

## **Head 11– Office of Finance Commission**

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### **1. Financial Statements**

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#### **1.1 Opinion**

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The audit of the financial statements of the Office of Finance Commission for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and 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 Office of Finance Commission was issued to the Accounting officer in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. As per Section 11 (2) of the Audit Act, the Detailed Annual Management Audit Report related to the Office of Finance Commission was issued to the Chief Accounting Officer on 05 October 2020. 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 prepared in terms of provisions of the State Account Circular No. 271/2019 dated 03 December 2019 give a true and fair view of the financial position of the Finance Commission as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Opinion**

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. 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 for the Financial Statements**

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Chief 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 as Chief Accounting Officer determines 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 Office 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 Section 38 (1) (c) of the National Audit Act, the Chief Accounting Officer shall ensure that effective internal control system for the financial control of the Office 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 Responsibility for the Audit of the Financial Statements**

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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 the summary report of the Auditor General 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 scepticism 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 appropriate in the circumstances in providing a basis for the stated 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 Office's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Chief 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

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

- (a) Financial statements are consistent with the preceding year,
- (b) The recommendations made by me on financial statements in previous year had been implemented.

## 2. Financial Review

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### 2.1 Expenditure Management

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The following observations are made.

	<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
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(a)	The provisions of Rs. 300,000 allocated for the Object No. 2002 in the year under review had not been utilized and the entire provisions had been remained saved.	Estimates should be prepared as accurate as possible.	Major machinery repairs were not carried out as planned under Object No. 2002 in the year 2019 and the expenditures were controlled in accordance with relevant budget circulars as the government provided instructions on expenditure management.
(b)	A net provision totaling Rs. 6.8 million had been made for 5 Objects in the year under review and a provision of Rs. 03 million had remained after utilization. That saving ranged from 25 per cent to 59 per cent as a percentage of the net provision allocated.	Estimates should be prepared as accurate as possible.	It was due to postponing machinery and non-essential expenses, transfers of officers, absence of repairs, limiting only to essential training programmes, and government instructions on expenditure management. It was noted to be considered in planning of future provisions.

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| (c) | The deference between the initial expenditure estimate and the revised expenditure estimate pertaining to 13 Objects ranged from 29 per cent to 100 per cent. | Estimates should be prepared as accurate as possible. | It was due to special duty requirements and increasing overtime payments, non-approval for 1/3 allowance, increasing drivers batta, attachment of new development officers, changing the requirement of stationaries and consumables, changing expenses upon arrival in the new building, expenditure management through circulars, and using remaining provisions to cover other essential expenses. |
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**2.2 Entering into Liabilities and Commitments**  
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**Audit Observation**  
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**Recommendation**  
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**Comments of the Chief Accounting Officer**  
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The liabilities of Rs. 78,627 paid in the year 2020 had not been recorded in the statement of liabilities and obligations for the year 2019.

It should be accurately disclosed in financial statements.

It is kindly informed that it was not recorded in the statement of liabilities by mistake.

**3. Operating Review**  
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**3.1 Asset Management**  
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**Audit Observation**  
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**Recommendation**  
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**Comments of the Chief Accounting Officer**  
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The excess regarding 11 goods items in 3 categories of goods had been observed at the board of survey, since the entering of goods acquired by the Commission or received from other institutions into the relevant Inventory books had not been properly done. It had been pointed out regarding the excess and shortages in goods even in the audit report of the preceding year.

Receipts, purchases, disposals, and transfers of relevant assets should be accurately included in records.

At present, 11 goods items in 3 categories of goods mentioned as excess in report of board of survey - 2019 have been included in Inventory books and excess and shortages prevailed in 2018 have been adjusted to the books in the year 2019.

### 3.2 Failure to perform the functions

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) Even though the Article 154 (R) (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka states that the Commission shall determine its own procedure, it was unable to prepare such procedure during the year 2019.	Expected targets should be achieved through preparation of procedure.	According to the Article 154 (R) (6) of the Constitution, a procedure shall be prepared to perform the functions of the Finance Commission. A need assessment programme is prepared annually for carrying out the functions stated in Article 154 (R) (3) and (4) (a) and (b), and the requirements of capital and recurrent expenditure of the provinces are evaluated accordingly and relevant recommendations are submitted to the government and the president.
(b) Even though an activity of formulation of an act for Finance Commission were included in action plans for the years of 2018 and 2019, it had not been completed by the end of the year 2019.	The attention of authorities should be focused on completing these activities.	The bill of Finance Commission Act had been discussed with the Attorney General's Department by the end of the year 2019 and submitted to the Legal Draftsman's Department to prepare the amended bill.

### 4. Achievement of Sustainable Development Goals

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
Although there was a planning process based on the Sustainable Development Goals in preparation of Provincial Development Plans, it was not observed that the Sustainable Development Goals were taken into consideration in review of	Attention should be focused on sustainable development goals even in review of development plans.	Since the progress of the overall provincial plans is not reviewed in performing the functions assigned to the Commission, the development progress achieved by the provinces is not reported to Parliament. However, randomly selected

Development Plans and information thereon was included in the performance report and submitted to Parliament.

development activities are studied to gain knowledge on occasion.

## 5. Human Resource Management

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### Audit Observation

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There were 30 vacancies of the Commission including 4 vacancies in senior level and 17 vacancies in secondary level in the year under review and it was failed to fill those vacancies during the year under review or to revise the approved cadre if not required.

### Recommendation

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Action should be taken to fill the relevant vacancies or to revise the approved cadre.

### Comments of the Chief Accounting Officer

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The Ministry of Public Administration has been informed to obtain officers for vacancies. Trainee graduates are currently being deployed for vacancies of development officers and actions will be taken to fill those essential posts as soon as possible in accordance with Government policy.