

Head 102 -Ministry of Finance, Economic Stabilization and National Policies

1. Financial Statements

1.1 Opinion

Head 102- The audit of the financial statements of the Ministry of Finance, Economic Stabilization and National Policies 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 summery report containing my comments and observations on the financial statements of the Ministry Finance, Economic Stabilization and National Policies was issued to the Chief Accounting Officer on 26 May 2023 in terms of Section 11(1) of the National Audit Act, No.19 of 2018. The Annual Detailed Management Audit Report relevant to the Ministry was issued to the Chief Accounting Officer on 28 June 2023 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. 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.

The financial statements give a true and fair view of the financial position of the Ministry of Finance, Economic Stabilization and National Policies 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. 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 are 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 Ministry 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 Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Ministry 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 judgement and maintain professional scepticism 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 Ministry'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

2.1.1 Utilization of Provisions

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) The total net provision of Rs.18,475,000 allocated in the year 2022 for 35 expenditure codes had remained unutilized.	Limitation of capital expenditures, the Ministry of Economic Policies and Plan Implementation, the Ministry of Development Coordination and Supervision and the Board of Investment were liquidated and provisions were transferred to this ministry and vouchers were not presented as expected.	Action should be taken to prepare accurate estimates in terms of the financial regulations 50.
(b) In the year 2022, from the net provision of Rs.274,472,366 allocated for 36 expenditure codes to carry out the planned tasks, Rs.195,555,743 had remained without utilizing. Savings of those expenditure codes were range of from 51 percent to 99 percent of the total net provisions. It was observed that the balance of these expenditure codes was a	Not arising expenditure requirements as expected, 02 ministries were liquidated and provisions were transferred to this ministry, not providing sufficient imprest and not presenting vouchers as expected.	Action should be taken to utilize the provisions in the most efficient manner.

considerable amount, even though the circular provisions were imposed regarding the control and limitation of public expenditure in the year under review.

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| (c) | Without making provision of original estimate for 03 expenditure codes, provision of Rs.102,200,000 was made under supplementary estimate provision, out of that only Rs.90,258,499 was spent and a total of Rs.11,941,501 had remained. | Delay in setting up the State Owned Enterprise Restructuring Unit. | In preparing estimates, should be prepared accurate and fairly in accordance with the financial regulations 50. |
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2.1.2 Provisions made to Ministry units and other government institutions

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
Out of the total net provision of Rs.440,300,000 made in the year 2022 for 8 units of government institute and ministry for incurring expenditure, A Rs.352,362,212 or range of 41-100 percent provision had remained. Reasons for those savings include delay in appointing officers, amendment of agreements, Non-presentation of vouchers, not providing imprest and delays in the implementation of projects. Because of these, it was not possible to carry out the planned tasks of those divisions and institutions.	Delay in starting the restructuring unit, Amendment of agreements with service providing institutions, Not submitting the vouchers as expected, Not providing enough imprest, Delay in project implementation, Inability of recruiting staff, Due to the fuel crisis, training programs could not be conducted and the planned works could not be carried out due to non-recruitment of approved staff.	Provisions made to achieve the objectives of government institutions and units should be used efficiently.

2.2 Issuance and Settlement of Advances to public officers

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) A total of Rs.480,861 debt balance due from 04 officers who have left the service for a period of 05 to 18 years and Rs.119,073 debt balance due between 3-12 months and a total debt balance of Rs.599,934 was reviewed by the end of the year under review, it had not been received by the Ministry.	Letters have been sent to the Department of Attorney General's to take actions with the debts of two officials. The guarantors of the loans of two officers have been informed to settle the loans. One officer was informed to settle the loan balance.	Action should be taken to recover outstanding loan balances promptly.
(b) The total loan balance of Rs.3,522,356 was due from the officers attached to the Economic and policies development division and the said loan arrears balance had not been paid to the Ministry at the end of the year under review and only Rs.67,718 was charged by 21 April 2023.	In the year 2023, the loans of two officers will be collected in installments and sent to the Ministry. One officer's loan balance has been settled. Actions are being taken to write off the loan balance of one officer from the books.	Action should be taken to recover outstanding loan balances promptly.
(c) The outstanding loan balance due from an officer who left the service was Rs.170,562 which exceeded the period of 1-2 years. This loan balance was not recovered to the Ministry at the end of the year under review. Only Rs.5,000 was charged from the outstanding balance of this loan as at 21 April 2023.	It is being recovered in installments in the year 2023.	Action should be taken to recover outstanding loan balances promptly.

3. Operating Review

3.1 Performance

3.1.1 Failure to submit progress

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) As per the action plan of the Ministry of Finance, Economic Stabilization and National Policies related to the year 2022, The progress of the activities related to the special functions of the treasury was not indicated in the performance report related to the year under review.	All Treasury Departments operations were made to achieve the objectives of the Ministry and thereby financial operations activities were carried out to manage the existing conditions in practice.	The activities performed in relation to the year under review and the progress related thereto should be included in the performance report.
(b) Establishment Division of the Ministry under the Ministry of Finance, Supervision, guidance of public enterprises and funds, Administration and ensuring optimal performance, carrying out procurement activities related to funds and departments of public enterprises under the Ministry of Finance, Monitoring of projects undertaken by the Ministry of Finance and its departments Although the activities related to the works were expected to be carried out, the information about its progress was not given in the performance report related to the year under review.	A policy decision was taken to take special measures to monitor and restructure the work of public enterprises. And those activities have already started. Facilitated further necessary improvements in ITMIS and E-GP projects. Providing special facilities for simplifying the procedures by the departments concerned to facilitate trade and investment. And necessary attention was paid to maintain the necessary training and human resource management of the officers.	The activities performed in relation to the year under review and the progress related thereto should be included in the performance report.

3.1.2 Delays in the Execution of Projects

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) In the year under review, a total of Rs.262 million was allocated for the Social Safety Net Project (SSNP) implemented under the Ministry of Finance using local funds/foreign loans/aids, and A total of Rs.204.15 million was also allocated for the Financial Sector Modernization Project (FSMP). Due to the slow performance of those projects, 79 percent of the provisions for the Social Safety Network Project (SSNP) or Rs.207.61 million and Rs.192.29 million of the provision for the Financial Sector Modernization Project (FSMP) were remained unutilized for those projects.	According to the instructions given by the World Bank in February in the year 2022, the allocated provisions have remained due to non-implementation of certain procurement activities which cannot be completed by the project completion date.	The provisions which had made to achieve the project objectives should be used efficiently.
(b) Provisions of Rs.143,150,000 allocated for the year under review for Insurance Regulatory Commission of Sri Lanka (IRCL) under the Financial Sector Modernization Project, Rs.105,000,000, or 73 percent of the estimated allocation, was not used for the relevant work and It had been transferred to Securities and Exchange Commission (SEC), another institution of the Financial Sector Modernization Project.	Due to the fact that the expected expenditure for the relevant expenditure head (102-2-3-3-2509-31/12) did not arise despite being estimated, Provision was transferred to another necessary expenditure head of the same project as per F.R 66.	The provisions which had made to achieve the project objectives should be used efficiently.

3.2 Procurements

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
<p>An engineering estimate of Rs.15,698,375 had been prepared for a repair carried out in the Treasury Operations Department of the General Treasury Building, open bids were invited and the contract was awarded at a cost of Rs.12,732,080 (excluding tax) and the contractor had been paid Rs.8,418,434 by 05 May 2022. The following points are observed in this regard.</p>	<p>I would kindly like to inform that no actions have taken extended the bond period furthermore.</p>	<p>Performance security should be obtained as per the State Finance Circular and as per the instructions issued by ICTAD.</p>
<p>(a) Since the bid value was 20 percent less than the engineering estimate, the performance security was to be 15 percent as per the State Finance Circular No. 3/2020(i) dated on 11 January 2021 and ITB Section 34:2 of the guidelines issued by ICTAD. Although the Ministry had obtained 15 percent performance guarantee till 31 December 2021, It was observed that from 01 January 2022 to 12 August 2022 only 5 percent performance guarantee had been obtained.</p>		
<p>(b) Although the relevant contract should be completed and handed over on 16 July 2021, although the contractor has requested extensions up to 10 December 2021, despite the fact that the consultancy firm has informed that the reasons presented by the contractor for extending the dates are not at an acceptable level. It was observed that the contract period had been extended till 10 December 2021.</p>	<p>Date extensions were approved on the consent given by the consultancy firm.</p>	<p>Extension of the contract period should be done only on acceptable reasons.</p>

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| (c) According to the information submitted to the audit, the contract period was not extended beyond 10 December 2021, and the construction was carried out until 28 February 2022. Accordingly, as per clause 49.1 of the contract agreement, Rs.1,018,566 should be charged as late fees until 28 February 2022, but it was observed that the ministry had not made arrangements to charge accordingly. | No late fees had charged. | Action should be taken to charge late fees as per the contract agreement. |
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3.3 Assets Management

3.3.1 Annual Commodity Survey

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
According to the 2022 commodity survey reports of the ministry, Excess commodities worth Rs.2,111,801 were identified in 06 sections belonging to the ministry, but they were not formally taken in to the inventory.	Instructions have been given to the relevant divisions for correction.	Arrangements should be made to take excess goods in to the inventory.

3.3.2 Vehicles

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) According to the vehicle register maintained by the transport division of the ministry, 29 vehicles owned by the ministry had been released to other institutions, but they had not been formally handed over.	I would like to inform that if the relevant vehicles were given formally, the number of vehicles owned by the ministry would be reduced, and it would not be possible to retrieve those vehicles on the basis of the Ministry's need.	Arrangements should be made to hand over formally or obtain back to the Ministry

- (b) As at 31 December, the total number of vehicles owned by the Ministry could not be determined by computer printouts, as vehicle numbers and related costs could not be identified separately according to the asset list mentioned in the SA 82 computer printout of the Ministry's CIGAS computer software system. Furthermore, according to the fixed asset register maintained by the Ministry, the vehicle cost was Rs.692,869,000 as at 31 December 2022, while according to the CIGAS computer printout (SA-82), it was Rs.1,832,801,692, and a difference of Rs.1,131,932,692 was observed.
- I would like to inform you that the actions are being taken to update CIGAS computer software system.
- According to the list of assets mentioned in the computer printout, a system should be prepared so that vehicle numbers and related costs can be identified.

3.4 Management Weaknesses

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
<p>(a) Department of Telecommunications, Wildlife Trust and Sri Lanka media training Institute to be liquidated or merged with other institutions by Gazette No. 2187/27 and 09.08.2020, No. 2248/35 and 06.10.2021 and No. 2254/30 and 17.11.2021 The institution had been included in the scope of the Ministry of Finance. A committee consisting of four officers was appointed on 27 December 2021 to proceed with these institutions to be liquidated or merged, but a year has passed since the</p>	<p>Drafting the Gazette Notice for the Department of Telecommunications, making inquiries to the Secretary of the Ministry of Wildlife and Forest Resources Conservation about whether a case has been filed against the Wildlife Trust, and letters had sent requesting information about the preparation of the final accounts of the Sri Lanka media Training Institute.</p>	<p>That the activities related to the liquidated institutions which were included in the scope of the Ministry should be completed and arrangements should be made to close them according to the law.</p>

publication of the October 2021 gazette announcement regarding the liquidation of the relevant institutions by 31 December 2022. But after completion of the liquidation or amalgamation of the concerned institutions, the relevant gazette notifications were not issued for closure as per law.

- (b) As per the request of the Government of Sri Lanka, hosting the 55th Annual Conference of the Asian Development Bank (ADB) had been approved by the Board of Governors of the Asian Development Bank, and the Cabinet approval had given for the necessary arrangements on 09 February 2021. On 27 July 2021, the Cabinet had given approval to enter into a Memorandum of Understanding (MOU) and a Cost Sharing Agreement (CSA) with the Asian Development Bank for the organization of related tasks, and related expenses had been incurred in the years 2021 and 2022. But since the Council of Ministers had given approval on 16 April 2022 to make a formal communication to the Asian Development Bank requesting to postpone the annual meeting of the Asian Development Bank for the next year, It was observed that the total expenditure of Rs.115,264,619 which had been incurred till then in relation to holding the conference had become uneconomical for the Government of Sri Lanka.
- Apart from the payment made to the International Conference Organizer (Professional Congress Organizer) according to the agreement, all other expenses are the expenses incurred for the conference activities, and if the conference is to be held in this country in the coming year, the basic plans made this year in the organization activities for that, e.g. :- web page, Registration app, etc. are maintained in such a way that can be applied. Also, according to the experience of the officials, I think that there is a possibility of organizing the conference activities at a secondary level instead of at the primary level.
- Spending of government money should be done economically.

4. Human Resource Management

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) As on 31 December 2022, the total number of vacancies in the Ministry was 61. In that, there were 27 senior level vacancies and 17 secondary level vacancies.	The number of posts approved for the Revenue Management Unit to be established under the Ministry has also been included in the Ministry's post approval. Accordingly, since the number of posts approved for the ministry and the actual number of employees show a large number of vacancies, the Department of Management Services has been informed not to include them in the number of posts of the ministry and to put them as a separate approval.	Action should be taken to fill up the vacancies or revise the approved carder of employees in a formal manner.
(b) By paying salaries from the Ministry of Finance, as at 31 December 2022, a total of Rs.2,554,077 had been paid as salaries and allowances to 09 officers released to work in other institutions.	The officers have been assigned from institutions such as the President's Office, the Prime Minister's Office as per the request made according to the existing service requirements of those institutions and the said officers have been informed to be released back to this Ministry.	Formal release should be arranged so as to be able to receive salary and allowances from the institutions employed.