

## Head 240 – Department of National Budget

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### 1. Financial Statements

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#### 1.1 Audit Opinion

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The audit of the financial statement of the Department of National Budget for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 Department of National Budget was issued to the Accounting Officer on 22 June 2021 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 of 2018 and the Detailed Annual Management Audit Report relating to the Department in terms of Sub-section 11 (2) of the National Audit Act, No. 19 of 2018 was issued on 22 June 2021. This report will be presented in Parliament in pursuance of provisions in Article 154 (6) of the Constitution 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 National Budget at 31 December 2020, and its financial performance and 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 (SLAuS). 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 and the Accounting Officer for the Financial Statements

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The 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 management determine 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 Accounting Officer shall ensure that effective internal control system for the financial control of the Department of National Budget 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

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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 an auditor's 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 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 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 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 Accounting Officer regarding, significant audit findings, any significant deficiencies in internal control and other matters that I identify during my audit.

#### 1.5 Report on Other Legal and Regulatory Requirements

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I express the following matters in accordance with Section 6 (1) (d) of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year.
- (b) The recommendations made by me on the financial statements relating to the preceding year had been implemented.

2. Financial Review

2.1 Management of Expenditure

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) Tax exemptions had been provided on the import of motorcycles given to the Field Officers under the budget proposals for the year 2014, but the supplier had taken action to distribute 2000 motorcycles that had already been imported by paying production tax. Of the production tax totaling Rs.109,612,000 relating to the said 2000 motorcycles, a sum of Rs. 12,505,974 had been incurred after 05 years on 31 December 2020 under the Object for the repayment of loans for vehicles obtained on lease. It was further observed that the balance of the tax was likely to be paid in due course.	Reasons attributable to the revised variances have been clearly mentioned in the financial statements, and estimates have to be revised for incurring expenses on priorities not identified at the time of preparation.	Forecasting revenue and maintenance of reports should be done properly so as to decide on the ceiling for Government expenditure in order to take accurate policy decisions, decide on the budget deficit, and analyze the supervision and policies.
(b) As for the preparation of initial estimate on expenditure and the revised expenditure estimate, it was observed that variances relating to 08 Objects ranged from a decline of 88 per cent to an increase of 64 per cent.	- Do.	- Do.

2.2 Operating Bank Accounts

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 The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
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(a) The Department had issued cheques by repeatedly extending the dates thereof, thus showing them in the bank reconciliation statements over an extensive period.	All of those cheques were issued to Government institutions, Authorities, and trade unions. Registers used for extending the periods of validity could not be properly updated due to spread of Covid-19. Officers have been instructed to maintain those registers in an up-to-date manner henceforth.	The bank accounts should be maintained in accordance with the Financial Regulations.
(b) Although the cheques issued by the Department had remained uncashed for over 06 months, action had not been taken in terms of Financial Regulation 396 (d), but the periods of validity had been extended.		- Do.

2.3 Non-compliances with Laws, Rules, and Regulations

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 Instances of non-compliances with provisions of Laws, Rules, and Regulations observed in the audit test checks are analyzed below.

Audit Observation	Comment of the Accounting Officer	Recommendation
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(a) The relevant items should either be destroyed, repaired, or auctioned before 26 February 2021 in terms of Public Finance Circular, No. 02/2014 dated 17 October 2014. However, it was observed that the Department had failed to take action even up to the date of audit on 24 June 2021 with respect to the items found unusable in the survey of stores conducted for the year 2020.	A delay had occurred due to Covid-19, but destroying or auctioning the relevant items is reaching conclusion.	Provisions of Circulars should be followed.

(b) The cash flow statement (Format ACA-C) should be prepared in approximation as per Guideline 06 issued by the Department of State Accounts in terms of Paragraph 10:1 of the Public Finance Circular, No. 02/2020. Nevertheless, it was observed that the cash flow statement made available to the Audit had not been so prepared. Accordingly, the following observations were made.

(i) Advances totaling - Do. - Do.  
Rs.14,383,960 had been recovered in the year, but a sum of Rs.5,320,469 had been shown under the cash flow generated from investment activities in the cash flow statement. As such, the cash inflow had been understated by Rs. 9,063,491.

(ii) Advances totaling - Do - -Do.  
Rs.12,826,576 had been paid, but payment of advances had been shown as Rs.6,394,558 in the cash flow statement. As such, the cash outflow had been understated by Rs.6,432,018.

(c) In case of any balance in the Imprest Account as per the Treasury books by the end of the year under review, that balance should be shown as being payable to the Treasury under current liabilities in the statement of financial position whilst the same balance being As the accounts of the Department had been closed as at 31 December 2020, the Department does not possess a current liability to be settled after that date.

shown as cash and cash equivalents under current assets in the statement of financial position. Nevertheless, the balance in the Imprest Account amounting to Rs. 347,871 as per the Treasury books as at 31 December 2020, had not been shown in that manner.

#### 2.4 Public Officers Advance "B" Account

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The following observations are made.

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
(a) The loan balance of Rs.102,497 recoverable from an officer deceased on 16 February 2001 has been existing in the books of the Department over a period of 20 years. Despite being repeatedly pointed out in that connection in the audit queries, it was observed that no action had been taken after 26 February 2014 either to recover the loan balance or take further action.	It has been informed through registered post that legal action would be taken in that connection. Hence, it is expected to take further action.	Action should be taken either to recover or settle the outstanding loan balance.
(b) It was observed in examining the files that action had not been taken even up to 31 December 2020 to recover a sum of Rs. 101,561.30 receivable from an officer deceased on 18 September 2000.	It has been informed through registered post that legal action would be taken against the parties connected to him. Hence, it is expected to take further action.	- Do.
(c) An officer against whom a notice for vacation of service had been issued on 13 October 2015 following his failure to report for duty since 23 September 2015, had made an appeal on 26 April 2017 which was rejected by the Public	Informed through registered post that legal action would be taken. If not responded, a case would be filed.	- Do.

Service Commission; and, the Director General of Budget was informed thereon on 17 August 2018. It was not observed in audit that prompt action had been taken for the recovery of loan balance amounting to Rs. 150,119 receivable from that officer as at 31 December 2020.

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|-----|--|--|-------|
| (d) | It was observed that the distress loan balance of Rs.144,150 receivable from an officer retired on 28 August 2020 could not be recovered by 31 December 2020 due to failure in dispatching his personal file to the Department of Pensions even by 10 February 2021. | Reporting for duty had been restricted to few days a week in the wake of Covid-19. As such, a delay had occurred in processing and dispatching the pension file. | - Do. |
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2.5 Deposit Accounts

----- Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
A sum of Rs. 10,867,222 had temporarily been retained in the General Deposits Account as at 31 December 2020 in view of being paid to a third party. Those balances were paid to the Department when the field officers left their posts. Action had not been taken to settle the liabilities by paying those balances to the leasing company as soon as those balances had been received thereby failing to reduce the interest on lease or credit the balances to the Government revenue.	The balances should be credited to the Government revenue after properly assessing the repayments to be made. As such, the balances have been retained in this manner.	Attention should be brought to ensure the Government reaping maximum economic benefits.

3. Operating Review

3.1 Failure to Achieve the Expected Output

3.1.1 Supplementary Assistance Services and Urgent Requirement Liabilities Project

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation																
<p>(a) It is the duty of the Department of National Budget to provide provision for the relevant institutions in their urgent and unexpected requirements under supplementary assistance services and urgent liabilities Object allocated under the Project, 240-2-2 in terms of Section 06 of the Appropriation Bill, No. 06 of 2020; verify the efficiency of provision so provided; and, reallocation or transfer of provision based on efficiency. Nevertheless, the following matters were observed in auditing the financial statements of the year 2020 with respect to the utilization of additional provision made on the capital and recurrent expenditure incurred under the aforesaid Object.</p> <p>(i) Following the failure in utilizing the provision in full made on the recurrent expenditure under the aforesaid Object, a saving of Rs.11,997.86 million or 38 per cent was observed. Particulars are given below.</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">Object, No.</th> <th style="text-align: center;">Total Net Provision Authorized</th> <th style="text-align: center;">Total Provision Issued in the Year</th> <th style="text-align: center;">Saving</th> </tr> <tr> <td style="text-align: center;">-----</td> <td style="text-align: center;">-----</td> <td style="text-align: center;">-----</td> <td style="text-align: center;">-----</td> </tr> <tr> <td></td> <td style="text-align: center;">Rs. Million</td> <td style="text-align: center;">Rs. Million</td> <td style="text-align: center;">Rs. Million</td> </tr> </thead> <tbody> <tr> <td style="text-align: center;">2-2-0- 1702- 11</td> <td style="text-align: center;">31,740.93</td> <td style="text-align: center;">19,743.07</td> <td style="text-align: center;">11,997.86</td> </tr> </tbody> </table>	Object, No.	Total Net Provision Authorized	Total Provision Issued in the Year	Saving	-----	-----	-----	-----		Rs. Million	Rs. Million	Rs. Million	2-2-0- 1702- 11	31,740.93	19,743.07	11,997.86	<p>Provision is allocated in the event of urgent and unexpected requirements on expenditure. The relevant institution is responsible for utilizing or saving such provision.</p>	<p>As provision had been made through annual budget sans accurate assessments, budget deficit would be on the increase. Incurring expenses further should be limited for financing such issues.</p>
Object, No.	Total Net Provision Authorized	Total Provision Issued in the Year	Saving															
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	Rs. Million	Rs. Million	Rs. Million															
2-2-0- 1702- 11	31,740.93	19,743.07	11,997.86															
<p>(ii) As for transferring additional financial provision in terms of Financial Regulation 75, the net amount of a Supplementary estimate shall be the amount of additional financial provision required less saving</p>	<p>The relevant institution is fully responsible for following</p>	<p>- Do.</p>																



available for transfer. However, it was observed in Financial Regulation 75 in audit that the provision made through that connection. supplementary estimate under the supplementary assistance services and urgent liabilities Object during the year 2020 had not been incurred fully, thus resulting in a saving of Rs. 14,302,830,684.

(b) The following matters were observed in audit with respect to capital expenses incurred under the supplementary assistance services and urgent liabilities Object.

(i) A saving of 26 per cent or Rs.3,199,137,385 was observed between the provision authorized for capital expenses and the provision issued in the year. That included a sum of Rs.100,000,000 being the value that had not been issued in full during the year out of the amount provisioned. Particulars are as follows. The relevant institution is responsible for incurring the provision and the savings. - Do.

Object, No.	Total Net Provision Authorized	Total Provision Issued in the Year	Savin
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	Rs.	Rs.	Rs
2503-14	50,000,000	-	50,00
2503-15	19,000,000	-	19,00
2503-16	1,000,000	-	1,00
2503-17	30,000,000	-	30,00
2503-11	12,404,627,000	9,305,488,615	3,099,137,385
<b>Total</b>			<b>3,199,137,385</b>

(ii) Although provision had been made for capital expenses, instances were observed in which savings had occurred as the provision had not been spent fully. That value amounted to Rs.2,415,269,093. - Do.

3.1.2 Advance Account of the Government

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 The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
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(a) It was stated in the draft Performance Report of the year 2020 presented to the Audit that limits on expenses relating to Ministries, Departments and 63 special units of expenditure had been revised through Section 08 of the Appropriation Bill, 2020. Only 58 of those institutions had presented the Audit with letters of recommendation relating to the revised limits. Information about the revised limits on expenditure pertaining to the State Ministry of Education Reforms, Open Universities and Distance Learning Promotion (40401), had not been included in the performance report.	The performance report provided for the Audit was still being drafted, and it was stated therein that approvals had been given for 54 Heads of Expenditure. Approval had been given for revising the limits of 04 units of expenditure including the State Ministry of Education Reforms, Open Universities and Distance Learning Promotion for which approval was granted later. However,	It is necessary to be compliant with the limits mentioned in the Appropriation Bill, and action should be taken in accordance therewith.

this matter was not mentioned in the draft performance report made available to the Audit. Accordingly, approvals had been given on revised limits for 58 units of expenditure relating to the year 2020.

- (b) Despite being mentioned in the draft performance report that limits had been revised with respect to 07 institutions, the approval on such revised limits had not been furnished to the Audit. No requests had been made for revising the limits with respect to the Heads mentioned therein. It is necessary to be compliant with the limits mentioned in the Appropriation Bill, and action should be taken in accordance therewith.
- (c) The actual values and the relevant limits being exceeded/not being exceeded relating to the year 2020 with respect to the transactions of the Public Officers Advance "B" Account for which provision had been made through the third schedule of the Appropriation Bill, No. 06 of 2020, were checked against the computer printouts of the Treasury. Five instances in which limits had not been reached, along with 06 instances in which the approved limits had been exceeded were observed in the examination. However, approval had not been obtained on the revisions relating thereto. Heads of Expenditure, Nos. 11601, 30201, 28801, 33401, and 26901 had not requested to revise the limits. Approval had been given only - Do.

for the  
limits on  
expenditure  
as requested  
by the  
Heads,  
11501,  
41901,  
42301,  
21601,  
41201,  
41601,  
42701,  
02001.

- (d) Considering the computer printouts of the Treasury and the actual values relating to the stores and commercial advance account as being allowed by third schedule of the Appropriation Bill, No. 06 of 2020, the maximum limits had been exceeded by the Department of Pensions (23202) and the Department of Agriculture (28502). However, approval had not been obtained for the relevant revisions.
- It was informed through telephone that no revisions were needed for Head, No. 23202. Proposals relevant to the approvals obtained through Cabinet Memorandums for Head Nos. 25002, 25003, 22302, 30602, 31002, and 31003, have been presented to Parliament.
- Do.

- (e) The following differences were observed between the values shown in the closing financial statements of the Public Officers Advance "B" Account relating to 04 institutions and final Treasury printouts. Noted. - Do.

Head, No.	Dep/ Ministry	Limit	Value Shown in the Financial Statemen ts of the Dep.	Value Shc Printouts o Treasury
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			Rs.	Rs.
<b>41201</b>	<b>State Ministry of Foreign Employ- ment Promotio ns &amp; Market Diversific ation.</b>	Minimu m limit on receipts.	13,165,612.85	5,767,253
<b>11501</b>	<b>Ministry of Energy</b>	Maximu m limit on expendit ure.	2,484,748.66	12,886,577
<b>33401</b>	<b>Multi- Purpose Develop- ment Task Force.</b>	Limits on debit balances	38,930,765.86	38,931,431.86

<b>42701 State Ministry of Livestock, Farm Promotion and Dairy and Egg Related Industries</b>	Minimum limit on receipts.	10,227,093.75	4,213,051	6,014,041.75
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- (f) The Department of Survey (Head, No. 288) had incurred expenses in excess of the maximum limit by a sum of Rs.154,717. The Audit was informed by the Director General of the Department that a revision was not necessary to exceed the limit. Correct. - Do.
- (g) The Ministry of Energy (Head, No. 115) and the State Ministry of Regional Cooperation (Head, No. 419) had requested the Department of National Budget to revise the minimum limit on receipts, but the Audit was informed by the Director General of the Department that a revision on the maximum limit for expenditure, had not been requested. Correct - Do.
- (h) The Multi-Purpose Development Task Force (Head, No. 334) and the District Secretariat, Batticaloa (Head, No. 269) were seen to have exceeded the limits on debit balances. The Director General of the Department informed the Audit that the Department of National Budget had not been requested to revise the limits in that connection. Correct. - Do.
- (i) Balances of the Advance Account of the Government relating to 35 institutions remained unsettled over many years, and the net value thereof totaled Rs. 1,361,561,464. Credit balances totaling Rs. (20,479,126.88) pertaining to 09 institutions were also included in the said unsettled balances. The necessary guidelines have been provided through the Financial Regulations. As such, it is informed that action should be The Department should provide the necessary guidelines and instructions.

taken by the relevant Heads of Expenditure in accordance therewith.

### 3.2 Assets Management

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The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
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(a) The lease period of vehicles valued at Rs. 2,824,733,981 purchased for other Government institutions under financial lease agreements in terms of Circular, No. 150 of the Department of National Budget, had come to an end by the year under review. However, action had not been taken to vest those vehicles in the relevant institutions.	The vehicles purchased on lease by the Government at the value of Rs.2,824,733,981, could not be properly vested in the relevant institutions due to measures taken by the Government to control the spread of Covid-19 held through the year 2020.	Vehicles of which the lease period had come to an end, should be promptly and properly vested in the relevant institutions.
(b) According to the Budget Circular, No. 2/2014 dated 23 July 2014, the registered ownership of motorcycles given to the field officers is transferred to the individual persons after a period of 05 years. However, the Treasury had not taken action to properly vest the motorcycles worth Rs.16,792,961,055 although the 05 year period had elapsed.	Documents had been prepared to vest the motorcycles payments of which had been completed up to the year 2020. However, the process was delayed due to spread of Covid-19.	- Do.

4. Human Resource Management  
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Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
As of 31 December of the year under review, 25 vacancies existed including 12 vacancies in the senior level, 09 vacancies in the secondary level, and 04 vacancies in the primary level.	Requests had been made from time to time that the vacancies be filled. However, no officers have been attached thus far.	In case of performance of the Department being unfavorably affected by the vacancies, those vacancies should be filled or the approved cadre should be revised.