

Head 240 – Department of National Budget

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Department of National Budget 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. In terms of Sub-section 11(1) 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 31 May 2020. In terms of Sub-section 11(2) of the National Audit Act, the Annual Detailed Management Audit Report relating to the Department was issued on 21 December 2020 to the Accounting Officer. This report which should be read in conjunction with Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka is submitted to Parliament in terms of Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, the accompanying financial statements prepared in accordance with the provisions of 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 National Budget 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 Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). 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 Accounting Officer for the Financial Statements

Chief Accounting Officer and 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 such internal control 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 General'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 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 structure and content of the financial statements containing the disclosures and the transactions and events that underlie the financial statements in an appropriate and reasonable manner.

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

As required by Sub-sections 6 (1)(d) and Section 38 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.

2. Financial Review

2.1 Revenue Management

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
According to a budget proposal for the year 2015, the revenue for the year 2015 had been collected under the Revenue Head introduced for the purpose of accounting the down payments related to motorcycles given to public officers. However, since 2016, this revenue account had limited to correct error accounting as gross revenue collection of Rs.222 million, revenue reimbursement of Rs.101 million and net income of Rs.121 million. There were repayments by money totalling Rs.28 million in 2016 and 2017 in it. Although the revenues are being received to the account from the year 2016 up to now, any step had not been taken to rectify by confirming whether the receivable balances are existed.	Action should be taken to finalize the corrections as soon as possible.	Although the offices of the officers who claiming the motorcycles were instructed on how to account the revenue, the relevant income had been credited by those offices erroneously to other accounts. It had been advised from time to time to rectify the erroneous accounting and steps will be taken to complete the corrections as soon as possible.

2.2 Expenditure Management

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
Weaknesses in estimating		
(a) Programme 01 -----		
(i) An increase the provision totalling Rs.4.7 million on 02 Object Codes from 20 per cent up to 440 per cent under provisions of F.R.66/69 and decrease the provision totalling Rs.66.6 million on 08 Object Codes from 11 per cent to 27 per cent had been done.	Estimates should be prepared as accurate as possible.	The estimates had been prepared as accurately as possible and the Department had taken steps to manage the entire provision by transferring provisions in accordance with the rules of the Financial Regulations and Appropriation Act when required.
(ii) A sum of Rs.525 million as initial estimate and Rs.52 million under supplementary allocation had been allocated for the year 2019 under recurrent Object Code and a sum of Rs.1.7 million out of it had saved by the end of the year. Also, the provision under a capital Object Code totalling Rs.19.6 million had been transferred under F.R.66/69 and supplementary estimates.	-do-	-do-
(b) Programme 02 -----		
(i) In 02 Projects, increases the provision of Rs.34,377 million on 04 capital Object Codes from 15 per cent up to 100 per cent under provisions	Estimates should be prepared as accurate as possible.	The estimates had been prepared as accurately as possible and the Department had taken steps to manage the entire provision by transferring

- | | | |
|--|-------------|--|
| <p>of F.R.66 and decrease the provision of Rs.40,129.5 million on a recurrent Object Codes to 13 per cent had been done.</p> | | <p>provisions in accordance with the rules of the Financial Regulations and Appropriation Act when required.</p> |
| <p>(ii) A 22 per cent of the net provision of Rs.49,525 million for capital expenditure in 03 Projects had saved.</p> | <p>-do-</p> | <p>Since the provisions will not be released, there is no question of the accuracy of the estimates prepared here in cases where the progress of the implementation of the proposals is not satisfactory and in cases where the Line Ministries responsible for the implementation of the proposals do not request provisions.</p> |
| <p>(iii) The savings was 100 per cent out of total net provision of Rs.4,075 million in 11 capital Object Codes and 02 recurrent Object Codes of 03 Projects and the savings was ranged from 32 per cent to 63 per cent of the total net provision of Rs.1,500 million for 03 recurrent Object Codes and ranged from 20 per cent to 85 per cent of the total net provision of Rs.10,300 million for 12 capital Object Codes.</p> | <p>-do-</p> | <p>-do-</p> |
| <p>(iv) The 60 per cent and 80 per cent had been deducted out of initial estimate of Rs.11,000 million under F.R.66 of 02 recurrent Object Codes of 03 Projects.</p> | <p>-do-</p> | <p>-do-</p> |

- | | | | |
|-----|--|------|------|
| (v) | An initial estimate had not been done under Object Code 2509-27 and a sum of Rs.100 million had been transferred to this Object Code through F.R. 66 during the year 2019. | -do- | -do- |
|-----|--|------|------|

2.3 Reconciliation Statement of the Advances to Public Officers Account

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) The total loan balance of Rs.305,621 receivable from two deceased officers is being outstanding for more than 18 years and this had also been pointed out in previous audit inquiries. The action had not been taken to recover those loan balances even as at 31 December 2019.	Every possible step should be taken to settle the loan balances.	Every possible step had been taken to settle the loan balances. Action had been taken to recover Rs.101,561.30 from the balance also as at 31 December 2019.
(b) Although the recovery of the loan balance of Rs.150,119 receivable from a retired officer had been pointed out through audit queries even in the previous few years, It was observed that it was not yet possible to recover those balances.	-do-	-do-

3. Operational Review

3.1 Annual Performance Report

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
-----	-----	-----
(a) A 22 per cent out of the total capital net provision of Rs.49,525 million relevant to the budget proposals had saved.	The officials should act to implement budget proposals economically, effectively and efficiently.	Since the provisions will not be released, there is no question of the accuracy of the estimates prepared here in cases where the progress of the implementation of the proposals is not satisfactory and in cases where the Line Ministries responsible for the implementation of the proposals do not request provisions.
(b) The saving of the total net provision of Rs.4,075 million in 13 budget proposals was 100 per cent.	-do-	-do-
(c) The savings was ranged from 32 per cent to 63 per cent out of the total recurrent net provision of Rs.1,500 million of 03 budget proposals.	-do-	-do-
(d) The savings was ranged from 20 per cent to 85 per cent out of the total capital net provision of Rs.10,300 million of 12 budget proposals.	-do-	-do-

- | | | |
|--|------|------|
| (e) The deductions had been made up to 10 per cent to 80 per cent under F.R.66 out of preliminary estimate of Rs.32,000 million of 04 budget proposals. | -do- | -do- |
| (f) A recurrent expenditure of Rs.1,000 million had been allocated to provide a free glass of milk to school children under the budget proposals and it was observed that Rs.100 million out of it had been transferred later to capital expenditure under F.R.66. | -do- | -do- |

3.2 Management Weaknesses

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
-----	-----	-----
(a) There was a balance of Rs.177.5 million in a temporary deposit account as at 31 December 2019. In this deposit account, a sum of Rs.116.7 million paid by the public service field officers to settle the motorcycle loan had been credited to other receipts revenue account.	Steps should be taken to complete the settlement activities expeditiously.	Since the installments of 146,381 bicycles and related interest are paid in batches under 40 lot numbers, it is not possible to settle the deposits under this for the relevant motorcycle itself.
(b) According to the information provided by the National Budget Department for audit, 2,067 vehicles had been purchased under the financial lease in the years 2011-2012 and 792 vehicles out of it had been transferred the	Steps should be taken to complete the activities regarding transfer of ownership.	Since the vehicles purchased under the financial lease are registered in the name of the heads of the relevant institutions, the written instructions were given to those heads to take over the

ownership by the relevant departments. It has also been informed that 169 vehicles are being transferred ownerships and it has been informed that no information has been provided regarding the transfer the ownership of 1106 vehicles. The numbers of 179 vehicles were purchased for the Common Heads of Government Ministry (CHOGM) in 2014. The details of 173 vehicles out of these (29 coaster buses, 144 cars) were not submitted to audit.

ownership of the vehicles and also Bank of Ceylon and the Department of Motor Traffic to transfer the ownership of vehicles. Since the work to be done by the Department of Budget in this regard had been done properly, the responsible parties should take the actions to take over the ownership.

4. Human Resource Management

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>It is observed that as at 31 December of the year under review, there are 18 vacancies for 08 senior level posts, 07 secondary level posts and 03 primary level posts and due to those vacancies, they had to face difficulties in performing their duties (according to the performance report).</p>	<p>The actions should be taken to fill the vacancies or to revise Approved Cadre.</p>	<p>Although the requests had been made from time to time to fill the vacancies, the officers for that had not received so far.</p>