

## **Head 245 – Department of Public Finance**

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### **1. Financial Statements**

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#### **1.1 Qualified Audit Opinion**

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The audit of the financial statement of the Department of Public Finance for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019, 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 Public Finance was issued to the Accounting Officer on 31 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 in terms of Section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Accounting Officer on 05 January 2021. This report is presented to 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.

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 Public Finance 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**

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities of 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 Chief Accounting Officer and Accounting Officer for the Financial Statements**

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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 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**

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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 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.
- That the transactions and events underlying the structure and content of the financial statements are appropriately and fairly presented when submitting financial statements as a whole.

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

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I express the following matters in accordance with Section 6 (1)(d) and Section 38 of National Audit Act, No. 19 of 2018.

- (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 Financial Statements

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### 1.6.1 Statement of Financial Position

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| Audit Observation  | Recommendation  | Comments of the Accounting Officer  |
|--|---|---|
| -----  | -----   | -----   |
| Although the balance of the Imprest Account according to the Treasury books as at 31 December 2019 was Rs.1,045,734, that balance had not been stated under the current liabilities in the Statement of Financial Position. Also, although it was settled to the Treasury on 31 December 2019, the cash balance totalling Rs.1,045,734 not remitted to the Treasury had not been stated as cash and cash equivalents in the Statement of Financial Position. | The figures mentioned in the financial statements should be compared and presented with the Treasury books according to paragraph 3.1 of the Public Accounts Circular No.271/2019 dated 31 December 2019. | That the amount of Rs.1,045,734 is the final balance of the cash book as at 31 December 2019 and the cash book had been settled on that day and forwarded to the Treasury Operations Department and accordingly the balance of the cash book is Rs.00.00. |

### 1.6.2 Cash Flow Statement

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| Audit Observation  | Recommendation   | Comments of the Accounting Officer   |
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| -----  | -----  | -----  |
| The deposits received amounting to Rs.20,604 and deposits paid amounting to Rs.20,604 were made during the year under review had not been stated under the Financial Activities. | The Cash Flow Statement should be prepared as per the format stated in the Public Accounts Circular No. 271/2019 dated 03 December 2019. | The value of both receipts and payments sides in the Deposit Account is Rs.20,604 and that the value generated from it is zero and that it had not been stated under Financial Activities due to omission and steps will be taken to prevent such omissions in the future. |

### 1.6.3 Imprest Adjustment Account

| <b>Audit Observation</b>  | <b>Recommendation</b>  | <b>Comments of the Accounting Officer</b>   |
|---|--|---|
| Although the aggregate value of the credit side of the Imprest Adjustment Account submitted for audit was shown as Rs.2,466,461, it was observed that the total value of it was Rs.2,692,984. | The Imprest Adjustment Account should be prepared correctly. | Agreed with the audit observation. That it was an error typing and will make sure not to do so in the future. |

## 2. Financial Review

### 2.1 Expenditure Management

The following observations are made.

| <b>Audit Observation</b>  | <b>Recommendation</b>                                     | <b>Comments of the Accounting Officer</b>  |
|---|---|--|
| (a) The total provision of Rs.400,000 was made for two capital Object Codes during the year under review had been totally saved without any utilization.  | The utilization of provisions should be done efficiently. | Due to restricting public expenditure by the National Budget Circulars 04/2019, 05/2019 and 07/2019, that these provisions were left over as such repairs were postponed for future years when its needed, without major repairs being done urgently.  |
| (b) The provision of Rs.27.43 million was saved after utilizing those provisions due to an over provision of Rs.35.39 million had been made for 03 capital Object Codes and for a recurrent Object Code during the year under review. Those savings ranged from 25.65 per cent to 98.23 per cent of the net provisions were provided. | -do-  | No need to pay interest on property loans of officers who had been transferred to other workplaces and although it was planned to incur expenditure for furniture and office equipment and other capital expenditure and failure to encourage staff for local and foreign training workshops during the year under review as measures were taken to reduce government expenditure in accordance with the provisions of the National Budget Circular, that public expenditure had to be restricted in accordance with the provisions of the National Budget Circular. |

## 2.2 Enter to Commitments and Liabilities

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| <b>Audit Observation</b>   | <b>Recommendation</b>  | <b>Comments of the Accounting Officer</b>   |
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| All liabilities pertaining to a particular financial year should be released during that financial year and any liability should not be carried forward with the expectation of settlement within the next year in accordance with paragraph 02 (d) of Public Accounts Circular No. 155/2017 dated 27 April 2017. The Department had entered into liabilities totalling Rs.322,461.39 under 06 Object Codes as at end of the year under review contrary to those instructions. | Action should be taken in accordance with the circular instructions. | The details of Liabilities and Commitments should be reported to the Department of Public Accounts through the CIGAS computer programme in accordance with F.R.94 (1) by each Object Codes as per paragraph 4.11 of Public Accounts Circular No. 269/2019 dated 15 October 2019 and it was stated that any such unreported commitment or liability should not be settled during the year 2020 and therefore the relevant liabilities had been included in the CIGAS computer programme.<br>It is possible to enter into liabilities for the previous year till 31 March according to F.R.115 and due to practical issues, that the liabilities of a particular financial year will have to be transferred to the next financial year with approval and that the Statement of Liabilities had been submitted along with the annual financial statements. |

## 3. Operational Review

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### 3.1 Performance

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The following observations are made.

| <b>Audit Observation</b>  | <b>Recommendation</b>                                      | <b>Comments of the Accounting Officer</b>  |
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| (a) The Action Plan includes creating and updating a database for reviewing Department fees and charges and in this regard, it was informed to the audit that the data would be updated by MS-excel and a copy of | Action should be taken in accordance with the Action Plan. | If the details provided by those institutions are not sufficient before giving the recommendations of the Department of Public Finance, that action will be taken to give the Treasury approval after clarifying the facts from those institutions again. That the computer related entries maintaining by |

it was provided. That copy is a document that maintains information on letters receiving regarding amendments to fees and charges and the audit observed that it couldn't be able to maintain or review a database about fees and charges through it.

- (b) The functions of the Department according to the Action plan are the supervision of activities relating to fund management and formulate a related policy guideline to fund management. Accordingly, the Cabinet approval had been obtained by recommended to close of 13 Funds as per the Public Finance Circular No. 02/2018 dated 18 August 2018 issued by the Department in this regard and review report of Statutory, Non-Statutory Funds and Trust Funds presented on 31 March 2017. According to the current progress submitted for the audit of the Department, it was observed that steps had been taken to close only 05 Funds by 22 September 2020 and that, actions are being taken to close 08 Funds too.

MS-Excel in systematical basis received from government agencies are stated as 'Update Data Base' in the Action Plan by this Department, that the required information about data charges are processed in an easy to study manner through the database maintained by MS-Excel and without that, that there is no need for this Department to set up a special computer system by paying money to another institution.

-do-

That, 9 funds were already closed and actions are being taken to close the remaining Funds.

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| (c) | Although it was stated in the main functions of the Action Plan 2019 that the Fund Management Guidelines would be made for Development of Fund Management Policies and Guidelines, it was observed that the Fund Management Guideline had not been prepared even as at the end of the year 2019. | -do- | The Fund Management Guideline was among the guidelines prepared for issue under the Fiscal Management Act and it had been reported that this work will be temporarily suspended as per the instructions received from the Secretary to the Treasury at the meeting of the staff officers of the Department on 26 November 2019.  |
| (d) | Although the drafting of the Fiscal Management Act which was initiated on a budget proposal in 2015 was started with a new appearance and spending government funds since many years, it was observed that it had not been completed until end of 2019.  | -do- | That this work will be temporarily suspended on the instructions of the Secretary to the Treasury at the Chief Staff Officers' meeting of the Department and it had been informed that the Circulars 9/2020 and 02/2020 were issued by also doing periodic amendments needed for Financial Regulations and collecting those facts after cancelling all circulars which were prepared about public finance. |

### 3.2 Annual Performance Report

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The following observations are made.

| <b>Audit Observation</b>  | <b>Recommendation</b>  | <b>Comments of the Accounting Officer</b>  |
|---|--|--|
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| (a) Although a Human Resource Development Plan for the year 2019 had not been prepared as per the relevant format as per Public Administration Circular No.02/2018 dated 24 January 2018, it had been stated as 'complied' in the Compliance Report of the Performance Report 2019. | Action should be taken in accordance with Circular instructions. | Agreed with the audit observations. Preparing the Human Resource Development Plan for the year 2019 according to the relevant format as per the Circular.<br>The performance report stated "complied" by mistake and should be corrected as "non-complied" and that a Human Resource Development Plan had been prepared for the year 2020. |

(b) Although each of the officers had not signed the Annual Performance Agreement, it had been stated as “complied” in the Compliance Report of the 2019 Performance Report.

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According to the tailor made performance model preparing as per the Circular 02/2018 suit for the institute, The document signed under the supervision of the Moderator and the Appraiser is noted as performance and it is stated as “complied with” signing of Annual Performance Agreements for whole staff working in the institute. If any other performance agreement needs to be signed, that those performance reports will be signed in the future.

(c) Although at least 12 hours of training per year should be provided for each member of the staff as per Public Administration Circular No. 02/2018 dated 24 January 2018, only 23 were given training opportunities out of 64 actual cadre and it was stated as 'complied with' in the Compliance Report included in the Performance Report 2019.

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Although a Human Resource Development Plan for the year 2019 had not been prepared in accordance with the relevant format, the Department aims to provide at least one training program to each officer. In there, the staff will be briefed on the training programs conducted by various institutions and it is capable for apply officers who are interested and relevant for trainings. Accordingly, training opportunities had been provided to all the officers who applied.

#### 4. Human Resource Management

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##### **Audit Observation**

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There are 11 posts are being vacant out of Approved Cadre of the Department and it is 14.6 per cent of the Approved Cadre. There are 10 senior level posts in these vacancies and these posts were continuously vacant.

##### **Recommendation**

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The action should be taken to fill the vacancies or revise the Cadre as required.

##### **Comments of the Accounting Officer**

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The Approved Cadre in this Department is 77 and the current vacancies are 13. Out of those vacancies, 12 are senior level posts. At present the Ministry of Finance is in the process of revising the Cadre of the Department and it can be fill the current vacancies by that amendment.