 2016 amounted to Rs.22,179.52 million. Moreover, in terms of Section 39 of Part (VI) of the Monetary Law Act, No.58 of 1949, out of Rs.6,378.27 million which was decided to be credited to the Consolidated Fund after distributing profits, only Rs.5,000 million had been credited . As such, a sum of Rs.1,378.27 million had not been credited to the Consolidated Fund.

2.5 Imprest Account

According to the Imprests Estimate prepared by the Department for the year under review, details on imprests expected to be obtained monthly, imprests applied monthly and imprests received are given below.

Month	Imprests to be applied as planned	Imprests applied	Imprests received	Difference between the imprests applied and the imprests planned	Difference between the imprests applied and the imprests received
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	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions
January	5.0	4.3	4.7	-0.7	0.4
February	4.8	5.5	3.5	0.7	-2.0
March	3677.5	9.1	7.2	-3668.4	-1.9
April	4.1	8.3	7.6	4.2	-0.7
May	8.1	4.0	1.5	-4.1	-2.5
June	4.0	3.7	3.4	-0.3	-0.3
July	4.0	5.5	5.1	1.5	-0.4
August	3.9	4.2	3.0	0.3	-1.2
September	4.0	4.9	3.6	0.9	-1.3
October	3.9	4.9	3.8	1.0	-1.1
November	4.0	4.9	3.9	0.9	-1.0
December	8.3	6.9	3.8	-1.4	-1.1
Total	3731.6	66.2	51.1	-3665.4	-13.1

The following observations are made in this connection.

- (a) Imprests of Rs.200,000 received to the Department on 19 December 2017 for incurring capital expenditure, had been returned to the Deputy Secretary to the Treasury on 29 December 2017 without being used for any purpose. Further, details thereon had not been included even in the Imprests Account of December included in the CIGAS Programme.
- (b) According to the Letter No.TO/BE1/2/IMP/329/2017 of 09 January 2017 of the Department of Treasury Operations sent to the Department under the topic of Determining the Limit of Imprests, it had been informed that action should be taken to review the monthly limit of imprests once in a quarter and to determine the imprests limits by reporting actual information. However, it was observed that the Department had not taken action accordingly.

2.6 Human Resources Management

2.6.1 Approved Cadre, Actual Cadre and Expenditure on Personal Emoluments

The position on the approved cadre, actual cadre and vacancies as at 31 December 2017 for the performance of the functions mentioned in paragraph 2.1 above, appear below. A sum of Rs.30.05 million had been spent by the Department for the category of personal emoluments for the year under review. Accordingly, the per capita expenditure had been Rs.601,017.

	Category of Employees	Approved Cadre	Actual Cadre	Vacancies
(i)	Senior Level	20	14	06
(ii)	Tertiary Level	03	02	01
(iii)	Secondary Level	23	20	03
(iv)	Primary Level	14	14	-
	Total	60	50	10

The following observations are made in this connection.

- (a) The post of Additional Director General and two posts of Deputy Director/Assistant Director (SLAS) in the Senior Level had been vacant over a period of many years and the reasons therefor had not been revealed in audit. If these posts are not required, a review of the staff should be carried out. However, attention had not been paid even in the final review of the staff carried out in the year 2016.
- (b) Even though the posts such as the Senior Economist, Economist and Statistician existed since the inception of the Department, had been abolished through the review of the staff in the year

2016, four officers of the Department of Inland Revenue and the Central Bank had been deployed in the service.

- (c) As mentioned above, two officers of the Department of Inland Revenue had been attached to 02 posts of Deputy Director/Assistant Director (SLAS) and their service period was being extended by letters from time to time since the year 2014 and those officers had been released from the service in the year 2018. However, it had been informed by the reply No.MF1/1/03 of 29 March 2018 sent for the final letter submitted requesting extension of service by those officers of the Ministry of Finance and Mass Media that further requests for extension of service should not be made and an arrangement should be made therefor in the Department itself.
- (d) The service period of the officer attached to the post of Tax Consultant of the Department from 01 April 2014 on the approval of the Cabinet of Ministers had been extended continuously up to 30 September 2018 as per Decisions of the Cabinet of Ministers.