

Head 240 - Report of the Auditor General on the Department of National Budget – Year 2017

The Appropriation Account, Revenue Account, Reconciliation Statement, and the Revenue Account for the Revenue Code included in Table 3.1.2 of the Department of National Budget relating to Head and Item 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 National Budget. The financial and physical performance reflected by those accounts and 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 National Budget – Head 240 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 02 October 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 National Budget 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 audit observations included in the Management Audit Report appear in paragraph 2.1 to 2.10 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.

General responsibilities of the Accounting Officers in terms of Financial Regulation 128	Non-compliance of the Accounting Officer to the Provision	Reference to the Paragraph of the report Containing Observations
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Financial Regulations

128 (1) (a)	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 attain the targets specified.	Deficiencies in the execution of functions.	2.1.1
128 (1) (b)	The organisation 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 authorization of commitments, on behalf of the Government, the supervision and examination of services and supplies rendered,	<ol style="list-style-type: none"> 1. Management weaknesses. 2. Overprovisioning 	<p>2.4</p> <p>2.5</p>

and the prompt and correct payment therefor from public funds.

128 (1) (c)	The Financial Regulations and other supplementary instructions of the Government are adhered to in his department, and that they are supplemented by departmental instructions where necessary.	1. Failure to review the imprest limits quarterly. 2. Failure to settle the balance in the Imprest Account.	2.8 (a) 2.8 (b)
128 (1) (e)	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 (1) (h)	Special arrangements are made to recover outstanding dues and that the officers assigned that task report to him at least once a quarter or as otherwise directed regarding arrears and action pursued to expedite their recovery.	Failure to recover the outstanding loan balances of the Government officers.	2.7
128 (1) (j)	Any expenditure or commitment incurred, falls within the scope and limits of his Votes or other authorized financial provision, and is covered by adequate authority.	Incurring commitments in excess of the provision.	2.3

Financial Regulation 128 (2) - Duties and responsibilities of Revenue Accounting Officers.

128 (2) (d)	Returns are obtained from other departments and offices in which any portions of the Revenue for which he is responsible are collected, and are incorporated in the Estimates of Revenue, the Revenue Accounts and the Returns prepared by him in terms of (a), (b), and (c) above respectively.	Deficiencies in the Revenue Account.	2.6
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2. Material and Significant Audit Observations

2.1 Performance

2.1.1 Failure to Discharge Functions

According to the annual Action Plan, the Department should have discharged 04 main functions. The following deficiencies were observed with the annual Performance Report when discharging the said functions.

- a) It was a main function of the Department to supervise the financial and physical performance pertaining to development projects and budget proposals of the Ministries, Departments and Statutory Boards. The following deficiencies were observed when discharging those functions.
 - (i.) Provision amounting to Rs. 253,325 million and Rs. 139,905 million had been made in the annual budget for the implementation of 114 and 153 projects in the years 2016 and 2017 respectively. Thirty four and 63 projects could not be implemented in the years 2016 and 2017 respectively with the said provision. In the wake of non-implementation of projects, sums of Rs. 27,890 million and Rs. 51,575 million had respectively been saved out of the provision made.
 - (ii.) Provision amounting to Rs. 35,325 million had been made in the year 2017 for 27 projects. Due to failure in successfully implementing those projects during the year under review, the utilization of provision made remained under 10 per cent with only a sum of Rs. 1,692 million spent. Furthermore, only Rs. 1,320 million had been spent out of the provision made as another 11 projects had not been implemented successfully. As such, of the provision made for 11 projects, the saving ranged between 10 per cent – 25 per cent.

(iii.) According to the annual budget approved for the year under review, 153 budget proposals had been presented with respect to 38 sectors, and provision totalling Rs. 139,905 million had been made thereon. The following observations are made in that connection.

- Three budget proposals had been presented with respect to 03 sectors : facilitation of business opportunities in Sri Lanka, digitalization of economy, and State Owned Enterprises (SOE), thus making provision totalling Rs. 15,150.00 million. But, only a sum of Rs. 1,363.81 million had been utilized therefrom due to failure in implementing those projects as expected. Accordingly, Rs. 13,786.19 million had been saved from the provision, thus indicating 39 per cent, 91 per cent, and 96 per cent of the provision made.
- Provision amounting to Rs. 139,905 million had been made with respect to 153 budget proposals presented for the year 2017, and the Department had been entrusted to supervise 107 proposals therefrom. The financial progress of 79 budget proposals under supervision of the Department had remained under 50 per cent of the provision made.
- Of the provision made for the implementation of budget proposals, only a sum of Rs. 30,630 million had been utilized by the end of the year under review. That indicated 78.11 per cent of the total provision.
- Provision totalling Rs. 15,700 million had been made with respect to 16 budget proposals presented for 09 sectors though, the budget proposals expected therefrom had not been implemented, thus saving the entire provision.

b) As for the provision made under Supplementary Support Services and Contingent Liabilities Project of the development programme for the year 2017, provision amounting to Rs. 192,978.7 million and Rs. 292,267.5 million on recurrent expenditure and capital expenditure had respectively been transferred to other Heads of Expenditure through 1342 letters which had authorized the allocation of provision. A report containing information relating to the transfer of provision in that manner, should have been tabled in Parliament within a period of 02 months from the date of transfer in terms of Section 6 (1) of the Appropriation Act, No. 24 of 2016. The following observations were made in the examination of file containing such information that had been made available to audit.

(i.) In terms of Section 6 (1) of the Appropriation Act, the Parliament should have been informed within a period of 02 months from the date of transferring provision. Nevertheless, such information had been furnished to the Parliament by exceeding that period in 02 instances.

- (ii.) A difference of Rs. 201,566.51 million had existed between the total value pertaining to the transfer of recurrent and capital provision presented to the Parliament, and the value of provision transferred to other Heads under the development programme of the Appropriation Account.

2.2 Assets Management

Damages valued at Rs. 128,489 had been caused in the wake of accidents involving 03 vehicles of the Department. Despite being stated that the Department had taken measures to recover those damages from the relevant parties in terms of Financial Regulation 104, the damages had not been recovered even up to the end of the year under review.

2.3 Commitments and Liabilities

The following observations are made in this connection.

- a) Having exceeded the saving after utilization of the provision amounting to Rs. 4,944 million made for 08 Objects, by a sum of Rs. 153 million, commitments totalling Rs. 777 million had been incurred contrary to Section 02 (a) of the Public Accounts Circular, No. 255/2017, dated 27 April 2017.

- b) There had been a difference of Rs. 1,197.79 million between the capitalized value relating to the financial lease agreement entered into with the Bank of Ceylon for vehicles & motorbikes, and the balances shown in the letter confirming the loan balances obtained from the bank.

2.4 Management Weaknesses

The computer software used for preparing budget estimates had been purchased by the Department from a private institution in the year 2011. That institution had been paid a sum totalling Rs. 7.66 million by the Department for updating the software for the period starting from the date of entering into the agreement up to 31 October 2018. According to the report of the Information Communication Technology Officer, dated 02 November 2017, the relevant institution had been requested by the Department in the year 2016 to debug the software for eliminating some of the faults. It was stated in the report that the Department had requested to eliminate bugs in the software before preparing the budget estimates for the year 2018. However, evidence confirming that those bugs had been eliminated by 31 October 2018, was not made available to Audit. Despite being informed by the Department that, once the Integrated Treasury Management Information System (ITMIS) became functional, the budget would be prepared therewith. However, the ITMIS project was still undergoing trials even by 31 October 2018.

2.5 Utilization of the Provision Made by Parliament for Discharging the Functions

Information relating to the saving and utilization of total net provision made for the Department during the period of 05 years ended as at 31 December 2017, is given below.

Year	Type of Expenditure	Net Provision	Utilization	Savings	Savings as a Percentage of Net Provisions
		Rs. Millions	Rs, Millions	Rs, Millions	
2013	Recurrent	38,607.79	37,771.78	836.01	2.17
	Capital	38,601.17	37,865.69	735.48	1.91
	Total	77,208.96	75,637.47	1,571.49	2.04
2014	Recurrent	9,353.76	9,092.22	261.54	2.80
	Capital	22,008.34	21,765.82	242.52	1.10
	Total	31,362.10	30,858.04	504.06	1.61
2015	Recurrent	71,994.26	65,790.45	6,203.81	8.62
	Capital	144,569.37	142,407.66	2,161.71	1.50
	Total	216,563.63	208,198.11	8,365.52	3.86
2016	Recurrent	47,391.20	47,328.56	62.64	0.13
	Capital	584,716.10	252,349.74	332,366.36	56.84
	Total	632,107.30	299,678.30	332,429.00	52.59
2017	Recurrent	195,435.54	194,521.81	913.73	0.47
	Capital	299,383.35	296,539.46	2,843.89	0.95
	Total	494,818.89	491,061.27	3757.62	0.76

The following observation is made on the utilization of provision made for the year under review.

Overprovisioning

As an overprovision of Rs. 6,519 million had been made for 03 Objects, the saving after utilization ranged between 13 per cent and 83 per cent of the net provision made.

2.6 Revenue Account

The Department had been entrusted with the preparation of revenue estimates, collection of revenue, accounting, and presentation of accounts under the Revenue Code 20.03.04.00 for the year 2017. The following deficiencies were observed in the audit test check carried out on the said Revenue Code.

- (i.) Revenue estimates for the year under review had not been prepared relating to the Revenue Account. A net revenue of Rs. 55.80 million had been collected in the year under review under the Revenue Code.

- (ii.) According to the Letter, No. BD/1/1/II /1/ (ce) 1/2017 of the Director General of National Budget, dated 04 August 2017, revenue totalling Rs. 3,116.91 million had erroneously been brought to accounts under a different Revenue Code by 14 District Secretariats and Divisional Secretariats. Evidence to the effect that the said error had been rectified, was not made available to Audit.
- (iii.) In order to eliminate the monies paid by the resigning officers who had obtained motorbikes under duty concessions, from the register of financial lease, the information relating thereto should have been submitted to the financial institution and the Department of Motor Traffic. The monies so recovered during the period 2015 – 2018, had been retained in a deposit account. The lease rents and interest relating to those motorbikes, had been paid from the Government Fund.
- (iv.) A sum of Rs. 283,420 recovered when the officers who had obtained motorbikes under duty concessions, had been transferred to a post not entitled to motorbikes, resigned, interdicted, or retired prematurely, had been submitted to the Director General of National Budget through cheques. It was observed in audit test check that the said revenue had not been credited to this Revenue Code but a different Revenue Code.
- (v.) According to the paragraph 03 of the Letter, No. BD/GPS/130/9/14/Municipal Council/1 of the Director General of National Budget, dated 13 November 2014, a sum of Rs. 100,000 had remained payable in respect of a motorbike obtained by an officer whose remaining period of service had been less than one year as at 30 June 2014. As had been revealed in audit test checks, despite the remaining period of service for an officer of the Divisional Secretariat, Thissamaharama had been less than one year as at 30 June 2014 until the date of retirement, only a sum of Rs. 50,000 had been recovered from that officer. As such, the sum further recoverable, had not been recovered even up to the end of the year under review.
- (vi.) According to the Letter, No. PL/7/8/4-III, dated 24 March 2017, that had been submitted to the Inspector General of Police by the Secretary to the Ministry of Provincial Councils and Local Government, 2,555 motorbikes had been granted to public representatives. Installments totalling Rs. 28.50 million had remained in arrears from 570 public representatives by the end of the year under review.
- (vii.) According to the information made available to Audit, the relevant officers and the public representatives had been provided with 142,851 motorbikes. Those who had obtained the motorbikes should have paid an initial amount of Rs. 6,784.33 million. However, when the total receipts of Rs. 6,604.84 million had been compared with the net revenue totalling Rs. 6,584.82 million as per the revenue account furnished with respect to the period 2014 – 2017, and the revenue of Rs. 20.02 million received in the year 2018, a difference of Rs. 179.49 million was revealed.
- (viii.) In the events of a field officer being transferred to a post not entitled to a motorbike, resignation, suspension of service, and premature retirement, the market value of the motorbike should be recovered and remitted to the Department of National Budget through a cheque in accordance with the Letter, No. BD/GPS/130/9/14/MC-II of the

Director General of National Budget, dated 07 July 2015. However, it was revealed in the audit test check conducted on such events, that the monies so recovered had not been remitted to the Department of National Budget even up to the end of the year under review; instead, a total of Rs. 2.19 million had been retained in the General Deposits Accounts pertaining to those offices.

- (ix.) In the event of an officer who had obtained a motorbike, intending to proceed abroad prior to 05 years with no-pay leave, or for a period of over 06 months with full-pay leave, the relevant officer should pay the market value of the motorbike to the Department of National Budget in terms of paragraph 03 of the Letter, No. BD/GPS/130/9/14 /MC-8 of the Director General of National Budget, dated 03 July 2017. However, a sum of Rs. 1.73 million remained unsettled as 04 District Secretariats had failed to comply therewith.
- (x.) In the event that a period of 05 years has not been completed from the date of obtaining the motorbike or scooter at the time of an officer who obtained a motorbike or a scooter is transferred to a post not entitled to a motorbike, or resigned, action should be taken to recover the market value of the motorbike from the relevant officer in terms of Letter, No. BD/GPS/130/9/14/MC-II of the Director General of National Budget, dated 07 July 2015. It was observed in audit test checks that a sum totalling Rs. 26.68 million remained recoverable in such a manner by 09 offices.
- (xi.) In case of the demise of an officer who had obtained a motorbike or scooter, approval was granted in terms of Letter, No. BD/GPS/130/9/14 /MC-8 of the Director General of National Budget, dated 03 July 2017, to hand over the ownership of the motorbike to the spouse, or the parents or the closest relative of the officer when he was unmarried. However, instances of failure in handing over the ownership of the vehicle to the spouse or the closest relative of the deceased officer even up to the end of the year under review, were revealed in the audit test checks.
- (xii.) In terms of Letter, No. BD/GPS/130/9/14 /MC/1 of the Director General of National Budget, dated 13 November 2014, the field officer should maintain the documents such as, the certified application, copy of payment receipt, and the copy of registration certificate of the motorbike, until the completion of payments. However, several institutions failing to do so, were revealed in the audit test checks.
- (xiii.) As the field officers who had obtained motorbikes, were transferred out or transferred in, a methodology was not in place to inform the Heads of institutions as to whether those officers had obtained motorbikes. In the events of an officer who had obtained a motorbike, being attached to a post not involving field visits after being transferred, resignation, and premature retirement, instances were observed in audit test checks wherein no action had been taken with respect to the motorbike.
- (xiv.) It was stated in paragraph 03 of the Letter, No. BD/GPS/130/9/14 /MC- II , dated 07 July 2015 that the said motorbikes should be fully insured under the National Insurance Trust Fund or National Insurance Corporation of Sri Lanka. However, the Department had not implemented a methodology providing information to confirm that those provisions had been adhered to.

- (xv.) A sewing instructor who had not belonged to the category of field officers, had been provided with a motorbike under duty concessions without being approved properly.
- (xvi.) Instances were observed in which the motorbikes used for field visits had not been returned to the office (stores) when the officers who had obtained motorbikes under that programme, had been transferred to posts not entitled to motorbikes.
- (xvii.) Due to reasons such as the issue of instruction letters from time to time by the Department of National Budget (without being issued at once), and non-availability of prior instructions at the time of implementing that programme, instances were observed in audit that the officers carrying out instructions had faced problems.
- (xviii.) Although the Department of Motor Traffic does not issue driving licenses for motorbikes to the Buddhist monks, Ministry of Southern Provincial Council and Local Authority, had granted motorbikes to the Buddhist monks under the said programme.
- (xix.) Instances of failures of the responsible officers in issuing motorbikes/scooters under the said programme to each field officer by adhering to a formal procedure, were observed.
- (xx.) According to Section 02 of the National Budget Circular, No. 02/2014, dated 23 July 2014, and the Letter, No. BD/GPS/130/9/14/MC, dated 23 July 2014, sums of Rs. 100,000, and Rs. 90,000 should have been recovered for a motorbike and a scooter respectively if the period of service from the date of 30 June 2014 is less than one year. However, the tenure of majority of the Local Authorities in the Southern Province, had ended as at 15 May 2015 whilst the tenure of several Local Authorities had ended as at 30 June 2016. Hence, the said condition had not been adhered to.

2.7 Advances to Public Officers Account

Limits Authorized by Parliament

The actuals, and limits authorized by Parliament for the Advances to Public Officers Account under Item No. 24001 relating to the Department, are as follows.

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
10.00	9.99	5.00	5.43	33.00	25.81

The following observation is made in this connection.

Failure to Recover the Loan Balances in Arrears

According to the reconciliation statement made available to Audit, the total of the balances in arrears amounted to Rs. 613,321 as at that date excluding the loan balances of the officers transferred out. Even though those loan balances had continued to exist over periods ranging from 02-17 years, the follow-up action relating to the recovery of such balances remained weak.

2.8 Imprest Account

The following observations are made in this connection.

- a) According to the Letter, No. TO/BE1/2/IMP/240/2017 of the Department of Treasury Operations relating to the imprests for the year 2017, dated 09 January 2017, it had been informed that the monthly limit of imprests should be reviewed quarterly, and accurate information should be reported, thus taking action to determine the limits on imprests. However, the Department had not done so.
- b) The balance of Rs. 83,325 continued to exist in the Imprest Account over a period of 09 years, had not been settled even by the end of the year under review. The said balance had arisen as the advance for a foreign trip given to an officer in the year 2008, had not been settled by the relevant officer. However, no action had been taken to recover that sum from the officer.

2.9 Human Resource Management

Approved Cadre, Actual Cadre, and Expenditure on Personnel Emoluments

Information relating to the approved cadre, actual cadre, and vacant positions as at 31 December 2017, is given below. A sum of Rs. 91.96 million had been spent by the Department on personnel emoluments for the year under review. As such, the expenditure per person amounted to Rs. 686,273.

Category of Employee	Approved Cadre	Actual Cadre	No. of Vacancies
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(i.) Senior Level	40	30	10
(ii.) Tertiary Level	04	03	01
(iii.) Secondary Level	75	64	11
(iv.) Primary Level	42	37	05
Total	<u>161</u>	<u>134</u>	<u>27</u>