

Head 250 – Department of State Accounts

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Head 250 - Department of State Accounts for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 State Accounts was issued to the Accounting Officer on 30 May 2023 in terms of Section 11(1) of the National Audit Act, No.19 of 2018. The Annual Detailed Management Audit Report was issued to the Accounting Officer on 22 June 2023 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. This report is tabled in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka 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 State Accounts as at 31 December 2022, and its financial performance and 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 (SLAuSs). My responsibility for the financial statements are further described in the Auditor's Responsibilities Section of this 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 the Chief Accounting Officer and the Accounting Officer for the Financial Statements

The 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 the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per 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 the preparation of annual and periodic financial statements.

In terms of Sub-section 38(1) (c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department 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 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 and its materiality depends on the influence on economic decisions taken by users 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design 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, 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 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

I express the following matters in terms of 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 of the preceding year had been implemented.

2. Financial Review

2.1 Management of Expenditure

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) Over provision had been made for 3 recurrent objects and 2 capital objects and as such, a provision totalling Rs.1,540,956 had been saved as at 31 December 2022 and it ranged from 29 per cent to 87 per cent of the net provision made for each object.	Non-incurrence of expenditure as expected due to control of expenditure and economical utilization of assets and non-receipt of approval for Customized Accounting Standards for Government institutions relating to the interim period (due to failure in reaching a policy decision for implementation), the purpose could not be achieved as expected.	The annual expenditure estimates should be prepared accurately as possible as per F.R. 50.
(b) Despite having savings of provision in Object 250-1-1-0-1201, a provision of Rs.90,000 had been obtained through F.R.66. However, a sum of Rs.242,589 had been saved in this object by 31 December 2022.	Even though an order had been placed to purchase toner to the value of Rs.391,325 in the year 2022, the relevant institution had run out of stocks and accordingly, only toner to the value of Rs. 149,825 had been received in the year 2022. As such, the required remaining provision of Rs.241,500 had been made through transfer of provision under F.R.66 for commitments incurred for the year 2022 with the intention of paying the remaining value with the receipt of stocks in the year 2023.	The annual expenditure estimates should be prepared accurately as possible as per F.R. 50.

2.2 Issuance and Settlement of Advances

2.2.1 Miscellaneous Advance Account

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) The outstanding balance of the Miscellaneous Advance Account as at 31 December 2022 comprised a balance of Rs.129,556,557 remaining over a period of 05 years and 88 per cent of that balance was recoverable from the District Secretariats of Polonnaruwa, Anuradhapura and Ampara. The Department had failed to recover those outstanding values of advances even by the end of the year under review.	Of the balance of the Miscellaneous Advance Account as at 31.12.2022, the sum of Rs.129,556,557 indicated as the balance of advances over 05 years, is accurate. Eighty eight per cent of the said balance were balances recoverable from the District Secretariats of Polonnaruwa, Anuradhapura and Ampara. The steps taken and future measures proposed for settling those balances, had been reported.	Adequate future action should be taken to recover the outstanding balances by formalizing the follow up action.
(b) The advance of Rs.6,321,785 released in terms of F.R.106 for settling the loss occurred due to a financial fraud taken place on 02 March 2019 in the Anuradhapura Teaching Hospital had not been settled even by the date of audit despite an elapse of over 03 years.	Matters have been reported to Courts under Case No.B 980/2019 of Anuradhapura M/C relating to the sum of Rs.6,321,785 to be settled in regard to the financial fraud in the Anuradhapura Teaching Hospital. Moreover, the Officer in Charge of the Anuradhapura Police has informed the Anuradhapura Teaching Hospital through the letter dated 04.04.2023 that the file has been kept aside, ordering to take action after summons from the court on 06.09.2019 and that further investigations are being carried out for the successful revelation of information on the suspected person.	Adequate future action should be taken to settle advances by formalizing the follow up action.

3. Operating Review

3.1 Non-achievement of expected Outcome

(a) Process of converting Government accounting system from modified cash basis into accrual basis

According to the Budget Proposal No. 254 of the year 2018, the resolutions had been passed to prepare the financial statements on an accrual basis within the next 10 years and following observations are made in this regard.

Audit Observation	Comments of the Accounting Officer	Recommendation
(i) The approval for the revisions made in relation to the activities included in the Road Map which was presented in the process of preparing the financial statements on accrual basis had not been obtained even by 20 May 2023.	The approval for the revised road map had not been obtained yet and it is expected to obtain relevant approval through the Cabinet Paper drafted by now.	Action should be taken to achieve the expected outcome by performing key functions of the Department.
(ii) According to the Action Plan of year 2022, even though when executing this task as a sub project of the Department of State Accounts by providing budget allocations, it had been included that, “the introduction and maintenance of accounting procedure for the interim period”, only prepared the draft accounting framework based on Sri Lanka Public Sector Accounting Standards (SLPSAS)/ International Public Sector Accounting Standards even by 20 May 2023.	The drafted accounting framework and 15 Accounting Standards for the interim period had been presented to the Auditor General. However, the relevant accounting framework and standards are still in draft stage as recommendations for the stated facts were not received from the Auditor General.	Action should be taken to achieve the expected outcome by performing key functions of the Department.
(iii) As per the provisions of paragraph 28 of Sri Lanka Public Sector Accounting Standards (SLPSAS) No. 1, “financial statements shall not be described as complying with Sri Lanka Public Sector Accounting Standards (SLPSAS) unless they comply with all the requirements of SLPSAS”, it was informed that	Since it is not possible to use Sri Lanka Public Sector Accounting Standards completely in the interim period within the existing legal frame, the 15 separate Accounting Standards based on Sri Lanka Public Sector Accounting Standards had been drafted to be used	Action should be taken to achieve the expected outcome by performing key functions of the Department.

from the letter dated 21 September 2021 of Director General of State Accounts, although the sufficient disclosures had not been made in the financial statements to justify the use of current Sri Lanka Public Sector Accounting Standards (SLPSAS) on cash basis for the interim period and to justify the exemptions from that, and it was stated in the road map (Deliverable 03) prepared and presented on 13 July 2020 by Technical Consultant that, the management of Department of State Accounts had decided to use only the selected accounting guidelines without using complete standards for the interim period.

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| <p>(iv) As mentioned above, even though it was stated that, the adequate disclosures had not been made in the financial statements to justify the use of SLPSAS for the interim period and to justify the exemptions from that, it was observed that, there were number of deviations in draft accounting standards prepared for the interim period, that is, Sri Lanka Public Sector Accounting Standards. Hence, it was observed that, it is pointless to deviate from SLPSAS and prepare new accounting standards for interim period.</p> | <p>As there is no possibility of using Sri Lanka Public Sector Accounting Standards fully in the interim period within the existing legal frame, 15 separate Accounting Standards based on Sri Lanka Public Sector Accounting Standards had been drafted to be used practically in the interim period.</p> | <p>Action should be taken to achieve the intended outcome by performing key functions of the Department.</p> |
| <p>(v) According to the special conditions (amended) in paragraph 2.3 of the Consultancy Services Agreement entered into between the Department of State Accounts and Ernst and Young Institute for converting process of Government accounting system from modified cash basis to accrual basis, this</p> | <p>Once the relevant approval is obtained by the Cabinet Paper drafted on the said conversion process, necessary amendments are due to be made to the Consultancy Services Agreement.</p> | <p>Action should be taken to achieve the intended outcome by performing key functions of the Department.</p> |

agreement expired within 12 months from the date of the Agreement. However, amendments relating thereto had not been made even by 20 May 2023.

(b) Maintenance of Deposit Accounts

Audit Observation	Comments of the Accounting Officer	Recommendation
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In terms of State Accounts Circular No.243/2015 dated 24 June 2015, it was intended to make zero the Deposit Account Category – 6003, and instructions had been given to carry out those activities through the annual estimate since the year 2016. However, there was a balance of Rs.10 million in a Deposit Account – 6003 and it was being brought forward for many years without settling the said balance.	The said debit balance had resulted due to erroneous note for account of the transfer paper accounted in the year 2007 by the Colombo District Secretariat. However, the Colombo District Secretariat has been instructed to take action for rectifying the said erroneous accounting during the year 2022 by holding discussions with the Department of Treasury Operations. Even though instructions have been again given at the meeting held on 23 December 2022, it had not been done so far, thus it has been informed in writing on 11.05.2023 as well to take action as per instructions given by the Department of State Accounts.	Relevant circular provisions should be implemented.

(c) Function of the Public Service Mutual Guarantee Association

Audit Observation	Comments of the Accounting Officer	Recommendation
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The Public Service Mutual Guarantee Association established by the Gazette Extraordinary No.9773 dated 24 September 1947, is functioning on the requirement specified by Financial Regulations from 880 to 893 and securities had been issued for 5,044 members by 20 May 2023. The balance of the Account of the Public Service	Public Service Mutual Guarantee Association is only one of the institution established for government officers who should furnish guarantee and the Association does not have legal authority to decide the amount of guarantee that should be furnished by members.	The relevant authorities should be informed of the circumstances where it needs to be updated by Public Service Mutual Guarantee Association which is one of the institutions to be furnished guarantee.

Mutual Guarantee Association as at 31 December 2022 was Rs.594,823. Moreover, it was observed that the value of guarantee furnished by each officer had not been revised even by 20 May 2023.

4. Human Resource Management

4.1 Assigned Cadre and Actual Cadre

Audit Observation	Comments of the Accounting Officer	Recommendation
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<p>Twenty Seven vacancies comprising 10 posts in the senior level, 02 posts in the tertiary level, 13 posts in the secondary level and 02 posts in the primary level existed in the Department as at 31 December 2022.</p>	<p>Letters regarding vacancies existed in this Department and the necessity of attachment of officers to those posts, have been forwarded to the Secretary to the Ministry of Finance, Economic Stabilization and National Policies and to the Secretary to the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government.</p>	<p>Action should be taken to fill the vacancies or to revise the cadre.</p>