

Head 245 – Department of Public Finance

1. Financial Statements

1.1 Unqualified Audit Opinion

The audit of the financial statement of the Department of Public Finance 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 Public Finance 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, the accompanying financial statements give a true and fair view of the financial position of the Department of Public Finance 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 Unqualified 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 is 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 summery 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) 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 Public Finance to prepare financial statements for the preceding year, recommendations on the financial statements had not been made.

2. Financial Review

2.1 Imprest Management

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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Although it is planned to apply a sum of Rs.107.68 million for the year as per Imprest Plan presented with Action Plan for the year 2018, it amounted to Rs.79.906 million according to information that was submitted to the audit on 15 May 2019. Accordingly, the reasons for the difference between those plans were not observed and a sum of Rs.87.81 million had been applied for the year. Accordingly, it was observed that the required imprest amount had not been properly estimated and Treasury had issued the entire imprest amount requested by the Department.	Actions should be taken to plan the amount of imprest needed realistically	The amount stated in the Annual Imprest Application sent to the Department of Treasury Operations dated 22.12.2017 for the year 2018 is also contained in the Action Plan and in the letter submitted to the audit on 15.05.2017.

2.2 Management of Expenditure

The following observations are made.

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(a) The savings after utilization of the provisions amounted to 7 per cent and 16 per cent respectively out of the net provision due to the over-provisioning for recurrent and capital expenditure codes.	Measures are taken to prepare the annual estimates in a realistic manner and actions should be taken to comply with the requirements when allocating funds from the supplementary budgets.	A higher percentage of provisions obtained for several recurrent expenditure codes had to be incurred as expected. However, due to the expenditure was not incurred as expected from provisions obtained for capital expenditure codes, allocations of those expenditure codes had saved compared to the recurrent expenditure codes.
(b) Although the supplementary provisions of 2,944 per cent out of that annual estimate had been obtained in addition to the provision of Rs.500,000 allocated from the annual estimate in the year 2018 for two expenditure codes, 76 per cent out of that had saved. Further, the provisions had not been made from the annual estimate for an expenditure code and although the provision of Rs.4,000,000 had allocated through the supplementary estimate, out of that 81 per cent had been saved.	Supplementary provisions should be obtained by considering the necessity	The provisions were saved due to the delay in submitting the payment certificate should be presented for payment and the payment couldn't be made until all the models for the preparation of the electronic government procurement system have been completed.

2.3 Incurring Commitments and Liabilities

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
A sum totalling Rs.342,017 had not included in the Statement of Liabilities and the liabilities amounting to Rs.341,770 had incurred by over the estimated provision for 02 expenditure codes	Action should be taken according to relevant circulars when proper accounting of liabilities and committing into liabilities.	Only liabilities that can be included in the CIGAS system are stated in the liabilities statement because the liabilities cannot enter by exceeding the relevant limit.

2.4 Non-compliance with Laws, Rules and Regulations

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

Audit observation	Recommendation	Comments of the Accounting Officer
<p>Reference to Non-compliance Laws, Rules and Regulations</p> <p>The Financial Regulations of the Democratic Socialist Republic of Sri Lanka</p> <p>(a) Financial Regulation 340(1)</p>	<p>It had been observed that the Department of Public Finance had not maintained adequate Counterfoil Books for all departments of the government and that in some cases the Counterfoil Books were being issued by the Printing Department itself.</p>	<p>Making arrangements to maintain adequate Counterfoil Books to meet the requirements of all departments</p> <p>The Government Printer had been informed of the necessity of the General 172 Receipt books and the action had been taken to obtain those books from time to time throughout the year and distribute continuously.</p>

- (b) Financial Regulation 316 and 317 It was observed that contrary to the financial regulations, the Counterfoil Books were kept open in a small locked room with only a single locker, that was issued at the same place to the officers coming from government institutions and that the outsiders who deal with the correspondence regarding Counterfoil Books are entered into the room. Making proper arrangements for the protection of Counterfoil Books in terms of Financial Regulations The actions were taken in high-security manner in relating to the General 172 books and one room had been allocated for this purpose due to lack of space. Original key and its spare key of that room were handed over to two responsible officers.
- (c) Financial Regulation 343 It was observed that 12 receipts had not included in the Receipt Books obtained from the Government Printing Department on 11 October 2018. To act in accordance with the relevant Financial Regulations in case of loss and take necessary measures to prevent re-occurrence of that due to loss of Receipt Books and Receipt pages from previous years up to now. The absence of certain numbers is a result of the errors and negligence of the printing process in the Government Press. But those books were given by saying that numbers of those were missed when these defected books are issuing to us. We have also distributed books to other government departments in this manner by saying like this. Therefore, no harm or misconduct had done from the party of this Department.

3. Operational Review

3.1 Non-execution of Functions

The following observations are made

Audit observation	Recommendation	Comments of the Accounting Officer
(a) Even though action should be taken according to the Public Finance Circular No.02/2010 dated 18 August 2018 relating to the 13 Funds which has been approved for closure by the committee appointed for the purpose of making decisions on statutory and non-statutory funds, only balances of two funds had credited to the consolidated fund and only meetings had been conducted by 04 funds.	Action should be taken immediately to close down these 13 funds and to amend the relevant laws relating those funds to suit the present requirements.	The relevant Public Finance Circular No.02/2018 has been issued with regard to the closure of 13 funds mentioned in the Fund Review Committee Report and follow up action was done by this Department relating to whether the Chief Accounting Officer of the Line Ministry was acting according to the said circular.
(b) It was observed that the Chief Accounting Officers and the Accounting Officers were unable to consider the relevant Treasury Printouts as guidance in the future financial activities due to failure to issue six Treasury Printouts relevant to the period after 19 May 2015.	Necessary steps need to be taken to issue Treasury Printouts properly.	Separate Treasury Printouts on observations in Publication 376 had not been prepared as the observations published in Publication No. 240 and 356 are same. Treasury Printouts regarding 04 publications had been drafted and sent to the Government Printing Department for printing

3.2 Management Weakness

The following observations are made.

Audit observation	Recommendation	Comments of the Accounting Officer
<p>(a) Although the approval had given for write-offs and omissions totalling Rs.422.99 million relating to government institutions as per Financial Regulations, it was observed that there were no centralized register or database to check about granting approval for write-offs and omissions in a specific date.</p>	<p>Action should be taken to maintain a database or a centralized register.</p>	<p>It was informed that actions were taken by now to maintain a centralized register/database to keep records.</p>
<p>(b) The value of losses and write-offs in the year 2018 had increased by Rs.375.57 million compared to the year 2017 and it was an increase of 792 percent compared to the year 2018.</p>	<p>The balances of losses and write-offs should be settled immediately.</p>	<p>Agree</p>

4. Achievement of Sustainable Development Goals

The following observations are made.

Audit observation	Recommendation	Comments of the Accounting Officer
<p>Even though the Department should focus on identifying and achieving the relevant objectives and indicators with the focus on Sustainable Development Goals and the indicators under it, necessary measures had not been taken to achieve those Goals.</p>	<p>Immediate measures should be taken to achieve the Sustainable Development Goals</p>	<p>Large scale development programmes are not been implemented by this Department and contribute to achieving the Sustainable Development Goals through preparing the observations of the Hon. Minister of Finance for the Cabinet Memorandums submitted in relating to the development activities carried out by the Ministries and Departments.</p>