

Head 240 – Department of National Budget

1. Financial Statements

1.1 Opinion

The audit of the financial statement of the Head 240 – Department of National Budget for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 08 June 2022 in terms of Sub-section 11 (1) of the National Audit Act, No. 19. 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 12 July 2022. 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 financial statements give a true and fair view of the financial position of the Department of National Budget as at 31 December 2021, 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

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

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 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'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 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.
- 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

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 Revenue Management

2.1.1 Revenue Code-2003.01.00 Initial Payment Related to Motorcycles Issued to Government Officials

Audit Observation

**Comments of the Recommendation
Accounting Officer**

The initial payment for motorcycles related to the programme of providing motorcycles to the field officers, which was a budget proposal of the year 2015, had been accounted by the Department as a non-taxable income under the above Revenue Code. All the motorcycles given as such should have been transferred to the personal ownership of the respective officers by the end of the year 2020. Nevertheless, a net income of Rs.2,910,000 was received in the year 2021 as the initial payment related to that programme. Accordingly, despite the implementation of the relevant budget proposal, the accounting procedures were not completed by giving the relevant formal instructions.

A separate Revenue Code had been introduced under 2003.04.00 to collect the basic amount related to this programme and credit it to the Consolidated Fund by the District Secretary / Heads of Institutions. But the amount was recorded under this revenue heading in the year 2021 due to the application of accounting entries to correct the wrong accounting of that money by the relevant institutions. The comparisons are planned to be completed in the year 2022.

Since it is a budget proposal for the year 2015, the activities of the Revenue Account should be finalized by providing formal instructions and guidance.

2.2 Expenditure Management

Audit Observation

**Comments of the Recommendation
Accounting Officer**

**(a) Providing Provisions
Uneconomically**

The amount provided for the 2 Expenditure Codes were completely saved without

Due to the Covid-19 pandemic situation, the use of machinery has decreased due

The estimates should be prepared accurately and

making any use out of the total net provision of Rs. 5,100,000. to work from home, the progress in the implementation of certain budget proposals has been reduced or not implemented and, officials not travelling abroad had affected for this situation. realistically as per F.R. 50.

(b) Providing Overprovisions

The balance provision was in the range of 27 per cent to 96 per cent of the net provision after utilization of those provisions as over provisions were made for 7 Expenditure Codes in the year under review. These provisions were saved due to the Covid pandemic situation and the limitation of expenditure by Cabinet decision No. CP/21/1596/304/134 dated 30.08.2021. The estimates should be prepared accurately and realistically as per F.R. 50.

2.3 Advance Accounts

2.3.1 Public Officers Advance Account

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) The loan balance of Rs. 151,360 of an officer who retired after completing the age of 60 years on 03 November 2021 had not been recovered even by 04 March 2022.	The Department of Pension had not paid the Commuted Pension related to that officer and arrangements were made to recover the outstanding loan balance while paying that amount.	That amount should be recovered from the Retirement Gratuity of the officer.
(b) The loan balances of two officers who deceased on 18 September 2020 and 16 February 2021 amounting to Rs. 102,499 and Rs. 101,561 respectively were not settled even as at end of the year under review.	The advice had been requested from the Legal Affairs Department of the Ministry of Finance regarding the relevant loans of the deceased officer. The Department had taken steps to recover about 85 per cent of the outstanding loan due from the deceased officer. The Legal Department of the Ministry of Finance had been forwarded to deal legally with the remaining outstanding loan.	All necessary steps should be taken to recover outstanding loan balances.

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| (c) The loan balance of Rs. 150,119 due from an officer who left the service without being informed to the duty on 23 September 2015 had failed to be recovered even by 31 December 2021. | Further activities are being done to write off the loan balance as the recovery of the loan balance of this officer is still problematic. | Action should be taken to collect the outstanding loan balances or if such collection is not possible action should be taken to write off those loan balances. |
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2.4 Incurring of Liabilities and Commitments

Audit Observation	Comments of the Accounting Officer	Recommendation
Although expenses of Rs. 4,500 for the month of December 2021 had been paid in the year 2022, it was not shown under liabilities and commitments in the financial statements.	It was accepted that the sum of Rs. 4500 paid for the month of December 2021 was recorded as a liability in the year 2022 mistakenly.	The liabilities that were entered with the expectation of settlement in the coming years should be accurately disclosed from the financial statements.

2.5 Non-compliances with Laws, Rules and Regulations

Observation	Comments of the Accounting Officer	Recommendation
Reference to Non-compliance Laws, Rules and Regulations		
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R. 395 (h)	Although the Bank Reconciliation Statements are to be prepared by an officer who has nothing to do with the deposit of collecting money, writing of cheques or maintaining the cash books, the cheques writing officer of the Department had prepared the bank reconciliation statements himself.	The necessary instructions had been given to assigning duties to be a check of works among the officers as directed by the audit.
		Action should be taken as per the Financial Regulations.

(b) The letter No. SA/MAA/02/01/01 dated 30 December 2021 of the Director General of Public Accounts According to the financial performance statement of the year 2021, the imprest balance as at 31 December 2021 was a minus value of Rs. 32,732,054. The imprest adjustment balance as at 31 December 2021 was a negative value of Rs. 32,732,054 also as per the Imprest Reconciliation Statement in the revised ACA-7 format. But it was observed that it was not logical to indicate the imprest balance as 0 on 31 December 2021 due to the fact that the imprest adjustment balance should have been a positive (+) value of Rs. 32,732,054 but it was shown as a negative number. The imprest balances had been properly presented in the final accounts in accordance with the instructions of the State Accounts Department. Financial statements should be prepared logically.

3. Operating Review

3.1 Performance

3.1.1 Non-compliance to the Limits Relating to the Government Advance Activities

Audit Observation	Comments of the Accounting Officer	Recommendation
(i) Maximum expenditure limits of Rs. 32,000,000 and Rs. 17,000,000 had been imposed for a State Ministry and a District Secretariat respectively mentioned in the third schedule of Appropriation Act No. 7 of 2020. The Ministry and the Office had paid advances at the end of the year under review exceeding those limits by Rs. 1,401,679 and Rs.208,590 respectively.	According to the provisions of FR. 503(2) the responsibility of working within the prescribed limits and preventing the occurrence of excesses/falls of the limits were assigned to the Heads of the respective Departments. However, it is specifically mentioned here that an application to obtain authority for the same must be received by the Treasury before the expiry of 31 December of the relevant financial year before the excess/fall occurs due to	Action should be taken to amend the restrictions imposed by the Parliament as required according to the provisions of the Appropriation Act.

any unavoidable reason. Requests had not been submitted from the institutions mentioned here.

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| <p>(ii) The minimum limits of the Advance Account had been imposed for two Commissions were set at Rs. 500,000 and Rs. 200,000 respectively in the Third Schedule of the Appropriation Act No. 7 of 2020. Receipts were not reported due to the non-operation of those Commissions during the year under review. Accordingly, those Commissions had not reached the minimum receipt limit.</p> | <p>Actual values for these limits were not reported since these 2 Institutions were canceled after the budget was passed and applications for amendment of limits were not submitted as they were inactive Institutions.</p> | <p>Action should be taken to amend the limits in accordance with the provisions of the Appropriation Act.</p> |
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3.1.2 Monitoring Activities of the Public Enterprises

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>Any activities related to the 117 state enterprises supervised by the National Budget Department were not included in the Budget Department's action plan or performance report and the information related to that supervision was not submitted to the audit.</p>	<p>The National Budget Department actively intervenes in the financing of those institutions and in other special cases. Further, the roles of those government agencies were not included in the action plan of this Department and it was noted to include this monitoring function when the preparations of the action plan for the year 2023. However, as stated in the 2022 budget speech, with the emphasis on the importance of monitoring whether all government institutions have worked to achieve their goals, from the year 2022, as a first step to closely monitor these institutions, the Budget Department will monitor the progress of reaching the goals of</p>	<p>Supervision of institutions falling under the purview of the Department should be carried out in a formal manner.</p>

establishing these supervised institutions and provide necessary guidance for them.

3.1.3 Formulation of National Budget

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>According to the guidelines related to the preparation of the budget for the year 2021, capital expenditure should have been estimated as per the Public Investment Programme 2021 - 2023. But since the Public Investment Programme was prepared on 31 January 2021 after the completion of the 2021 budget, the estimation of capital expenditure in the 2021 budget estimate was not done according to that programme.</p>	<p>The National Planning Department prepares and publishes the State Investment Plan and in budgeting, the projects which have received the recommendation/approval of the National Planning Department for implementation in the relevant mid-term period are considered to be included in the Public Investment Plan.</p>	<p>Since the estimation of capital expenditures should be done in accordance with the Public Investment Programme, the Public Investment programme should be prepared before the budget is prepared.</p>

3.1.4 Relief to Those Who Participated in the July 1980 Strike and Lost Their Jobs

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) The budget proposals of 2013 to provide relief to unemployed persons above the age of 65 who participated in the July 1980 Strike and lost their jobs without a permanent means of livelihood had been done without identifying the correct beneficiaries.</p>	<p>According to the file, it is observed that at the time of presentation of the budget proposals for the year 2013, there are approximately 10,000 people who lost their jobs due to the July 1980 Strike and have no permanent livelihood.</p>	<p>Action should be taken to systematically achieve the objectives expected from the budget proposals.</p>
<p>(b) In the 2015 budget proposals, it was proposed to increase the allowance paid to the July Strikers who lost their jobs in 1980 from Rs. 5,000 to Rs. 6,000, to reduce the eligibility age to 63 years, and to give</p>	<p>A policy decision had not been taken on reducing the age to 63 years and payment to widows, so it had not been implemented accordingly.</p>	<p>Action should be taken to obtain formal policy decisions related to achieving the desired objectives from the budget</p>

this allowance to the widows of those workers and although the allowance was increased from Rs. 5,000 to Rs. 6,000, reduction of the related age limit to 63 years and granting that allowance to widows had not been implemented.

proposals.

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| <p>(c) There are about 138 employees who committed suicide due to the fact that the compensation to widows proposed in 2015 has not yet been implemented and due to the July 1980 Strike, they lost their jobs and were unable to support their children and families and they had not received any recourse even by 31 May 2022.</p> | <p>This allowance had been given as a relief to those July Strikers who are still living by the year 2013 and who do not have a permanent livelihood to get rid of their economic difficulties. The policy decisions had not been taken to deal with who committed suicide. The policy decisions had not been taken to deal with who had suicide.</p> | <p>Formal plans should be prepared in relating to achieving the desired objectives from the budget proposals.</p> |
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3.1.5 Assets Management

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) According to National Budget Circular No.150 dated 07 December 2010, although the relevant institutions had been informed to take over the ownership of the vehicles which were purchased under Financial Leases on behalf of those government institutions at a cost of Rs. 4,229,677,479, mechanism was not introduced to ensure that the handover procedure was finalized.</p>	<p>According to the Circular No.150 of the Department of National Budget, after making arrangements to inform those government institutions and the relevant Bank of Ceylon branches to take over the ownership of those vehicles purchased under the finance lease method by completing the payment of the lease installments, action was taken to remove the value of those vehicles from the assets of this Department.</p>	<p>It has to be confirmed that transferring of ownership of finance leased vehicles to relevant institutions was finalized.</p>
<p>(b) According to the National Budget Circular No.02/2014 dated 23 July 2014, although the</p>	<p>Under the implementation of the 2014/2015 budget proposals, the instructions were given through the general instruction sheet</p>	<p>Action should be taken to confirm that the motorcycles given to the officers</p>

ownership of the motorcycles given to the Field Officers is transferred to the private name after a period of 5 years, a system had not been introduced to ensure that the taking over procedure of the motorcycles is finalized.

No.BD/GPS/130/9/14/MC-8 dated 22.11.2019 issued by the National Budget Department regarding the transfer of ownership of motorcycles/scooters given to field officers after 05 years. Accordingly, it is observed that there is no need for the intervention of this Department to hand over the ownership of those motorcycles after five years.

engaged in field duties had been assigned to their personal names.

- (c) The Ministry of Finance had submitted a memorandum on 11 June 2021 to the Cabinet for the immediate acquisition of 50 ambulances, 50 water bowsers and 50 double cabs under the financial lease method. The Cabinet had given approval for it on 29 June 2021. Along with this, 225 Prado jeeps were also expected to be acquired on that basis. The respective vehicle seller had agreed to provide 2 water bowsers and 12 double cabs for free when purchasing the Prado jeeps under the finance lease method. The relevant vehicle sales company had refused to provide 2 water bowsers and 12 double cabs which were agreed to be provided free of charge due to the decision not to get the 225 Prado jeeps according to the policy decision of the Government. A memorandum had been submitted to the Cabinet on

28 July 2021 by the Ministry of Finance to obtain the 2 water bowsers and 12 double cabs under the financial lease method which were early agreed to be provided free of charge. The Cabinet approval for that was received on 18 August 2021. The National Budget Department had obtained the 50 double cabs, 50 ambulances and 50 water bowsers that had been decided in the first place on the basis of financial lease installments at the old prices. An additional expenditure of US\$ 461,606 had been made to get the 02 water bowsers and 12 double cabs which had been approved later. The following observations are made in this regard.

- (i) According to the decision of the Cabinet on 29 June 2021, it was decided to get a cab for USD 26,167 under the Financial Lease method and the payment for the cabs agreed to be provided for free of charge was US\$ 44,484 per cab. Accordingly, a sum of USD 18,317 had been overpaid per cab. Accordingly, the total overpayments were USD 219,804.
- According to the Cabinet decision No.21/1526/304/894-II dated 17.08.2021, the C.I.F. value of one cub is USD. 29,055.74.
 $(1,801,456/62=29,055.74)$
 With the cancellation of the purchase of 225 Prado jeeps, the loss of discounts and the reduction of free units, in order to make adjustments in the letters of credit related to the purchase of double cabs, for the convenience of amending the Letters of Credit, only the amount to be purchased in one Letter of Credit and the explanation of another Letter of Credit are also amended and although the prices mentioned in Purchases should be made only for essential purposes.

the audit report were shown on the basis of allowing the other Letters of Credit to remain unchanged, no such overpayment has actually occurred.

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| (ii) | According to the information submitted to the audit by 31 December 2021, 11 cabs had been detained in the Budget Department even as at 30.06.2022 due to non-submission of requests from government agencies. | As per file No. BD/GPS/13/01/01/2021 relating to the purchase of vehicles for essential field duties, although requests had been made for 184 double cabs as at 31.12.2021, 11 cabs were left as at 31.12.2021 due to the vehicles being released on the basis of essential emergency priority. Out of that, 6 cabs had already been released to the Ministries/Departments and The remaining 5 cabs will be arranged as per the instructions of the Secretary to the Treasury to provide such vehicles to the institutions engaged in field duty where such vehicles are essential. | Purchases should be made only for essential purposes. |
| (iii) | The confirmation letters that the leased vehicles had been taken over by the respective institutions in the year 2021 were not submitted to the audit. | The letters are being received confirming that the institutions have accepted the vehicles for the vehicles handed over to the institutions. | Purchases should be made only for essential purposes. |
| (d) | Although the distribution of 164 vehicles imported in the year 2021 among government agencies by considering the requests made by those agencies and give priority to their needs, the action had been taken to provide 05 double cabs to the Department of | The instructions received in the various meetings held with His Excellency the President, the Prime Minister and the President's Secretary and the oral instructions received and the agreements reached with the officers of this Department who participated in the "Gama Samaga Pilisadara" programs of | Purchases should be made only for essential purposes. |

Wildlife Conservation which were not requested by that institutions. Further, although 32 water bowsers had been provided to the local council, evidence was not submitted to prove that the said water bowsers were requested by those Councils.

His Excellency the President and the development programs held in the Office of the President and the Prime Minister's Office according to the verbal agreements reached in the meetings and according to the requests received from the Ministries and Departments, the allocation of vehicles was done and it was kindly informed that the vehicles were obtained from all those institutions without rejection.

- (e) Although requests had been made to the Director General of Budget from time to time that the allocation of 25 million is needed for 25 Toyota ambulances to prepare them for the useable condition purchased under the finance lease agreement for the aforementioned 1990 Suvasariya Foundation, the vehicles were not used due to provisions were not provided. Further, these ambulances had not been removed from the vehicle yard of the supplier company by 25 May 2022 and the Suvasarya Foundation was told to remove them as soon as possible. Accordingly, with a lack of understanding of the requirement and the relevant specifications, it was observed that a sum of Rs.103.38 million had been spent for 25 ambulances.
- According to Cabinet Decision No. 21/1440/304/094 dated 28.06.2021 and Cabinet Decision No. 21/1526/304/094-ii dated 17.08.2021 regarding the import of vehicles for the needs of government institutions, Out of the 50 ambulances that were imported, 25 had been given to the Ministry of Health and the remaining 25 ambulances to the Suvasariya Foundation at the request of the Secretary of the Ministry of Health No.TRS/V/Gen/II dated 27.09.2021. It was observed that a request from the Suvasarya Foundation is not necessary for this as the Suvasarya Foundation is an institution operating under the supervision of the Secretary to the Ministry of Health.
- Vehicles should be procured only for essential purposes as per the requirement.

4. Human Resource Management

Audit Observation

Comments of the Accounting Recommendation Officer

There are 6 senior level posts, 9 secondary level posts and 2 primary level posts totalling 17 posts that are vacant as at 31 December 2021.

There were 04 senior level vacancies, 07 secondary level vacancies and 07 primary level vacancies had been filled as at 09.05.2022. Further, 04 tertiary level posts (02 Drivers, 02 Office Assistants) had been suppressed according to the letter dated 19.04.2022 of the Department of Management Services.

To fill vacancies or if there are unnecessary staff action should be taken to revise the staff.