

Head 238 – Department of Fiscal Policy

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statement of the Department of Fiscal Policy for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 Fiscal Policy was issued to the Accounting Officer on 30 May 2020 in terms of Section 11 (1) of the National Audit Act, No. 19 of 2018. The Detailed Annual Management Audit Report relating to the Department of Fiscal Policy in terms of Section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Accounting Officer on 30 November 2020. This report is presented to 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, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements prepared in accordance with the State Accounts Circular No. 271/2019 dated 03 December 2019 give a true and fair view of the financial position of the Department of Fiscal Policy as at 31 December 2019 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 Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). My responsibilities, under the financial statements 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 Chief Accounting Officer and 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 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 General'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, 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 skepticism 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 Department's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, significant audit findings, any significant deficiencies in internal control and other matters that I identify during my audit.

1.5 Report on Other Legal Requirements

As required by Section 6 (1)(d) and Section 3 of the National Audit Act, No.19 of 2018, I state the followings.

- (a) That the financial statements are consistent with the preceding year,
- (b) The recommendations made by me on the financial statements furnished in the previous year had been executed.

1.6 Comments on the Financial Statements

1.6.1 Statement of Financial Position

Audit Observation	Recommendation	Comments of the Accounting Officer
-----	-----	-----
Although the unsettled Imprest balance was Rs.310,093 as per Treasury books, that value had not been stated accurately in the financial assets and current liabilities in the Statement of Financial Position.	The requirement to take action to properly account the year end balances.	These are the payments made on behalf of the officers who participated in the 2019 Presidential Election Duties and that it had already been settled by the Election Office.

2. Financial Review

2.1 Income Management

Audit Observation	Recommendation	Comments of the Accounting Officer
-----	-----	-----
(a) Revenue Code and Description of Revenue Code – 10.02.10.00 – Social Responsibility Tax ----- An amount of Rs.64,630,999 related to the aforesaid Revenue Account as at 31 December 2019 remained arrears and it was observed that a balance of Rs.63,012,706 that had exceeded 06 years remained within this balance. In	The requirement to make special instructions for the immediate collection of arrears receivable to the	That Sri Lanka Custom and the Inland Revenue Department, which collect social responsibility tax, are responsible and that as

- | | | |
|--|---|--|
| <p>accordance with Financial Regulations No. 128 (e) of the Democratic Socialist Republic of Sri Lanka, an Accounting Officer on Public Revenue is responsible for inquiring into the Accounting Officers and Departments dealing with the collection of government revenue and making special provisions for the immediate collection of arrears due to the Government.</p> | <p>Government in accordance with Financial Regulations No. 128 (e) of the Democratic Socialist Republic of Sri Lanka.</p> | <p>the Accounting Officer of this Department had obtained half yearly Arrears of Revenue Reports and that it had also been instructed to take necessary steps to recover it expeditiously.</p> |
| <p>(b) It was observed favorable variations of 22 to 79 per cent and adverse variations of 30 to 325 per cent between the initial income estimate and the actual revenue collected during the year under review due to failure to prepare revenue estimates on the basis of proper review and analysis in estimating the revenue by the Department.</p> | <p>The requirement of the Department to have direct supervision over the revenue which cannot be specifically assigned to one Ministry or Department.</p> | <p>Basic assumptions based on the preparation of budget estimates for the year 2019 and their actual behavior, Government policy decisions as well as uncontrolled foreign market as well as domestic market behavior, changes in interest rates and exchange rates, the impact of whether and climate change as well as incurring of sudden disaster situations are the main reasons for the expected fluctuations in government revenue.</p> |
| <p>(c) It was not observed during the audit that the Revenue Accounting Officer or the Department had taken further action regarding the recovery of arrears of Excise Tax revenue of Rs.986,683,292 under tax revenue from 1994 to 2017.</p> | <p>The requirement to take further action to recover the arrears of income.</p> | <p>The legal actions are being taken by the Excise Department to recover these arrears taxes.</p> |
| <p>(d) It was observed during the sample audit that the total arrears were Rs.5,436,772,091 as arrears of Rs.938,291,784 for the year 2019, arrears of Rs.815,593,770 for the year</p> | <p>-do-</p> | <p>It was informed that the detailed analysis is currently being conducted by the Department to make the</p> |

2018 and cumulative arrears of Rs.3,682,886,537 relating to 12 Departments as at 31 December 2017.

necessary future policy decisions relating to arrears income of all existing Revenue Codes for tax and non-tax revenue and that special attention will be paid to the matters pointed out.

(e) It was observed that there was a total arrears of US Dollars 12,044,143 as an accumulated deficit of US Dollars 1,544,118 up to 31 December 2017, US Dollars 3,228,591 for the year 2018 and US Dollars 7,271,434 for the year 2019 out of revenue received from the duties of the United Nations Peace Operations under the Revenue Code No. 20.03.06.00 by the Sri Lanka Air Force Department.

-do-

The detailed analysis is currently being conducted by the Department to make the necessary future policy decisions relating to arrears income of all existing Revenue Codes for tax and non-tax revenue, and that special attention will be paid to the matters pointed out by you.

(f) Although Revenue Accounting Officers stated in (1)(a) of its schedule II of paragraph 07 of the Fiscal Policy Circular No. 01/2015 dated 20 July 2015 are required to submit their monthly reports on or before the 10 of the following month, there were instances when the Excise Department did not act in such a manner.

Requirement to submit the reports to be submitted by the Department in accordance with the relevant Circulars.

Since it clearly states how the Revenue Accounting Officers should submit their Revenue Performance Reports to the Department of Fiscal Policy as per the Fiscal Policy Circular No. 01/2015, Revenue Accounting Officers are regularly bound to furnish the relevant information and reports in a timely manner. In this regard, that the relevant Revenue Accounting Officers should directly responsible, the Department evaluate

the monthly revenue performance data of all Revenue Heads based on the copies of the Treasury printouts and that information will be used to make the necessary policy decisions.

2.2 Expenditure Management

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>The provisions of Rs.1,670,000,000 had been allocated as the amount to be paid relating to the settlement of a problem of a private company in international arbitration held in Singapore in the years 2006/2007 included in recurrent expenditure during the year under review and the entire provision had saved at the end of the year.</p>	<p>The requirement to take the necessary steps to prepare the annual estimates realistically and effectively.</p>	<p>It was informed that an agreement had to be signed with the relevant company in accordance with the International Arbitration decision for this purpose and as no agreement had been signed up to that extend and an annual provision had to be made for it until it was submitted for payment.</p>

3. Human Resource Management

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>There are 07 posts vacant out of the approved cadre in the Department and it is 13 per cent of the approved cadre. There are 04 senior-level posts among these vacancies and it was observed that these posts are being vacant continuously could adversely affect the performance of the Department.</p>	<p>The requirement to take actions to properly maintain the approved cadre in the Department</p>	<p>It was informed that the relevant recruitments will be made accordingly based on the requirement of the future staff as the entire staff is currently being evaluated.</p>