

## **Head 309 – Department of Buildings**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Department of Buildings for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 containing my comments and observations on the financial statements of the Department of Buildings was issued to the Accounting Officer on 12 May 2021 in terms of Section 11(1) of the National Audit Act, No.19 of 2018. The Annual Detailed Management Audit Report relevant to the Department was issued to the Accounting Officer on 20 July 2021 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.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Department of Buildings as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities 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**

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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 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 Department 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 Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department 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'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 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 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

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I express the following matters in terms of Section 6 (1) (d) and Section 38 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.

## 1.6 Commenting on Financial Statements

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### 1.6.1 Cash Flow Statement

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#### (A) Non-revenue receipts

##### Audit observation

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Although Non-revenue receipts in the cash flow statement should be Rs.73,892,568, it had been shown as RS.5,623,302. Hence revenue receipts had been understated by Rs.68,269,266 in the cash flow statement.

##### Comment of the Accounting Officer

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In preparing the cash flow statement, cash receipts and cash payments are mentioned.

##### Recommendation

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Correct balances should be stated in the financial statements.

#### (B) Recurrent expenses

The following observations are made in accounting for recurrent expenditure related to financial statements.

##### Audit observation

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- (i) Although the personal emoluments under cash flows generated from operating activities in the cash flow statement was Rs.438,278,799 it was stated in the books of accounts as Rs. .388,809,755. Accordingly a difference of Rs.49,469,044 was observed.

##### Comment of the Accounting Officer

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No comments.

##### Recommendation

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All transactions must be included and the cash flow statement prepared correctly.

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| (ii)  | Although the subsidies and transfers were Rs 2,199,210, it was not mentioned.  | This is a mistake occurred.  | All transactions must be included and the cash flow statement prepared correctly. |
| (iii) | Expenditure on other Heads of Expenditure was Rs.975,233,920 but in the Cash Flow Statement it was Rs.852,403,940 with a difference of Rs.122,829,980. | Expenditure on other Heads related to the payment of the project and withholding of payment for those projects is recorded as debit payment. Other departmental expenses incurred in cash are included in the Cash Flow Statement. | All transactions must be included and the cash flow statement prepared correctly. |

**(B) Property plant and equipment**

Audit observation  
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According to the departmental books, the construction or purchase of physical assets and acquisition of other investments was Rs.3,689,159. But it had been shown under the cash flow generated from the investment activities in the cash flow statement as Rs.9,359,997. Accordingly the construction or purchase of physical assets and acquisition of other investments, had been overstated by Rs.5,670,839.

Comment of the Accounting Officer  
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The cash value of the new additions for the year 2020 in all the capital subjects of the Department is recorded in the Cash Flow Statement under Investment Acquisitions.

Recommendation  
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According to the departmental trial balance all expenses should be properly adjusted to the cash flow statement.

**1.6.2 Statement of Financial Status**  
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Audit observation  
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According to the SA-30 statement, the balance of the deposit account should have been

Comment of the Accounting Officer  
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The change of Rs.66,125 was due to a mistake.

Recommendation  
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Correct balances should be stated in the financial statements.

stated as Rs.1,012,461,003 under the current liabilities in the statement of financial position. However, it had been stated as Rs. 1,012,527,128. Hence current liabilities were overstated by Rs. 66,125 while understating the net assets by Rs. 66,125.

### 1.6.3 Statement of Financial Performance

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Audit observation

Comment of the Accounting Officer

Recommendation

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 Although an amount of Rs.5,623,302 was shown as Other receipts under non-revenue receipts in the statement, financial performance, it was stated as Rs.73,892,568 in the trial balance.

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 Failure to record receipts by debit notes was a mistake.

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 Correct balances should be stated in the financial statements.

### 1.6.4 Deposits

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The following shortcomings were observed in the accounting of deposits and balances related to financial statements.

Audit observation

Comment of the Accounting Officer

Recommendation

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 (A) Although the value of the deposit received as per the departmental trial balance was Rs.783,592,650, it had been shown as Rs.627,040,010 under the cash flows, thus the value of deposit received had been understated by Rs.156,152,640.

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 Cash flow statement was prepared by deducting Receipts and payments from debit notes from deposits received and payments.

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 All deposit receipts must be adjusted for cash flow.

(B) Although the value of deposits paid was Rs.932,401,343 as per the departmental books ,it had been shown under the cash flows as Rs. 862,276,779. Thus the value of deposit payments had been understated by Rs70,124,564.

Cash flow statement was prepared by deducting Receipts and payments from debit notes from deposits received and payments.

All deposit payments must be adjusted to the cash flow.

### 1.6.5 Advance Account Balance

The following deficiencies were revealed in the balance accounting of advance accounts at the end of the year.

Audit observation

Comment of the Accounting Officer

Recommendation

(A) Although the advance receipts value in the departmental trial balance was Rs.16,018,825, it was shown as Rs.1,152,313 in the cash flow statement, accordingly advance receipts had been understated by Rs.14,866,512 in the cash flow statement.

Advance receipts from debit notes were also included in the trial balance, but only the cash receipts were included In the cash flow statement.

Transactions during the year must be properly accounted for.

(B) Although the advance payment value in the departmental trial balance was Rs.15,548,326, it was stated as Rs. 14,745,153 in the cash flow statement. Accordingly a sum of Rs.803,173 had been understated in the cash flow statement.

Advance payments from debit notes were also included in the trial balance, but only the cash payments were included In the cash flow statement.

Transactions during the year must be properly accounted for.

### 1.6.6 Imprest balance

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The following observations were revealed in the calculation of the maximum balance

Audit observations -----	Comment of the Accounting Officer -----	Recommendation -----
Although a sum of Rs.1,493,846,714 should be stated as imprest received from the treasury in the statement of financial performance, it had been stated as Rs.1,493,780,000 in the financial statement. Accordingly a difference of Rs.66,714 was observed.	The maximum amount received from the Treasury in the financial statements was stated as Rs.1,493,780,000 which was obtained from the trial balance generated through CIGAS program as at 31.12.2020. This value is also equal to the sum of the monthly installments received from the Treasury.	Returns to the Treasury should be deducted and unsettled opening balance should be added and adjusted.

### 1.6.7 Imprest Adjustment Account

Audit observation -----	Comment of the Accounting Officer -----	Recommendation -----
(A) There is a difference of Rs.383,765 in comparison of expenditure in SA 10 with the expenditure in consolidated trial balance which should be adjusted to imprest adjustment account. However it had been adjusted as Rs.46,381,181 in the imprest adjustment account. Accordingly an amount of Rs.45,997,416 had been overstated in the imprest adjustment account.	The cash balance adjusted account stated as Rs.46,381,181.00 is the total amount of debit payments made in respect of the Heads of Expenditure of the Department.	Differences need to be identified and adjustments made to financial statements
(B) According to the Treasury Table SA30 and the Departmental books, it was not revealed any difference between the receipts and payments of deposits. Nevertheless, a sum of Rs.70,124,564 had been adjusted to the imprest	The deposit receipts and payments mentioned in the treasury books and the trial balance of the department are the same. Those receipts and payments include both debit note receipts and cash receipts, while deposits and payments in the imprest balance account are	Differences need to be identified and adjustments made to financial statements

adjustment account while Rs.156,552,640 had been adjusted as deductions.

recorded as receipts and payments received by debit notes.

(C) According to the difference in advance receipts and payments between the departmental consolidated trial balance and Treasury table SA52 should be deducted as RS.1,634,645 and added Rs.542,515 in the imprest adjustment account. However it was shown in the adjustment account as deduction of Rs.16,501,158 and addition of Rs.1,345,688. Accordingly additions of Rs.803,173 have been overstated while deduction of Rs.14,866,513 have been understated in the imprest adjustment account.

The advance receipts and payments in the imprest adjustment account are referred to as the total amount of advances received and payments made by debit notes.

Differences need to be identified and adjusted to financial statements.

## 2. Financial Review

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### 2.1 Certifications to be made by the Accounting Officer

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According to the provisions of Section 38 of the National Audit Act No. 19 of 2018, the Accounting Officer was required to certify the following matters, but had not acted accordingly.

#### Audit observation

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The Chief Accounting Officer and the Accounting Officer should ensure that an effective internal control system is set up and maintained for the financial control of the Department and that the effectiveness of the system should be reviewed from

#### Comment of the Accounting Officer

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To maintain an internal control system for effective financial control, 135 Financial powers are delegated. The internal governance of this department is constantly reviewed. I will submit written review reports for audit in the future.

#### Recommendation

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Must act in accordance with the provisions of Section 38 of the National Audit Act No. 19 of 2018.



time to time and necessary changes should be made to ensure that the system operates effectively. Those reviews should have been made in writing and a copy submitted to the Auditor General, but no statement had been submitted to the Audit that such reviews had been made.

## 2.2 Statement of Comparison of Advance Account to Public Officers

Audit observation	Comment of the Accounting Officer	Recommendation
Although the Director General of Buildings had instructed to recover the disaster loan balance of Rs. 139,820 due from an officer who terminated his service on 31.12.2020, before 31.12.2020, no action had been taken to recover that amount.	It has been decided to charge the guarantor and the surety has been informed.	Action should be taken to recover by the year 2020.

## 2.3 Non-compliance with Laws, rules and regulations

The following are the instances of non-compliance with the provisions of Laws, rules and regulations observed during the sample audit.

Reference to Laws, rules and regulations -	Observation	Comments of Accounting Officer	Recommendation
(A) Paragraph 1.6 of the Establishments Code of the Democratic Socialist Republic of Sri Lanka and National Budget	Non-compliance Although the loan balance of Rs.137,400 due from the transferred officers was to be recovered from the relevant transfer office at once, the loan balance was being recovered in installments from the transferred officer to the	The officer has been transferred to the Polonnaruwa Municipal Council. His loan amount is credited to Account 309012 through Account Summaries. Cannot be fully charged under 3.2.2 of Budget	Circulars should be followed.

Circular No. 118 of 11 October 2004 (B)Financial regulation 1646	Local Government Institutions.	Circular 118 dated 11.10.2004.	All running charts and the originals of Form 268 (a) are kindly submitted to the Auditor General.	Financial regulations must be followed.
The officers in charge of the vehicles along with the original copy of the monthly summary of travels prepared in Form 268 (a) should have sent the daily running charts of each month to the Auditor General through their respective Heads of Departments but had not acted accordingly.				

**3. Operating review**

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**3.1 Management weaknesses**

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Audit observation -----	Comment of the Accounting Officer -----	Recommendation -----
The Citizen / Client Charter had not been introduced in terms of Public Administration Circular No. 05/2008 dated 06 February 2008.	The Citizen Client Charter has been drafted. Work is underway to demonstrate it.	Circulars should be followed.

**4. Achieving the Sustainable Development Goals**

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The following observations are made.

Audit observation -----	Comment of the Accounting Officer -----	Recommendation -----
(A) Every Government Institution are required to comply with the United Nations Agenda for Sustainable Development goals 2030 and the Department of Buildings did not submit , the goals	In line with the United Nations 2030 Agenda for Sustainable Development, the Department has identified the goals and objectives that can be implemented.	Should aware of the 2030 Agenda and act accordingly and submit the relevant information to the audit.

and objectives of the Buildings Department within the scope of the year under review, to the audit.

(B) No action had been taken to identify the Sustainable Development Goals, Targets and the milestones to be achieved and the indicators for measuring the achievement on targets.

No comments

Need to be aware of the 2030 Agenda and act accordingly

## 5. Human Resource Management

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The following observations are made.

Audit observation

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The approved number of employees in the department was 613 and the actual number of employees was 511. Accordingly, the department had not taken action to fill the 119 vacancies.

Comment of the Accounting Officer

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The Ministry of Public Administration has been informed that these vacancies belong to the island wide services. Also, the appointments of technical officers and technical assistants, who are departmental appointments, have been given from the secondary level vacancies.

Recommendation

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Action should be taken to fill the vacancies for essential posts.