

Head 238 – Department of Fiscal Policy

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Head 238 – Department of Fiscal Policy for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, and cash flow statement for the year then ended and notes to financial statements including material accounting policy information, 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 Fiscal Policy was issued to the Accounting Officer on 30 May 2024 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 to the Accounting Officer on 09 August 2024. 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 Fiscal Policy as at 31 December 2023, and its financial performance and cash flow 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 the 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 determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the 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:

- 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 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, 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 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 in regard of the financial statements of the preceding year, had been implemented.

2. Financial Review

2.1 Revenue Management

2.1.1 Recovery of Outstanding Revenue

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) No amount whatsoever had been recovered from the social liabilities tax amounting to Rs. 62,842,201 that had remained due since years prior to 2010.	The revenue collecting institutions have been informed several times that the said outstanding revenue be recovered.	Action should be taken for the prompt recovery of outstanding revenue.

2.2 Management of Expenditure

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) Of the net provision amounting to Rs. 8,800,000 made under 02 items of expenditure in the year 2023, a sum of Rs. 5,175,127 equivalent to 55-100 per cent of the total net provision so made, had saved without being utilized.	Expenses expected under the Objects, 238-1-1-0-1409(24) and 238-1-1-0-2401 had not been incurred.	Estimates should be prepared accurately and realistically in terms of Financial Regulation 50.
(b) Provision amounting to Rs. 2,350,000 equivalent to 56-63 per cent of the initial estimate of Rs. 4,000,000 relating to 02 recurrent Objects, had been increased in terms of Financial Regulation 66.	Prices of office equipment and food items had extensively increased in the year 2023. As such, the provision made under Objects, 238-1-1-0-1201 and 1409(7) had become inadequate. Hence, additional provision had been made in terms of Financial Regulation 66.	- Do.

3. Operating Review

3.1 Performance

3.1.1 Planning

Audit Observation	Comment of the Accounting Officer	Recommendation
The output and outcome of the activities that should have been included in the Action Plan of the year under review in terms of Section 03 of the Public Finance Circular, No. 02./2020 dated 20 August 2020, had not been mentioned. Hence, efficiency of the activities in accordance with the Action Plan, could not be examined.	Agreed with the observation. The officers have been informed to take corrective action in due course.	The Action Plan should be prepared in accordance with the Public Finance Circular.

3.1.2 Discharging Functions

It is the key objective of the Department to formulate and implement the fiscal policies within the broad development framework of the Government in proper coordination with relevant institutions, Line Ministries and the private sector in order to achieve the expected economic and social objectives; and, formulation of the tax policy of the country, as well as making necessary amendments to the fiscal policy in view of fulfilling the expected objectives through the revenue , expenditure and financial analysis and analysis of local and foreign macro economic trends.

The Fiscal Management (Responsibility) Act No. 03 of 2003 controls the fiscal strategy of the Government, and the progress of 02 indicators on the execution of strategies implemented by the Government during 2019 – 2023 in order to achieve the objectives under this Act, is given below.

Year	2019	2020	2021	2022	2023
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Budget deficit - as percentage of the GDP.	9.6	11.1	11.7	10.2	8.3
Public debt – as a percentage of the GDP.	81.9	96.6	100.1	114.2	103.9

The following observations are made on the said matters.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) According to the Fiscal Management Act, the budget deficit should be maintained under 05 per cent of the GDP. However, the budget deficit had become 8.3 per cent of the GDP by the year under review.	<p>Noted.</p> <p>It is correct to state that the budget deficit should not exceed 05 per cent of the GDP in terms of Section 3 (a) of the Act.</p> <p>It is expected that, as compared to the sum of Rs. 2,013 Billion in the year 2022, a growth as higher as 52.8 per cent would be achieved reaching Rs. 3,074 Billion by the year 2023, thereby maintaining the budget deficit below 05 per cent from the year 2026.</p> <p>It is expected to introduce fiscal policies for the Government based on primary balance rather than the budget deficit, through the draft fiscal management Act scheduled to be made effective in due course. The reason therefor is that the expenditure on interest included in the budget deficit, is beyond control of the Government.</p>	It is necessary to maintain the budget deficit as mentioned in the Act.
(b) According to the Fiscal Management Act amended in the years 2013 and 2021, it is necessary to ensure that total liabilities of the Government should not exceed 80 per cent of the GDP estimated for the relevant fiscal year. However, a percentage of 103.9 per cent was indicated for the year under review.	<p>Noted.</p> <p>It is correct. The Acts, Fiscal Management (Responsibility) Act No. 03 of 2003 and the amendments thereto, Fiscal Management (Responsibility) (Amendment) Act No. 15 of 2013, and Fiscal Management (Responsibility) (Amendment) Act No. 12 of 2021, required that total liabilities of the Government should reach 60</p>	- Do -

per cent of the GDP by the year 2030.

With the objective of decreasing the debt, it is scheduled to introduce non-statistical fiscal rules through the draft fiscal management Act to be put in place in due course.

- (c) The fiscal management report issued in terms of Fiscal Management (Responsibility) Act No. 03 of 2003, discloses annually the forecasts of the Government within the mid term macro fiscal framework of the Government. Considering the mid term fiscal strategies of the Government disclosed in the fiscal management reports issued in the year 2023, particulars on actual data and forecasted data under 02 indicators, are as follows.

Priorities of the Government for the Year 2023 as per the Mid Term Macro Fiscal Policy	Actual Value (Annual Average)
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Restoration of the economy by the year 2023. To maintain an economic growth rate over 3.5 per cent by the year 2024 and a rate of 5-6 per cent thereafter.	-2.3
To reach an inflation of a single digit.	17.4

The following observations are made in this regard.

- (i) Restoration of the economy by the year 2023, to maintain an economic growth rate over 3.5 per cent by the year 2024 and a rate of 5-6 per cent thereafter had been identified as a priority of the Government, but the economic growth stood at -2.3 (minus 2.3) in the year under review.
- In the highly unfavorable economic backdrop resulted in the year 2022 following the economic crisis in the wake of Covid-19 outbreak that prevailed in the year 2020, it was extremely challenging the forecast the economic variances. Accordingly, the economy was expected to shrink by 3.0 per cent through the budget of the year 2023. Nevertheless, due to persistence of challenges such as, the economy shrinking by 7.3 per cent in the first half of the year 2023, foreign geo-political turmoil, and impact on
- Forecasts should be made realistically, and action should be taken to achieve them.

applications caused by further existence of import restrictions, it was expected that economic growth would shrink by 3.6 per cent in the year 2023 whereas that value would increase by 1.8 per cent in the year 2024. Signs of economic resilience are in the offing with the economy shrinking by 2.3 per cent in the year 2023 as against the economic growth of -7.3 per cent in the year 2023.

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| (ii) Although it was a priority for the inflation to be brought into a single digit by the year under review, the inflation had become 17.4. | The average surface inflation of the year 2024 based on Colombo Consumer Price Index being 46.4 per cent in the year 2022 declining to 17.4 per cent by the year 2023 was correct. Nevertheless, it is pointed out that the annual headline surface inflation based on Colombo Consumer Price Index had become a single digital, being 4.0 per cent, by the end of the year 2023. | - Do - |
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3.1.3 Establishment of a Debt Management Agency

Audit Observation	Comment of the Accounting Officer	Recommendation
The necessity of establishing the Public Debt Management Agency had been recognized with the objective of preparing sustainable strategies for reducing the debt ratio as compared to the GDP whilst ensuring prudence, but it was observed that such an agency had not been established by the end of the year under review.	In order to discuss about the technical and theoretical aspects of establishing the PDMA, several discussions had been held by the stakeholders of the Ministry of Finance and other institutions with agents of the International Monetary Fund and World Bank. As a result of those discussions, the necessity of specific legal provisions for establishing the PDMA was identified. Having included the legal framework required for establishing the PDMA, and legal	Expeditious action should be taken for establishing the Agency.

provisions required for sustainable management of public debt of Sri Lanka, the draft Act for public debt management had been prepared and presented to Parliament on 2024.04.26. Once the draft Act is approved by Parliament, further action will be taken to establish the PDMA.

3.1.4 Progress of the Budgetary Proposals

For the year 2023, a number of 120 budget proposals had been presented including 32 revenue proposals, 30 expenditure proposals, and 58 policy proposals. The total provision made on those budget proposals, amounted to Rs. 49,480 million. The following audit observations were made in that connection.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) Of the total provision amounting to Rs. 49,480 million, a sum of Rs. 43,000 million equivalent to 86.9 per cent of the total provision for the budget proposals, had been allocated on the Social Safety Nets Programme mentioned under Budget Proposal No. 47.2.	Agreed with the Observation. A sum of Rs. 43,000 million out of the total provision made on 30 expenditure proposals amounting to Rs. 49,480 million, had been allocated for the Social Safety Nets Programme mentioned under Budget Proposal No. 47.2.	Special attention should be brought on economic development programmes when presenting budget proposals.
(b) Out of the total number of 120 budget proposals, only 27 revenue proposals and 14 policy proposals had been implemented as at 31 December 2023. The number of proposals in progress after being implemented was 70 with 05 revenue proposals, 30 expenditure proposals and 35 policy proposals being observed therein.	Agreed with the observation.	Supervision of the implementation of budget proposals, should be done properly.

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| <p>(c) Some of the budget proposals presented for the year 2023, should have been implemented over several ensuing years. However, without mentioning a specific timeframe, the total provision on the proposals had been presented with respect only to the relevant year.</p> | <p>The information given is correct.</p> | <p>When presenting budget proposals, a specific timeframe should be given and action should be taken accordingly.</p> |
| <p>(d) None of the proposals for expenditure presented in the year 2023 could be fully implemented in the year. Except for the provision allocated on the Social Safety Nets Programme out of the expenditure proposals included in the budget proposals, a financial performance of 52 per cent equivalent to Rs. 3,351 had been indicated out of the total budget provision of Rs. 6,380 million made on the rest of the 29 expenditure proposals.</p> | <p>Agreed with the observation. The entire set of proposals made in the year 2023, could not be implemented in the same year, and some of them were midterm or long term proposals. Hence, the possibility exists for those proposals to be implemented in the year 2024 and beyond. A sum of Rs. 6,380 million had been allocated for the 29 expenditure proposals out of the total of 30, except for the Social Safety Nets Programme. A sum of Rs. 3,351 therefrom had been used on expenditures indicating a performance of 52 per cent. In the wake of economic crisis in the country, expenses of the Government had been controlled and restricted; and accordingly, implementation of some of the projects were suspended or limited in the year 2023 in accordance with the National Budget Circular No. 01/2023 issued by the Department of National Budget.</p> | <p>Action should be taken to present the expenditure proposals within a specific timeframe. A methodology should be put in place to take follow-up action and supervise the implementation of the proposals.</p> |

(e) Implementation of the expenditure proposals.

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| (i) Nine of the 30 expenditure proposals with budgetary provision amounting to Rs. 860 million, out of the 30 budget proposals, had achieved no financial progress whatsoever in the year 2023. | Agreed with the observation. The Ministries suitable for implementing the expenditure proposals of the year 2023 had been identified, and the proposals were assigned to respective Ministry. Nevertheless, difficulties in obtaining imprests and control of expenses happened due to the said Circulars when implementing the 09 proposals mentioned herein. However, it is pointed out that the relevant institutions should be queried as to the failure in implementing those proposals. | Implementation of the budget proposals should be properly supervised and follow-up action should be taken. |
| (ii) The financial progress of 03 expenditure proposals implemented by the Ministry of Education under a provision totaling Rs. 360 million in the year 2023 indicated zero. | Not agreed with the observation. A financial progress of Rs. 42 million had been acquired by one of the 04 expenditure proposals implemented by the Ministry of Education under a budget provision of Rs. 560 million in the year 2023. It is pointed out that the Ministry of Education should be queried as to the failure in implementing the 03 proposals mentioned in the audit query. | - Do. |
| (iii) Implementation of the Proposal No. 66.1 – Training of youth for foreign employment, under an estimate of Rs. 50 million, had been assigned to the Ministry of Sports and Youth Affairs, but no | Agreed with the observation. | - Do. |

activity whatsoever relating to that proposal, had been executed.

- (f) Implementation of the policy proposals.

Nine of the policy proposals out of the budget proposals of the year 2023, remained under discussions even by 31 December 2023 without being implemented.

Not agreed with the observation. The budget report of the year 2023 comprised 58 policy proposals. Implementation of some of those proposals was midterm or long term. As such, it is informed that 09 of the policy proposals mentioned herein, were still remained under discussions, and scheduled to be implemented in due course.

Action should be taken to present the policy proposals within a specific timeframe. Follow-up action should be taken on the progress.

- (g) Establishment of a Task Force had been proposed in accordance with Policy Proposal No. 71.1 included in the budget proposals of the year 2022 relating to taking follow-up action on the budget proposals of the preceding years. However, such a Task Force had not been established even up to 31 December 2023. Accordingly, new budget proposals had been presented annually though, the Department had not put in place a methodology to measure the progress of budget proposals presented in the preceding years.

In establishing the said Task Force, the requirement for an in depth analysis of aspects such as, persons to be appointed, commitment to legal and regulatory provisions, and assurance of efficiency in inter-institutional flow of data, was identified. Accordingly, discussions had been commenced for establishing the Task Force, and after a comprehensive analysis, the Task Force will be established in due course.

A methodology should be prepared expeditiously to take follow-up action on the budget proposals.

- (h) No follow-up action had been taken and no evaluation had been done on the expected progress of the budget proposals as per Policy Proposal No 5:4:10 of the year 2022. Of the total number of 151 budget proposals, only 12 of them

Not agreed with the observation. Once proposals are made through the annual budget, state Ministries and institutions are identified and responsibilities are assigned to them. Every

Follow-up action should be taken on the progress in implementing the budget proposals thereby taking necessary action to

had been implemented by the end of the year. Furthermore, only 41 of the 120 budget proposals of the year 2023 had reached conclusion. Although a considerable number of budget proposals had been presented annually, a progress could not be achieved in implementing such proposals due to reasons such as, lack of a methodology to prepare a specific timeframe for implementing the proposals, poor performance of the implementing agencies and supervising institutions, and lack of an institution or a party responsible for supervising and taking follow-up action on the implementation of proposals.

institution has a Chief Accounting Officer or an Accounting Officer and it is their responsibility to implement the proposals and inform the Ministry of Finance.

The relevant Chief Accounting Officers and the Accounting Officers had been informed on several occasions verbally and in writing that the proposals be implemented and the progress be reported. However, progress on reporting to us about the implementation of certain proposals remained poor.

The Ministry of Finance takes action to obtain the progress on the implementation of relevant proposals from relevant institutions monthly or quarterly. The progress reports so obtained, are provided for the relevant parties.

However, had the institutions failing to implement the budget proposals been continuously audited throughout the year, it is observed that the inefficiencies pointed out by you, would be avoided.

Each Ministry and Department to which the budget proposals are assigned, should implement them, and this process should be supervised by the Line Ministry as well. When funds are allocated for each of the projects, the progress of those projects should also be looked into, and it is the generally accepted procedure for the Treasury to release the financial provision thereafter.

ensure the achievement of expected progress in a timely manner.

3.2 Procurements

The following observation is made.

Audit Observation	Recommendation	Comment of the Accounting Officer
According to the Public Finance Circular Nos. 05/2018 dated 23 October 2018 and 08/2019 dated 17 December 2019 relating to the introduction of E-Procurement System to the Government institutions, the procurement entities should use the E-Procurement System when procurements are made under the shopping method. Nevertheless, procurement of goods valued at Rs. 3,330,175 had been made in 08 instances in the year 2023 by following the shopping method without using the E-Procurement System.	Action should be taken in accordance with the relevant Circulars.	Using the E-Procurement System in procuring goods, is being studied. However, it is pointed out that the total provision in possession of the Department for capital Objects, amounted to Rs. 600,000.00 only.

3.3 Management of Assets

Audit Observation	Recommendation	Comment of the Accounting Officer
Three vehicles had been obtained as at 31 December 2023 without being formally taken over from the Ministry of Finance.	Action should be taken for taking over the vehicles formally.	Upon request of the Department, vehicles have been assigned by the Ministry of Finance for use of the Department. It has been informed by the Ministry of Finance that those vehicles were released on temporary basis.

4. Management Weaknesses

Audit Observation	Comment of the Accounting Officer	Recommendation
Section 4 (b) of the Fiscal Polices Circular No. 01/2015 dated 20 July 2015 relating to the collection of Government revenue and Financial Regulation 128 (2) (e) stated on the necessity of special provisions for	The Fiscal Polices Circular No 01/2015 dated 20 July 2015 required the Revenue Accounting Officers to take action for recovery of the outstanding revenue. As	Action should be taken for the expeditious recovery of outstanding revenue in terms of Circulars and Financial Regulations relating to the recovery of outstanding

expeditious recovery of revenue due to the Government. According to the information made available to the Audit, the total revenue (tax and non-tax revenue) due as at 31 December 2023 that should have been collected by the main revenue collecting institutions of the Government, amounted to Rs. 714,989,620,126. Although a decrease of Rs. 128,986,232,809 in the outstanding revenue was indicated in the current year as against the preceding year, the revenue due from the Department of Inland Revenue, Sri Lanka Customs, and Department of Excise showed an increase of Rs. 117,512,309,997.

such, the Chief Accounting Officers of all the Ministries and Departments and other Accounting Officers as well as the Revenue Accounting Officers directly responsible for the relevant heads of revenue, are liable for the continuous recovery of outstanding revenue.

5. Human Resource Management

5.1 Assigned Cadre and Actual Cadre

Audit Observation	Comment of the Accounting Officer	Recommendation
Vacancies existed in 11 posts of the approved cadre as at 31 December 2023, and 04 of them were of senior level.	The Ministry of Public Administration, Home Affairs, and Provincial Councils and the Ministry of Finance, Economic Stabilization and National Policies have been continuously informed to take action to appoint officers to the vacant posts of the Department.	Action should be taken to fill the vacancies or amend the approved cadre formally.