

Head 240 – Department of National Budget

1. Financial Statements

1.1 Qualified Audit Opinion

The audit of the financial statement of the Department of National Budget for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018, the statement of financial performance and cash flow statement for the year then ended, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018. The summary report including my comments and observations on the financial statements of the Department of National Budget was issued to the Accounting Officer on 31 May 2019 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 of 2018. The Detailed Annual Management Audit Report relating to the Department in terms of Section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Accounting Officer on 31 May 2019. This report will be tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Department of National Budget as at 31 December 2018, and of its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities of the Financial Statements, are further described in the Auditor's Responsibilities section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Chief Accounting Officer and Accounting Officer for the Financial Statements

Chief Accounting Officer and Accounting Officer are responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for such internal control is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Department is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

As per Sub-section 38 (1) (c) of the National Audit Act, the Chief Accounting Officer and Accounting Officer shall ensure that effective internal control system for the financial control of the Department exists and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor General's summary report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also,

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.
- Evaluate the structure and content of the financial statements containing the disclosures and the transactions and events that underlie the financial statements in an appropriate and reasonable manner.
- That the transactions and events underlying the structure and content of the financial statements are appropriately and fairly presented when submitting financial statements as a whole.

I communicate with the Accounting Officer regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5. Report on Other Legal Requirements

I express the following matters in accordance with Section 6 (d) and Section 38 of National Audit Act, No. 19 of 2018.

- (a) Since there was no need for the preparation of financial statements for the preceding year, it could not be stated that the financial statements presented for the year under review were consistent with the preceding year.
- (b) Since there was no requirement for the Department of National Budget to prepare financial statements for the preceding year, recommendations on the financial statements had not been made.

1.6 Comments on Financial Statements

1.6.1 Non-compliance of Financial Statements with Circulars Provisions

Although the financial statements were to be prepared in accordance with the Public Accounts Circular No. 267/2018 dated 21 November 2018, an instance of deviation from those requirements is shown below.

Audit observation	Recommendation	Comments of the Accounting Officer
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Although a passenger vehicle valued at Rs.3,500,000 handed over by the Department of External Resources had included in the Fixed Assets Register, had not been shown in the financial statements.	Action should be taken to prepare financial statements as per the fixed asset register.	Not agreed. It also included the value of two vehicles temporary taken over by this Department.

16.2 Accounting Deficiencies

(a) Unreconciled

The following observations are made.

Audit observation	Recommendation	Comments of the Accounting Officer
There was a difference of Rs.13.5 billion between the closing balance of passenger vehicles (leases) of non-current assets in the Appropriation Account for 2017 and the opening balance of the financial statements for 2018.	Action should be taken to made through financial statements when making changes to opening balances.	All vehicles purchased under the lease method updated as per the instructions of the Public Accounts Department and done in compliance with accounting standards as prescribed.

(b) Lack of Audit Evidences

The following observations are made.

Audit observation	Recommendation	Comments of the Accounting Officer
04 vehicles valued at Rs.19 million were taken over on lease method had been included in passenger vehicles in the Non-Financial Assets Statement and the evidences were not furnished that those assets removed from the (lease) value of passenger vehicles.	Action should be taken to reflect the actual value of the assets in the financial statements.	Not agreed. These vehicles had removed from the lease value and taken over to the Department. Therefore, no duplication occurred.

2. Financial Review

2.1 Imprest Management

The following observations are made.

Audit observation	Recommendation	Comments of the Accounting Officer
(a) It was planned to request of Rs.6,767 million imprest in 2018 and Rs.14,084 million had been requested. However,	Action should be taken to manage the imprest as effectively and	Not agreed. The cash request by cumulating with the amount of cash not

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| <p>the imprest issued by the Treasury to the Department was only Rs.6,128 million.</p> | <p>plaining of imprest properly.</p> | <p>received in the previous months due to the requested cash was not received properly.</p> |
| <p>(b) The foreign travel advance of Rs.83,325 issued in 2008 had not been settled even by 31 May 2019.</p> | <p>Action should be taken to settle the advance immediately</p> | <p>It was informed that through the Attorney General to settle this balance.</p> |

2.2 Revenue Management

The following observations are made.

Audit observation	Recommendation	Comments of the Accounting Officer
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<p>Inaccurate accounting correction only had been done for about three years period in an income account and the action had not been taken to close the account by finishing those corrections. In addition, a sum of Rs.27.6 million had been repaid by cash from that account.</p>	<p>Need actions should be taken to close the account by resolving the existing problems in a systematic manner relating to this revenue account</p>	<p>This income account shows the refund of credited income due to rectification of wrong accounting done by Ministries, Departments and District Secretariats.</p>

2.3 Expenditure Management

The following observations are made.

Audit observation	Recommendation	Comments of the Accounting Officer
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<p>(a) The savings amounted to 26 per cent of the net provision after utilized the provision due to the over provisions had provided for recurrent expenditure codes.</p>	<p>Actions should be taken to prepare the annual estimates realistically.</p>	<p>These savings were occurred due to foreign travel restrictions and lack of presenting needed information on the due date for reimbursing the payments relating to July Strikers, vehicles purchased under Financial Lease.</p>
<p>(b) Funds had been obtained under supplementary estimates for expenditure codes to which the annual provisions had not been</p>	<p>-do-</p>	<p>The comments had not been furnished</p>

allocated and its savings amounted to 16 per cent of net provisions.

- (c) The provisions had Allocation of Not agreed.
been allocated under provisions under the Provision for such welfare
the Liability on Head of Liabilities programs for all departments is
Supplementary Support on Supplementary provided under Liability on
Services and Support Services Supplementary Services and
Emergency and Emergency Emergency Responsibility
Requirements for Responsibility welfare programs.
Expenditure Codes that should be done only
have the potential to be in specific cases.
allocated directly to a
particular Head of
expenditure and spent
every year.
- (d) Transferring provisions Should be done It had to be increased in
under F.R.66-69 realistically and provisions through F.R.66 due
relating to 03 according to the to the increase in fuel prices and
Expenditure Codes annual allocation revision of budget estimates
were ranged from 18 requirements. several times.
per cent to 320 per
cent.
- (e) A sum of Rs.28 billion Making necessary Agreed
had been allocated arrangements to be
under F.R. transfer and transferred FR only
from an initial estimate on the necessity
for one expenditure
code. But Rs.27.9
billion of that had been
released to other Heads
and the provision of
Rs.71.2 million had
saved.

2.4 Entering Commitments and Liabilities

The following observations are made.

Audit observation	Recommendation	Comments of the Accounting Officer
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(a) There was a difference of Rs.4,592,531 in respect of five liabilities according to the Statement of Liabilities and value paid.	Taking action to pay only for the liabilities in the Liability Statement.	Not agreed The total difference is Rs.4,952,531 due to various reasons in between the amount according to the Statement of Liabilities and the value of the vouchers.
(b) The liabilities amounting to Rs.663,968,955 had been entered without making sure that sufficient funds were available.	It is necessary to ensure that there is adequate allocation within the relevant budget before creating a commitment.	The comments had not been furnished.

2.5 Non-compliance with Laws, Rules and Regulations

The following observations are made.

Observation	Recommendation	Comments of the Accounting Officer
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Reference to Non-compliance Laws, Rules and Regulations		
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National Budget Circular No.150 dated 31 December 2010.	Although the payment of lease was completed in the year 2016, 2017 and 2018 in eight vehicles purchased for three departments, transfer activities of those vehicles had not been completed.	Formal transfers of vehicles that had completed lease payments to relevant institutions, accounting and updating of documents should be done. Not agreed. The relevant institutions had been informed about the takeover of vehicles after the payments of premiums.

3. Operational Review

3.1 Annual Performance Report

The following observations are made.

Audit observation	Recommendation	Comments of the Accounting Officer
(a) The 18 budget proposals had not been fully implemented and the objectives were not met as expected due to the transfer of provisions allocated for 10 proposals to other expenditure codes and due to underutilization of provisions allocated for 47 proposals.	The needed actions should be taken to make necessary arrangements to perform budget proposals economically, effectively and efficiently.	Action will be taken to manage the entire provision by transferring such unutilized provisions to the appropriate expenditure code numbers in the event that there are no sufficient provisions to make the necessary additional provisions for maintaining the smooth function of the institutions.
(b) Even though the recurrent expenditure for the establishment of the National Economic Council was Rs.270 million and capital expenditure was Rs.30 million, according to financial progress the recurrent expenditure was Rs.70 million and capital expenditure was Rs.230 million.	Action should be taken to prepare the estimates in a realistic manner.	Provision had been transferred under FR 66/69 on necessity by considering the request of the Chief Counting Officer of the institution incurring the expenditure.

3.2 Management Weaknesses

The following observations are made.

Audit observation	Recommendation	Comments of the Accounting Officer
(a) Although Rs.247.6 million had retained in	Necessary provisions should be	These settlements cannot be made until the relevant

the deposit account to implemented to information is received.
settle the lease settle immediately.
payments on motor
bicycles given to field
officers in the Public
Service, it had not been
settled until 22 May
2019.

- (b) The loan amounting to -do- The Gampaha Zonal Education
Rs.150,014 more than Office had been informed of the
one year to be settlement of the loan balance.
recovered from an
officer who had
released from the
Department had not
been settled until April
2019.
- (c) The loan balances -do- Necessary arrangements have
amounting to been made to settle these
Rs.305,621 are being balances.
existed for over 15
years to be recovered
from two deceased
officers had not been
settled as at 31
December 2018.
- (d) The total amount of Should be recovered Action has been taken with the
loans should be immediately Attorney General's Department
recovered from two to recover the amount of money
officers who left the owed to the government by one
service was of the officers who had left the
Rs.307,599. service and the other officer has
been asked in writing to settle
loan balance.

4. Achievement of Sustainable Development Goals

Audit observation	Recommendation	Comments of the Accounting Officer
----- Even though the Parliament should focus on identifying and achieving the Sustainable Development Goals and the indicators under it, considerable attention had not been paid to achieve those objectives.	----- Action should be taken to achieving Sustainable Development Goals.	----- The prepared plan for achieving the Sustainable Development Goals has been sent.