

Auditor General's Report on the Accounts of the Ministry of Finance and Planning and the Departments under the Ministry - 2010

This report comprises two parts.

Part 1 – Summary Report on the Accounts of the Ministry and the Departments under the Ministry.

Part 2 – Detailed Report on each Appropriation Head

Part I

Summary report on the Accounts of the Ministry of Finance and Planning and the Departments under the Ministry

1. The Ministry and the Departments under the Ministry

Head of Expenditure	Name of the Ministry / Departments
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102	Ministry of Finance and Planning
237	Department of National Planning
238	Department of Fiscal Policy
239	Department of External Resources
240	Department of National Budget
241	Department of Public Enterprises
242	Department of Management Services
243	Department of Development Finance
244	Department of Trade, Tariff and Investment Policy
245	Department of Public Finance
246	Department of Inland Revenue
247	Sri Lanka Customs
248	Department of Excise
249	Department of Treasury Operations

250	Department of State Accounts
251	Department of Valuation
252	Department of Census and Statistics
280	Department of Foreign Aid and Budget Monitoring
296	Department of Import and Export
323	Department of Legal Affairs
324	Department of Management Audit
-	Financial Statements of the Democratic Socialist Republic of Sri Lanka

2. Annual Action Plan

The Ministry and 18 Departments under the Ministry had prepared the Annual Action Plans at the beginning of the year and the following Departments had not prepared the Annual Action Plans by 31 December 2009.

Head	Department
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239	Department of External Resources
247	Sri Lanka Customs

3. Accounts

3.1 Appropriation Accounts

(a) Presentation of Accounts

The Ministry and 16 Departments under the Ministry had presented 17 Appropriation Accounts to audit by 31 March 2011 and 04 accounts had not been presented by 31 March 2011.

(b) Total Provision and Expenditure

The total net provision made for the Ministry and the 20 Departments under the Ministry amounted to Rs.854,732,390,440 and out of that a sum of Rs.824,757,197,902 had been utilized by the end of the year under review. Therefore, the net savings of the Ministry and the Departments ranged between Rs.38,576 and Rs.26,124,723,930 or 0.27 per cent and 95.54 per cent of the total net provision. Details appear below.

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Approp riation Head	Ministry / Department	Net Provision		Utilisation		Savings			Percentage
		Recurrent	Capital	Recurrent	Capital	Recurrent	Capital	Total	
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
102	Ministry of Finance and Planning	601,319,745	1,066,229,853	587,457,897	404,999,452	13,861,848	661,230,401	675,092,249	40.48
237	Department of National Planning	62,680,000	97,496,000	50,793,285	37,525,784	11,886,715	59,970,216	71,856,931	44.86
238	Department of Fiscal Policy	1,735,550,000	1,218,000	1,723,839,699	1,033,455	11,710,301	184,545	11,894,846	0.68
239	Department of External Resources	538,147,000	480,558,000	535,766,830	320,514,000	2,380,170	160,044,000	162,424,170	15.94
240	Department of National Budget	207,496,806	1,241,625,645	63,645,412	919,757	143,851,394	1,240,705,888	1,384,557,282	95.54
241	Department of Public Enterprises	36,461,000	1,722,391	34,667,340	1,463,724	1,793,660	258,667	2,052,326	5.37
242	Department of Management Services	27,095,000	2,025,000	25,490,004	1,434,718	1,604,996	590,282	2,195,278	7.54
243	Department of Development Finance	762,110,000	118,502,000	752,019,325	8,931,359	10,090,675	109,570,641	119,661,317	13.59
244	Department of Trade, Tariff and Investment Policy	1,002,439,000	719,000	932,877,799	701,344	69,561,201	17,656	69,578,857	6.94
245	Department of Public Finance	288,222,000	13,610,000	218,478,721	13,541,357	69,743,279	68,643	69,811,922	23.13

3.2 Revenue Accounts

(a) Presentation of Accounts

The number of Revenue Accounts that should have been prepared by 09 Departments under the Ministry for 68 Revenue Codes for the 2010 had been 68 and 15 Revenue Accounts had been presented for audit by 31 March 2011. Fifty three Revenue Accounts described below had not been presented to audit even by 31 March 2011.

Department	Revenue Code	Particulars
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Sri Lanka Customs	10.01.01.00	Import Duties
- Do -	10.01.02.00	Export Duties
- Do -	10.01.04.00	Ports and Airports Development Levy
- Do -	10.01.05.01	Import Cess Levy
- Do -	10.01.05.02	Export Cess Levy
- Do -	10.01.06.00	Motor Vehicles Concessionary Levy
- Do -	10.01.07.00	Regional Infrastructure Development Levy
- Do -	10.01.08.00	Special Commodity Levy
- Do -	10.01.99.00	Other
- Do -	10.02.05.01	Cigarettes
- Do -	10.02.05.02	Liquor
- Do -	10.02.05.03	Petroleum Products
- Do -	10.02.05.04	Motor Vehicles
- Do -	10.02.05.99	Other
Department of Inland Revenue	10.02.01.01	Value Added Tax (Financial Services)
- Do -	10.02.01.02	Value Added Tax (Other Services)
- Do -	10.02.01.03	Value Added Tax (Manufacturing)
- Do -	10.02.01.04	Value Added Tax (Imports)
- Do -	10.02.02.01	Goods and Services Tax (Services)
- Do -	10.02.02.02	Goods and Services Tax (Manufacturing)
- Do -	10.02.02.03	Goods and Services Tax (Imports)
- Do -	10.02.03.01	National Security Levy (Services)

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- Do -	10.02.03.02	National Security Levy (Manufacturing)
- Do -	10.02.03.03	National Security Levy (Imports)
Department of Excise	10.02.04.01	Liquor
- Do -	10.02.06.00	Tobacco Tax
Department of Inland Revenue	10.02.07.00	Stamp Duty
- Do -	10.02.08.00	Debits Tax
- Do -	10.02.09.00	Turnover Tax
Department of Fiscal Policy	10.02.10.00	Social Responsibility Levy
Department of Inland Revenue	10.02.12.01	Nation Building Tax (Services)
- Do -	10.02.12.02	Nation Building Tax (Manufacturing)
- Do -	10.02.12.03	Nation Building Tax (Imports)
- Do -	10.03.03.00	Betting and Gaming Levy
- Do -	10.03.04.00	Share Transaction Levy
- Do -	10.03.05.00	Construction Industry Guarantee Fund Levy
- Do -	10.04.01.02	Dividends Tax
- Do -	10.04.04.00	Economic Service Charge
- Do -	10.04.01.01	Other Corporate Tax
- Do -	10.04.02.01	Pay As You Earn Tax
- Do -	10.04.03.01	Withholding Tax (On Interest)
- Do -	10.04.03.99	Withholding Tax / on Fees and Other
- Do -	10.04.02.99	Income Tax (Non-corporate)
- Do -	10.04.01.03	Remittance Tax
Department of National Budget	20.01.03.00	Advance Accounts (Trading)
Department of Public Enterprises	20.02.03.00	Profits
- Do -	20.02.04.00	Dividends
Department of Valuation	20.03.02.09	Fees of Valuation Department
Sri Lanka Customs	20.03.02.17	Fees on Local Sale on Garments
Department of Public Enterprises	20.03.02.11	Legal Fees from Corporations and Statutory Boards
- Do -	20.03.02.20	Accounting and Auditing Standards Cess Levy
Department of Fiscal Policy	20.05.01.00	Central Bank Profits
Department of Inland Revenue	20.06.03.00	Domestic Capital Transfers

(b) Estimated and Actual Revenue

Revenue amounting to Rs.822,130,700,000 had been estimated under 68 Revenue Codes for the year 2010 by 09 Departments while revenue amounting to Rs.827,680,504,973 had been collected. Therefore, revenue ranging from 56.76 per cent to 359.14 per cent of the estimated revenue had been collected. Details appear below.

Revenue Accounting Officer	Revenue Code	Estimated	Actual	(Under- collection) / Over- Collection	Percentage
-----	-----	-----	-----	-----	-----
		Rs.	Rs.	Rs.	%
Director General of Customs	10.01.01.00	66,304,000,000	64,222,751,643	(2,081,248,357)	96.86
- Do -	10.01.02.00	21,500,000	20,629,322	(870,678)	95.95
Controller of Imports and Exports	10.01.03.00	250,000,000	310,609,461	60,609,461	124.24
Director General of Customs	10.01.04.00	49,000,000,000	49,632,566,610	632,566,610	101.29
- Do -	10.01.05.01	27,926,000,000	28,022,093,827	96,093,827	100.34
- Do -	10.01.05.02	1,848,000,000	1,730,274,307	(117,725,693)	93.63
- Do -	10.01.06.00	-	335,096	335,096	-
- Do -	10.01.07.00	2,500,000,000	4,717,512,848	2,217,512,848	188.70
- Do -	10.01.08.00	10,393,000,000	10,173,336,431	(219,663,569)	97.89
- Do -	10.01.99.00	-	-	-	-
- Do -	10.02.05.01	40,164,000,000	40,642,689,281	478,689,281	101.19
- Do -	10.02.05.02	-	19,621,931	19,621,931	-
- Do -	10.02.05.03	25,973,000,000	28,037,979,794	2,064,979,794	107.95
- Do -	10.02.05.04	20,420,000,000	21,198,647,763	778,647,763	103.81
- Do -	10.02.05.99	3,500,000,000	3,298,221,804	(201,778,196)	94.23
Commissioner General of Inland Revenue	10.02.01.01	28,686,000,000	29,826,277,828	1,140,277,828	103.98
- Do -	10.02.01.02	67,874,000,000	58,454,129,937	(9,419,870,063)	86.12
- Do -	10.02.01.03	32,912,000,000	31,705,003,722	(1,206,996,278)	96.33

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- Do -	10.02.01.04	93,156,000,000	99,577,710,760	6,421,710,760	106.89
- Do -	10.02.02.01	20,000,000	25,689,345	5,689,345	128.45
- Do -	10.02.02.02	20,000,000	12,844,673	(7,155,327)	64.22
- Do -	10.02.02.03	-	-	-	-
- Do -	10.02.03.01	10,000,000	16,759,064	6,759,064	167.59
- Do -	10.02.03.02	5,000,000	6,463,122	1,463,122	129.26
- Do -	10.02.03.03	-	-	-	-
Commissioner General of Excise	10.02.04.00	32,080,000,000	36,634,730,096	4,554,730,096	114.20
- Do -	10.02.06.00	26,000,000	32,155,684	6,155,684	123.68
Commissioner General of Inland Revenue	10.02.07.00	4,204,000,000	4,439,842,693	235,842,693	105.61
- Do -	10.02.08.00	9,559,000,000	10,843,436,359	1,284,436,359	113.44
- Do -	10.02.09.00	300,000,000	388,294,514	88,294,514	129.43
Director General of Fiscal Policy	10.02.10.00	4,010,000,000	4,781,359,899	771,359,899	119.24
Director General of Treasury Operations	10.02.11.00	9,941,000,000	8,868,352,701	(1,072,647,299)	89.21
Commissioner General of Inland Revenue	10.02.12.01	12,053,400,000	11,595,944,640	(457,455,360)	96.20
- Do -	10.02.12.02	7,945,600,000	7,714,130,983	(231,469,017)	97.09
- Do -	10.02.12.03	25,363,000,000	26,712,441,526	1,349,441,526	105.32
- Do -	10.03.03.00	300,000,000	294,841,046	(5,158,954)	98.28
- Do -	10.03.04.00	2,375,000,000	2,272,957,122	(102,042,878)	95.70
- Do -	10.03.05.00	780,000,000	829,785,134	49,785,134	106.38
Director General of Treasury Operations	10.03.06.00	1,050,000,000	1,068,735,261	18,735,261	101.78
Commissioner General of Inland Revenue	10.04.01.02	3,850,000,000	5,645,471,773	1,795,471,773	146.64
- Do -	10.04.04.00	15,000,000,000	18,047,723,176	3,047,723,176	120.32
- Do -	10.04.01.01	51,578,000,000	51,507,698,053	(70,301,947)	99.86
- Do -	10.04.02.01	16,000,000,000	16,268,173,200	268,173,200	101.68
- Do -	10.04.03.01	31,256,000,000	29,422,008,983	(1,833,991,017)	94.13
- Do -	10.04.03.99	11,344,000,000	9,239,680,706	(2,104,319,294)	81.45
- Do -	10.04.02.99	6,000,000,000	5,485,416,573	(514,583,427)	91.42
- Do -	10.04.01.03	12,000,000	6,810,657	(5,189,343)	56.76
Director General of National Budget	20.01.03.00	85,000,000	100,166,569	15,166,569	117.84

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Director General of Treasury Operations	20.02.01.01	670,000,000	696,660,029	26,660,029	103.98
- Do -	20.02.01.99	60,200,000	73,067,579	12,867,579	121.37
- Do -	20.02.02.01	7,641,000,000	6,549,368,192	(1,091,631,808)	85.71
- Do -	20.02.02.99	1,200,000,000	1,468,032,576	268,032,576	122.34
Director General of Public Enterprises	20.02.03.00	38,116,000,000	26,330,730,782	(11,785,269,218)	69.08
- Do -	20.02.04.00	1,384,000,000	4,970,556,572	3,586,556,572	359.14
Director General of Treasury Operations	20.03.01.00	78,000,000	100,231,718	22,231,718	128.50
Chief Valuer	20.03.02.09	25,000,000	19,179,282	(5,820,718)	76.72
Director General of Public Enterprises	20.03.02.11	28,000,000	32,607,518	4,607,518	116.46
- Do -	20.03.02.20	-	-	-	-
Director General of Treasury Operations	20.03.02.99	4,150,000,000	2,775,977,088	(1,374,022,912)	66.89
Director General of Customs	20.03.02.17	62,000,000	86,847,091	24,847,091	140.08
Director General of Treasury Operations	20.03.03.00	1,500,000,000	3,078,482,083	1,578,482,083	205.23
- Do -	20.03.99.00	5,000,000,000	8,140,791,587	3,140,791,587	162.82
Director General of Fiscal Policy	20.05.01.00	10,000,000,000	15,000,000,000	5,000,000,000	150.00
Director General of Treasury Operations	20.05.99.00	1,728,000,000	1,780,659,996	52,659,996	103.05
- Do -	20.06.02.00	250,000,000	240,455,985	(9,544,015)	96.18
Commissioner General of Inland Revenue	20.06.03.00	-	-	-	-
Director General of Treasury Operations	20.06.04.00	15,144,000,000	15,534,545,002	390,545,002	102.58
- Do -	30.01.01.00	19,000,000,000	16,950,005,976	(2,049,994,024)	89.21
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		822,130,700,000	827,680,504,973	5,549,804,973	100.67
		=====	=====	=====	=====

3.3 Advance Accounts

3.3.1 Advances to Public Officers Account

(a) Presentation of Accounts

Out of the 21 Advances to Public Officers Accounts that should be prepared by the Ministry and 20 Departments under the Ministry, 13 Accounts had been presented to audit by 31 March 2011 while the following 08 Advance Accounts had not been presented to audit.

Department -----	Item Number -----
Department of National Budget	24001
Department Management Services	24201
Department of Public Finance	24501
Department of Inland Revenue	24601
Sri Lanka Customs	24701
Department of Treasury Operations	24901
Department of Valuation	25101
Department of Legal Affairs	32301

(b) Compliance with Limits

The Ministry and 20 Departments under the Ministry had complied with the limits on the Advances to Public Officers Accounts as authorized by the Parliament.

3.3.2 Non-commercial Advance Accounts

(a) Presentation of Accounts

The following Non-commercial Advance Account that should be prepared by 01 Department under the Ministry had not been presented audit by 31 March 2011.

Department -----	Item Number -----	Advance Account Activity -----
Sri Lanka Customs	24702	Advance Account on the Expenditure on the Seized and Confiscated Goods

(b) Compliance with Limits

The following limits had been authorized by the Parliament for 03 Non-commercial Advance Accounts of 02 Departments under the Ministry.

Department	Item Number	Maximum Limit on Expenditure	Actual	Minimum Limit on Receipts	Actual	Maximum Limit on Debit Balance	Actual
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Sri Lanka Customs	24702	5,500,000	2,843,564	1,200,000	1,446,652	18,000,000	11,286,840
Department of State Accounts	25002	5,550,000	4,577,384	4,700,000	5,029,646	4,800,000	1,153,645
- Do -	25003	30,000,000	27,758,057	37,200,000	40,939,982	560,000,000	547,443,046

3.3.3 Advanced Accounts Under Liquidation

(a) Presentation of Accounts

One Department under the Ministry should have prepared 05 Liquidation Accounts for 05 Advance Accounts for the year under review. The 05 Advance Accounts shown below had not been presented to audit by 31 March 2011.

Department	Item Number	Advance Account
Public Finance	7000/0/0/999-05	Department of Small Industries
	7000/0/0/999-06	Department of Small Industries
	7000/0/0/999-08	Department of Commodity Purchase
	999/407	Purchase, Collection and Sale of Local and other Products, Provision of Cold Storage Facilities and Hospital Supplies Advance Account
	999/408	Transport Advance Account

(b) Period of Liquidation

The liquidation of 05 Advance Account Activities of one Department had been determined during the period March 1993 to 20 May 1998. Even though there were delays ranging from 12 years and 07 months to 17 years and 09 months in the liquidation, those Advance Accounts had not been liquidated even by 31 December 2010. Details appear below.

Department	Advance Account Activity	Item Number	Date of Commencement of Liquidation	Period Elapsed by 31 December (years)
-----	-----	-----	-----	-----
Public Finance	Department of Small Industries	7000/0/0/999-05	March 1993	17 Years 09 Months
	Department of Small Industries	7000/0/0/999-06	March 1993	17 Years 09 Months
	Department of Commodity Purchase	7000/0/0/999-08	20 May 1998	12 Years 07 Months
	Purchase, Collection and Sale of Local and other Products, Provision of Cold Storage Facilities and Hospital Supplies	999/407	20 May 1998	12 Years 07 Months
	Advance Account Transport Advance Account	999/408	20 May 1998	12 Years 07 Months

3.4 Imprest and General Deposit Accounts

3.4.1 Imprest Accounts

The debit balances and credit balances of the Imprest Accounts of the Ministry and 05 Departments under the Ministry as at 31 December 2010 totalled Rs.151,159,730 and Rs.14,864,733 respectively and an age analysis thereon is given below.

Ministry / Department	Age Analysis				Balance as at 31 December 2010 (Debit / (Credit)
	Less than 01 year Debit / (Credit)	Over 01 year less than 02 years Debit / (Credit)	Over 02 years less than 03 years Debit / (Credit)	Over 03 years Debit / (Credit)	
	Rs.	Rs.	Rs.	Rs.	Rs.
Ministry of Finance and Planning	--	--	--	120,012,635 (14,864,733)	120,012,635 (14,864,733)
Department of National Budget	259,533	--	83,325	--	342,858
Department of Inland Revenue	8,341,386	13,441,364	--	--	21,782,750
Sri Lanka Customs	541,751	--	3,060,000	1,846,600	5,448,351
Department of Fiscal Policy	173,136	--	--	--	173,136
Department of State Accounts	3,400,000	--	--	--	3,400,000

Part 2

1. Appropriation Head 102 - Ministry of Finance and Planning

The audit of the Appropriation Account including the financial records, reconciliation statements, books, registers and other records of the Ministry of Finance and Planning for the year ended 31 December 2010 was carried out in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Secretary to the Ministry on 03 August 2011. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

1.2 Responsibility of the Chief Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer is responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

1.3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Records and the Books for the year ended 31 December 2010, it was observed that except for the effects of the general observations appearing at (a) to (c) and other major observations appearing in paragraphs 1.4 to 1.7 herein, the Appropriation Account and the Reconciliation Statements of the Ministry of Finance and Planning had been prepared satisfactorily.

(a) Budgetary Variances

- (i) The entire capital provisions totalling Rs.155,150,000 made under 03 Objects had been saved.
- (ii) Out of the provisions made under 12 Capital Objects provisions totalling Rs.502,822,738 had been saved and the savings ranged between 13 per cent to 98 per cent of the net provisions.

(b) Advances to Public Officers Accounts

(i) Outstanding Loan Balances

According to the accounts presented, the balances that remained without being recovered as at 31 December 2010 totalled Rs.3,963,453 and the reasons for remaining outstanding and the outstanding period is given below.

Reason	Age Analysis				Total
	Less than 01 year	Over 01 year less than 02 years	Over 02 years less than 03 years	Over 03 years	
	Rs.	Rs.	Rs.	Rs.	Rs.
i Charge of Station Transfers	488,376	-	-	-	488,376
ii Retirements	-	-	-	135,757	135,757
iii Deaths and Vacation of Posts	75,280	82,191	-	1,247,560	1,405,031
iv Permanently released to Corporations / Board services	876,044	-	218,775	56,679	1,151,498
v Balance of the defunct Ministry of Policy Development and Implementation	-	-	-	782,791	782,791
Total	1,439,700	82,191	218,775	2,222,787	3,963,453

(ii) **Balance of the Defunct Ministry of Policy Development and Implementation**

Action on the loan balance of the Ministry of Policy Development and Implementation abolished in the year 2004 had been assigned to the Ministry of Finance and Planning. Out of the amount so assigned, an unidentified balance of Rs.8,372,085 existed as at 01 January 2010. According to decision of the Committee appointed in this connection, a sum of Rs.8,372,085 out of the balance in the General Deposit Account of the abolished Ministry of Policy Development and Implementation and credited to revenue had been obtained for the settlement of the unidentified loan balance. That balance had not been identified while it had not been established that the amount had been credited to the General Deposit Account.

(c) **Imprest Accounts**

The debit balances of 05 Imprest Accounts totalling Rs.120,012,635 and credit balances of 03 Imprest Accounts totalling Rs.14,864,733 of the Ministry of Policy Development and Implementation abolished in the year 2004 and assigned to the Ministry of Finance and Planning remained even after the assigning without being settled up to date.

1.4 Non – compliances

(a) **Non – compliance with Laws, Rules, Regulations, etc.**

Instances of non – compliance with the provisions of laws, rules and regulations observed during audit test checks are analyzed below.

Reference to Laws, Rules and Regulations	Non-compliance
-----	-----
Public Finance Circulars	

(i) Circular No. 340(1) of 18 December 1995	In the disposal of motor vehicles of a Ministry, the Secretary of the Ministry or the Additional Secretary, if approved by the Secretary should function as the

Chairman of the Valuation Board. Nevertheless, the Director of the Department of Public Finance had been appointed as the Chairman of the Valuation Board for the disposal of motor vehicles on 15 September 2010.

(ii) Circular No. 402 of 12 September 2002 Paragraph 2.4.1

The Annual Performance Report for the year 2010 had not been tabled in Parliament in terms of provisions in the Circular.

1.5 Financial and Operating Review

The observations of the progress of the Ministry according to the Budget Estimates 2010 / Action Plan are given below.

(a) Planning and Performance

- (i) Out of the allocation of Rs.557,250,000 made for the computerization of the Department of Inland Revenue a sum of Rs.389,674,346 or 70 per cent had been saved due to the delay in the procurement process.
- (ii) Out of the provisions of Rs.50,000,000 a sum of Rs.49,085,587 or 98 per cent had been saved due to the signing of the Loan Agreement on the Fiscal Management Project in October 2010.
- (iii) The entire provision of Rs.155,000,000 had been saved due to the failure to carry out the preliminary work on the implementation of the Capacity Development Fund for implementation with the contribution of the Asian Development Bank.

- (iv) Out of the money allocated for the Sri Lanka Accounting and Auditing Standards Monitoring Board a sum of Rs.1,330,000 or 66.5 per cent had been saved due to the inability to recruit of the Technical Staff scheduled for recruitment in the year 2010.
- (v) Out of the money allocated to the Agrarian and Agricultural Insurance Board, a sum of Rs.18,000,000 or 85.7 per cent had been shown as savings due to the non-receipt of imprests. The reasons for the non-receipt of imprests had not been revealed.
- (vi) Even though a sum of Rs.13,500,000 had been allocated for the construction of a new building that work had not been commenced.

(b) Operating Inefficiencies

- (i) Even though the staff officers of this Ministry and the officers of the Departments housed in the Treasury Building are allowed to occupy the official quarters of the Ministry, it was observed that a Deputy Secretary to the Treasury who had been transferred to the Ministry of Sports on 01 December 2010 had continued to occupy the house No. 75/3-2/1, Isipathana Mawatha with the approval of the Secretary to the Ministry.
- (ii) The house No. 2/2 Vipulasena Mawatha, Colombo 10, occupied by an Assistant Director of the Department of National Budget who had proceeded abroad with effect from 01 May 2010 had not been recovered up to date.

1.6 Human Resources Management
Approved and Actual Cadre

The position of the cadre as at 31 December 2010 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
-----	-----	-----	-----
(i) Senior Level	04	03	01
(ii) Tertiary Level	56	16	40
(iii) Secondary Level	128	110	18
(iv) Primary Level	113	112	01
	-----	-----	-----
Total	301	241	60
	=====	=====	=====

1.7 Internal Control
Maintaining Documents

It was observed that the Ministry had not maintained the following registers in the proper and updated manner.

<u>Type of Registers</u>	<u>Relevant Regulation</u>
(i) Register of Fixed Assets	Financial Regulation 502 and the Treasury Circular No. 842 of 19 December 1978.
(ii) Register of Assets for Computer and Accessories	Treasury Circular No. IAI/2002/02 of 28 November 2002

1.8 Report of the Auditor General on the Financial Statements of the Institute of Government Accounts and Finance for the year ended 31 December 2010

1.8.1 Legal Existence of the Institute **Establishment of the Legality of the Institute**

The following observations are made.

- (a) Activities of this Institute had been commenced under a Foreign Aid Project in year 1999 and after the completion of that project the Institute had been maintained with its own financial control obtaining only a Capital grant from the Government, without establishing as a legal entity by an Act of Parliament or under the Companies Act or any other written law.
- (b) The approval had been given to absorb the training activities implemented by Institute of Government Accounts and Finance and Institute of Public Finance and Development Accountancy and to establish the Academy of Financial Studies as a training division of the Ministry of Finance and Planning by the Cabinet Memorandum No. 10/1773/404/089 dated 04 August 2010. Even though the Academy of Financial Studies had been established accordingly, the activities of the Institute of Government Accounts and Finance had been carried out even up to the end of the year under review.

As the written guidelines for the Institute, stating the provisions of administrative and financial control had not been prepared or approved, the audit had been carried out assuming that the provisions in the Establishments Code of the Government, Financial Regulations and the Circular Provisions are applicable to this Institute as well.

1.8.2 Financial Statements

1.8.2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me. I am of opinion that the Institute of Government Accounts and Finance had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1.8.2.2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards give a true and fair view of the Institute of Government Accounts and Finance as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

1.8.2.2 Comments on Financial Statements

1.8.2.2.1 Non-compliances with Laws, Rules, Regulations etc.,

Instances of non-compliance with the following laws, rules etc, were observed in audit.

Reference to laws, rules, regulations etc.,	Non-compliance
-----	-----
(a) Establishments Code of the Democratic Socialist Republic of Sri Lanka	

Section 1.2 of Chapter IX	Incentive allowances and co-ordinating allowances of Rs.260,000 and Rs.436,000 respectively, to the staff of the Institute and a sum of Rs.529,530 as the allowance of 1/3 of the salaries to the Director and three Accountants had been paid during the year under review too, without the prior approval of the Director of Establishments.

1.8.2.2.2 Transactions not Supported by Adequate Authority

The following matters were observed.

- (a) Three officers who had exceeded 60 years of age in the years 2001 , 2004 and 2005 respectively, had been continuously employed and paid the salaries and other allowances even up to the year under review without sending them on retirement from the date of completion of 60 years of age, only on the approval of the Board of Directors without obtaining the approval of the Cabinet of Ministers.

- (b) Salaries of the Director of the Institute had been paid placing him in the salary scale of a Director General as stated in Public Administration Circular No. 2006/06 dated 25 April 2006. Nevertheless, the evidence was not furnished to audit that a proper approval had been taken thereon.
- (c) An Executive Director, three Instructors and a female Secretary had been recruited to the Institute in the year 2010. The audit could not be carried out in this regard as the relevant files, except appointment letters relating to recruitments had not been furnished to audit even though called for. Therefore it could not be accepted in audit that the recruitments were made in accordance with the laws, rules, regulations, etc.

1.8.3. Financial And Operating Review

1.8.3.1 Financial Review

1.8.3.1.1 Financial Results

According to the financial statements presented, the operation of the Institute for the year ended 31 December 2010 had resulted in a surplus of Rs.4,472,078 as compared with the surplus of Rs.17,776,883 for the preceding year. Accordingly, the surplus of the year under review had decreased by Rs.13,304,805 over the preceding year.

1.8.3.1.2 Analytical Financial Review

The estimated income relating to the year under review under training and educational programmes which were the main objectives of the Institute amounted to Rs.37,812,500 and the actual income earned amounted to Rs.22,584,150. Accordingly, the planned income had decreased by Rs.15,228,350 or 40 per cent. The estimated annual net income surplus, before Government grant and provision for depreciation amounted to Rs.9,400,000 whereas the actual annual net surplus for the year under review amounted to Rs.4,867,074 and it was a decrease of 48 percent of the estimated net income surplus.

The net profit ratio, before Government grant and provision for depreciation was 36.53 per cent in the previous year and it had decreased to 14.99 per cent in the year under review. This was a 25.57 per cent decrease when compared with the estimated net profit ratio. The actual income had declined by 30.45 per cent over the estimated income, the direct expenses of training income had increased by 23 per cent over the previous year and the total expenditure increased by 34 per cent over the previous year and those were the main reasons for this decrease.

Estimated overhead cost excluding direct training expenditure and the provision for depreciation amounted to Rs.22,367,000 while the actual overhead cost amounted to Rs.18,005,971. Accordingly, the estimated overhead cost had decreased by 19 per cent.

1.8.3.2 Operating Review

1.8.3.2.1 Physical Performance

It was planned to train 4210 officers during the year under review by 211 educational work shops. Nevertheless, 3105 officers had been trained by conducting 157 training and educational workshops. Accordingly, 54 courses out of the scheduled training courses had not been conducted by the Institute.

2. Appropriation Head 237 - Department of National Planning

The audit of the Appropriation Account including the financial records, reconciliation statements, books, registers and other records of the Department of National Planning for the year ended 31 December 2010 was carried out in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 11 August 2011. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

2.2 Responsibility of the Chief Accounting Officer and Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

2.3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Records and the Books for the year ended 31 December 2010, it was observed that except for the effects of the general observations appearing at (a) to (c) and other major observations appearing in paragraphs 2.4 to 2.6 herein, the Appropriation Account and the Reconciliation Statements of the Department of National Planning had been prepared satisfactorily.

(a) **Budgetary Variances**

Excess provision had been made for 09 Objects and as such, a sum of Rs.38,352,847 only had been spent out of the net provisions totaling Rs.109,690,000. The savings amounted to Rs.71,337,153 and ranged between 42 per cent to 100 per cent of the net provisions.

(b) **Reconciliation Statement of the Advances to Public Officers Account**

According to the Reconciliation Statement of the Advances to Public Officers Account Item No. 23701, the balances that remained outstanding as at 31 December 2010 totalled Rs.504,458 and the follow up action on the recovery of those outstanding balances had been at a weak level. An age analysis thereon is given below.

Reason	Age Analysis		Total
	Less than 01 year	Over 03 years	
-----	-----	-----	-----
	Rs.	Rs.	Rs.
i Change of Station Transfers	225,170	-	225,170
ii Dismissal from Service	-	204,989	204,989
iii Deaths	-	74,299	74,299
	-----	-----	-----
Total	225,170	279,288	504,458
	=====	=====	=====

(c) **Unsettled Liabilities**

Liabilities relating to 06 Objects totalling Rs.288,092 had been understated in the Statement of Liabilities in Form DGSA 9(i) of the Appropriation Account.

2.4 Non-compliances

Non – compliance with Laws, Rules, Regulations, etc.

Instances of non–compliance with the provisions in laws, rules and regulations observed during the course of audit test checks are given below.

Reference to Laws, Rules and Regulations	Value	Non-compliance
-----	-----	-----
	Rs.	
(i) Financial Regulation 94	702,635	The liabilities committed under five Objects contrary to Financial Regulation 94 amounted to Rs.702,635 and exceeded the savings remaining after the utilization of the net provision by a sum of Rs.696,077.
(ii) Treasury Circular 06/2010 of 04 November 2010	-	The instructions of the Treasury Circular had not been followed in closing the cash book.

2.5 Performance

The following observations are made.

- (i) Even though the particulars of the activities carried out by the Department of National Planning in the year 2010 were called from the Director General by letter dated 27 July 2011 and as such information was not furnished, the performance could not be examined in audit.

- (ii) Even though an allocation of Rs.1,000,000 had been made according to the Appropriation Account for the year 2010 for training and capacity development under the Education Sector Development Project, no utilization had been made. The reason adduced for non-utilisation was “Even though this provision was allocated for the foreign training programmes, such foreign training programmes could not be implemented as the provision was not adequate for the minimum number of members required for the training programmes”.
- (iii) Even though a provision of Rs.13,490,000 had been made for the Project for the Achievement of the Millennium Development Goals, the entire provision had been saved. The reason adduced for the saving was “As the publicity Programme prepared for the awareness of the Achievement of Millenium Goals Programme had been prepared in a manner not conducive to the achievement of the expected objectives, the implementation of the Publicity Programme was stopped”.

2.6 Human Resources Management

Approved Cadre and Vacancies

The position of the cadre as at 31 December 2010 had been as given below.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	71	30	41
(ii) Tertiary Level	03	01	02
(iii) Secondary Level	55	33	22
(iv) Primary Level	29	29	-
Total	158	93	65

3. Appropriation Head 238 - Department of Fiscal Policy

The audit of the Appropriation Account and Revenue Accounts including the financial records, reconciliation statements, books, registers and other records of the Department of Fiscal Policy for the year ended 31 December 2010 was carried out in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 08 February 2012. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

3.2 Responsibility of the Chief Accounting Officer and Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

3.3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Records and the Books for the year ended 31 December 2010, it was observed that except for the effects of the general observations appearing at (a) to (d) and other major observations appearing in paragraphs 3.4 and 3.5 herein, the Appropriation Account the Revenue Accounts and the Reconciliation Statements of the Department of Fiscal Policy had been prepared satisfactorily.

(a) **Presentation of Accounts**

The Department had not presented the following accounts to audit by 31 March 2011.

Revenue Code -----	Name of Account -----
10.02.10.00	Revenue Account
20.05.01.00	Revenue Account

(b) **Imprest Account**

The balances of the Imprests Accounts of the Department that remained without being settled from the year 2009 amounted to Rs.87,350 as at 30 April 2011.

(c) **Revenue Accounts**

(i) According to the 02 Revenue Accounts presented, the arrears of revenue totalled Rs.5,351,264,018 and those arrears of revenue related to periods ranging from 01 year to 05 years. The follow up action on the recovery of those arrears of revenue had been at a weak level.

(ii) **Statement of Arrears of Revenue**

Sri Lanka Customs, the Department of Excise and the Department of Inland Revenue also participated in the collection of the "Social Responsibility Levy". The Statements of Arrears of Revenue presented to the Auditor General in terms of Financial Regulation 128 (2)(c) should be prepared by including the arrears of revenue of those three Departments. Nevertheless, the Statements of Arrears of Revenue presented for the year 2010 did not including the data on the arrears of revenue of the Department of Inland Revenue.

(d) **Reconciliation Statement of the Advances to Public Officers Account**

According to the Reconciliation Statement of the Advances to Public Officers Account Item No. 23801 as at 31 December 2010, the balances that remained outstanding as at that date totalled Rs. 875,362.

3.4 **Non – compliances**

Non – compliance with Laws, Rules, Regulations, etc.

An instances of non – compliance with the provisions of laws, rules and regulations observed at audit test checks is given below

Even though a Register of Fixed Assets had been maintained in terms of the Treasury Circular No. 842 of 19 December 1978, the information on the assets of the Department had not been recorded in the proper and updated manner.

3.5 **Human Resources Management**

Approved Cadre and Vacancies

The position of the cadre as at 31 December 2010 had been as given below.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
-----	-----	-----	-----
(i) Senior Level	22	12	10
(ii) Tertiary Level	03	03	-
(iii) Secondary Level	25	19	06
(iv) Primary Level	15	10	05
	-----	-----	-----
Total	65	44	21
	=====	=====	=====

4. Appropriation Head 239 - Department of External Resources

The audit of the Appropriation Account including the financial records, reconciliation statements, books, registers and other records of the Department of External Resources for the year ended 31 December 2010 was carried out in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 05 August 2011. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and test of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

4.2 Responsibility of the Chief Accounting Officer and Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

4.3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Records and the Books for the year ended 31 December 2010, it was observed that except for the effects of the general observations appearing at (a) and other major observations appearing in paragraphs 4.4 and 4.5 herein, the Appropriation Account and the Reconciliation Statements of the Department of External Resources had been prepared satisfactorily.

(a) **Budgetary Variance**

Out of the net provision of Rs.460,000,000 made under the Object 239-01-01-2204(21) a sum of Rs.300,001,208 only had been utilized and a sum of Rs.159,998,792 or 35 per cent had been saved.

4.4 Non – compliances

Non – compliance with Laws, Rules, Regulations, etc.

Instances of non – compliance with the provisions of laws, rules and regulations observed at audit test checks is given below

Reference to Laws, Rules and Regulations	Value	Non-compliance
-----	-----	-----
	Rs.	
(a) Financial Regulation 94	232,874	The liabilities committed under 03 Objects contrary to Financial Regulation 94 amounted to Rs.232,874 and exceeded savings remaining after the utilization of the net provision by a sum of Rs.92,607.
(b) Treasury Circular No. 06/2010 of 04 November 2010	-	Even though the Chief Accounting Officer or the Accounting Officer should appoint a responsible officer for closing the cash book, that officer had been appointed by the Additional Director General.

4.5 Human Resources Management

Approved Cadre and Vacancies

The position of the cadre as at 31 December 2010 had been as given below.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
-----	-----	-----	-----	-----
(i) Senior Level	43	32	17	06
(ii) Tertiary Level	01	01	-	-
(iii) Secondary Level	70	43	27	-
(iv) Primary Level	29	28	01	-
	-----	-----	-----	-----
Total	143	104	45	06
	=====	=====	=====	=====

5. Appropriation Head 240 - Department of National Budget

The audit of the Appropriation Account and the Revenue Account including the financial records, reconciliation statements, books, registers and other records of the Department of National Budget for the year ended 31 December 2010 was carried out in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 30 January 2012. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

5.2 Responsibility of the Chief Accounting Officer and Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

5.3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Accounts and the Books for the year ended 30 April 2011, it was observed that except for the effects of the general observations appearing at (a) to (e) and other major observations appearing in paragraphs 5.4 to 5.8 herein, the Appropriation Account and the Reconciliation Statements of the Department of National Budget had been prepared satisfactorily.

(a) Presentation of Accounts

- (i) The Department had not presented the following accounts to audit by 31 March 2011.

Revenue Number	Code / Item	Name of Account
-----		-----
20.01.03.00		Revenue Account
24001		Reconciliation Statement of the Advances to Public Officers Account

(b) **Budgetary Variance**

The entire net provision of Rs.820,000 made under 02 Objects of the Operating Programme of Head 240 had been saved while the total net provision of Rs.104,000,000 made under 03 Objects of the Development Programme had been saved.

(c) **Imprest Account**

The unsettled imprest balances of the Department as at 30 April 2011 totalled Rs.342,857. Out of these balances, a sum of Rs.87,426 had been settled at present. Sums of Rs.83,325 and Rs.172,106 represented balances brought forward from the years 2008 and 2010 respectively.

(d) **Revenue Accounts**

- (i) Even though the original estimate of the Revenue Account for the year 2010 amounting to Rs.85 million had been revised to Rs.65 million, the revised estimate had not been shown the Revenue Account presented for audit.
- (ii) According to the above Revenue Account net revenue amounting to Rs.90,025,096 and Rs.100,166,569 had been collected in the two years 2009 and 2010 respectively. But the reasons for the revision of the original estimate of Rs.85 million for the year 2010 to Rs.65 million was not revealed to audit.
- (iii) The difference between the original estimate and reasons for the revised estimate and the variance had not been shown in the Revenue Accounts.
- (iv) Even though the Revenue Code and the particulars of the Revenue Code should be stated in all three languages in the Form D.G.S.A. Revenue 2, that information had not been stated in the Tamil Language in the Revenue Account presented.

- (v) Even though the net revenue for the year 2008 had been shown as Rs,146,083,303 in the Revenue Accounts for the years 2008,2009 and 2010 , it was stated in the letters BD/1/1/II/1 dated 10 June 2010 and BD/1/1/II(1) dated 12 September 2011 that the net revenue collected in the year 2008 should be corrected as Rs.72,821,863. Nevethless, action had not been taken to make the correction in the accounts.
- (vi) The information required to examine the amount of revenue transferred to the above Revenue Account from the revenue earned by the Department of Food Commissioner and the Sri Lanka Navy had not been furnished to audit .
- (vii) Even though the Department of Prisons had credited revenue to this Revenue Account in the preceding years no revenue whatsoever had been credited in the year 2010.

(e) **Reconciliation Statement of the Advances to Public Officers Account**

According to the Reconciliation Statement as at 31 December 2010 of the Advances to Public Officers Account Item No. 24001, out of the outstanding loan balances as at that date amounting to Rs.526,440 , a sum of Rs.202,291 had been settled at present and the follow up action on the recovery of the outstanding balances amounting to Rs.203,123 had been at a weak level.

5.4 Assets Management

Idle Assets

Out of the 238 assets which had been idling for more than 03 years as at 31 December 2010, it was stated that 125 assets which were not in a fit condition for auction had been destroyed on 29 March 2011. The information on the assets destroyed had not been furnished to audit.

5.5 Non-compliances

An instance of non-compliance with the provisions of Financial Regulations observed at audit test checks is given below.

The final report in terms of Financial Regulation 104 (4) relating to a motor van met with an accident on 21 October 2010 had not been furnished to audit.

5.6 Performance

Activities Contrary to Key Functions (Deviations from the Objectives etc)

An instance of action taken by deviations from the key functions by the Department was observed and the details are given below.

A sum of Rs.4,476,795 had been paid from the Object No. 240-01-01-1405 of the Department of National Budget as rent and electricity deposit for the procurement of office accommodations for the Public Service Commission.

5.7 Human Resources Management

Approved Cadre and Vacancies

The position of the cadre as at 31 December 2010 had been as given below.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	36	23	13
(ii) Tertiary Level	02	02	-
(iii) Secondary Level	83	63	20
(iv) Primary Level	35	29	06
Total	156	117	39

5.8 Internal Control

Even though a Register of Fixed Assets had been maintained in terms of the Treasury Circular No. 842 of 19 December 1978, information on the assets of the Department had not been recorded in the proper and updated manner.

6. Appropriation Head 241 - Department of Public Enterprises

The audit of the Appropriation Account and the Revenue Accounts including the financial records, reconciliation statements, books, registers and other records of the Department of Public Enterprises for the year ended 31 December 2010 was carried out in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 05 August 2011. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

6.2 Responsibility of the Chief Accounting Officer and Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account, the Revenue Accounts and the Reconciliation Statements in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

6.3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Records and the Books for the year ended 31 December 2010, it was observed that except for the effects of the general observations appearing at (a) to (c) and other major observations appearing in paragraphs 6.4 and 6.5 herein, the Appropriation Account, the Revenue Accounts and the Reconciliation Statements of the Department of Public Enterprises had been prepared satisfactorily.

(a) Budgetary Variances

Out of the net provision of Rs.400,000 under the Object 241-01-01-1506 a sum of Rs.348,120 had been utilized and a sum of Rs.51,880, that is 13 per cent had been saved. Out of the net provision of Rs.800,000 under the Object 241-01-01-2401 a sum of Rs.541,333 had been utilized and a sum of Rs.258,667, that is 32 per cent had been saved.

(b) Revenue Accounts

(i) Revenue Head 20-03-02-11 Legal Fees

Even though the revised estimate amounted to Rs.28,000,000 the actual revenue amounted to Rs.32,607,518 and as such the revenue had increased by Rs.4,607,517 that is 16.46 per cent.

(ii) Revenue Head 20-02-03-00 Profits

- i. According to paragraph 04 of the State Accounts Circular No.187/2006 dated 27 September 2006, the Treasury Computer Printouts should be reconciled with the Departmental books and report to the Director General of State Accounts by the last date of the ensuing month. But it had not been done accordingly.

- ii. According to Paragraph 4(e) of the Circular No. 01/2002 dated 17 July 2002 of the Department of Fiscal Policy and Economic Affairs this account had not been regularly reconciled with the Treasury accounts.
- iii. Even though the original estimate of revenue amounting to Rs.17,000,000,000 had been revised to Rs.38,116,000,000 , the net revenue for the year amounted to Rs.26,330,730,782. As such the net revenue for the year represented 155 per cent of the original estimate of revenue and 69 per cent of the revised estimate of revenue.

(iii) Revenue Head 20-02-04-00

- i. The Treasury Computer Printouts had not been reconciled with the Departmental books and reported to the Director General of State Accounts by the last date of the ensuing month in terms of paragraph 04 of the State Accounts Circular No. 187/2006 dated 27 September 2006.
- ii. Even though the original estimate of revenue for the year 2010 amounted to Rs.3,100,000,000 , it had been understated by a sum of Rs.100,000,000 and shown as Rs.3,000,000,000 in the accounts.
- iii. This account had not been regularly reconciled with the Treasury accounts in terms of Paragraph 4(e) of the Circular No. 01/2002 of the Department of Fiscal Policy and Economic Affairs dated 17 July 2002.
- iv. Even though the original estimate of revenue amounting to Rs.3,100,000,000 had been revised as Rs.1,384,000,000 the net revenue for the year amounted to Rs.4,970,556,572. That represented 160 per cent of the original estimate of revenue and 359 per cent of the revised estimate of revenue.

(c) **Reconciliation Statement of the Advances to Public Officers Account**

According to the Reconciliation Statement of the Advances to Public Officers Account Item No. 24101, the balances that remained outstanding as at 31 December 2010 totalled Rs.2,173,776 and the follow up action on the recovery of a sum of Rs.868,968 out of those outstanding balance had been at a weak level. An age analysis thereon is given below.

Particulars	Age Analysis			Total
	Over 2 years less than 3 years	Over 3 years less than 4 years	Over 5 years	
-----	-----	-----	-----	-----
	Rs.	Rs.	Rs.	Rs.
Loan Balances of 04 interdicted officers	332,459	438,114	98,395	868,968

6.4 Performance

The following activities planned for execution in the year 2010 had not been executed.

- (a) Introduction of performance scheme for providing an independence for the better performance of public enterprises.
- (b) Regularisation of the management of small scale enterprises
- (c) Introduction of management strategies for Capital and Insurance Market
- (d) Regularisation of the Post-privatization process.
- (e) Revision of the Organizational Structure.

6.5 Human Resources Management

Approved Cadre and Vacancies

The position of the cadre as at 31 December 2010 had been as given below

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
-----	-----	-----	-----	-----
(i) Senior Level	22	14	08	-
(ii) Tertiary Level	03	01	02	-
(iii) Secondary Level	33	19	14	-
(iv) Primary Level	11	09	02	-
(v) Others (Casual/ Temporary/ Contract Basis)	-	-	-	09
Total	69	43	26	09
	=====	=====	=====	=====

7. Appropriation Head 242 - Department of Management Services

The audit of the Appropriation Account including the financial records, reconciliation statements, books, registers and other records of the Department of Management Services for the year ended 31 December 2010 was carried out in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 25 January 2012. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

7.2 Responsibility of the Chief Accounting Officer and Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

7.3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Records and the Books for the year ended 31 December 2010, it was observed that except for the effects of the general observations appearing at (a) and (b) and other major observations appearing in paragraphs 7.4 and 7.5 herein, the Appropriation Account and the Reconciliation Statements of the Department of Management Services had been prepared satisfactorily.

(a) Presentation of Accounts

The Department had not presented the Reconciliation Statement of the Advances to Public Officers Account Item No. 24201 by 31 March 2011.

(b) Budgetary Variances

Excess provision had been made for 07 Objects and as such the savings after the utilization of provisions ranged between 27 per cent to 92 per cent of the net provisions.

7.4 Performance

It was observed that action had not been taken in accordance with the Action Plan in the following instances.

(i) Cadre Review of Four Selected Sectors

Even though it was informed that a review of the cadre of the Department of Labour and the Department of Inland Revenue was carried out in the year 2010, the documents in support of that were not available in the relevant files.

Even though plans had been included in the Annual Action Plan for carrying out a cadre review of the Colombo Municipal Council and the National Water Supply and Drainage Board in the year 2010, an examination of the relevant files revealed that those activities had not been carried out in the year 2010.

(ii) Remuneration Management

Even though plans had been included in the Annual Action Plan for the introduction of a new bonus systems for the Semi-Government institutions, that activity had not been carried out by the Department of Management Services. According to decision of the Cabinet of Ministers dated 30 December 2010, the formulation of policy on the payment of the annual bonus and the scheme had been assigned to the National Salaries and Cadre Commission.

(iii) Research and Development

Even though the amendments to the Management Service Circular No.33 had been planned for the year 2010 that had not been done. The drafts prepared for such amendments had not been completed up to date.

(iv) Management of the Database on Decision Making and Cadre Management

Even though plans had been made for the completion of the information on the cadre of Semi-Government institutions and the database of the actual cadre of the Pradeshiya Sabhas in the year 2010, those activities had not been achieved in the year 2010.

7.5 Human Resources Management
Approved Cadre and Vacancies

The position of the cadre as at 31 December 2010 had been as given below.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
-----	-----	-----	-----
(i) Senior Level	22	14	08
(ii) Tertiary Level	02	02	-
(iii) Secondary Level	40	33	07
(iv) Primary Level	13	12	01
	-----	-----	-----
Total	77	61	16
	=====	=====	=====

8. Appropriation Head 243 - Department of Development Finance

The audit of the Appropriation Account including the financial records, reconciliation statements, books, registers and other records of the Department of Development Finance for the year ended 31 December 2010 was carried out in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 27 July 2011. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

8.2 Responsibility of the Chief Accounting Officer and Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

8.3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Records and the Books for the year ended 31 December 2010, it was observed that except for the effects of the general observations appearing at (a) and other major observations appearing in paragraphs 8.4 to 8.6 herein, the Appropriation Account and the Reconciliation Statements of the Department of Development Finance had been prepared satisfactorily.

(a) Budgetary Variance

- (i) The entire provisions of Rs.99,750,000 made under one Capital Object and the entire provision of Rs.133,000 made under one Recurrent Object had been saved.
- (ii) Out of the provision made under one Recurrent Object a sum of Rs.9,648,942 amounting to 15 per cent and out of the provisions made under three Capital Objects a sum of Rs.9,740,338 ranging from 46 per cent to 66 per cent had been saved.

8.4 Non-compliances

(a) Non-compliance with Laws, Rules, Regulations, etc.

An instances of non-compliance with the provisions in Circulars observed at audit test checks is given below.

Even though the Performance Report should be tabled in Parliament in terms of Paragraph 2.4 of the Public Finance Circular No. 402 of 12 September 2002, the Performance Report for the year 2010 had not been tabled up to 03 August 2011.

8.5 Performance

The observations on the progress of the Department according to the Annual Budget Estimates / Action Plan for the year 2010 are given below.

(a) Key Functions not Executed Adequately

The Department had not executed the key functions adequately and several such instances observed are given below.

i. Small and Medium Scale Secured Loan Scheme

This Programme had been commenced in the year 2008 for creating a development in the Gem and Jewellery Industry by the Government guarantee in the loans granted to the Small and Medium Scale Borrowers in the Gem and Jewellery Sector. The Department of Treasury Operations of the Treasury had released a sum of Rs.20 million in that year to the Central Bank of Sri Lanka for this purpose. Even though sums of Rs.3,000,000 and Rs.2,800,000 had been allocated for this purpose in the years 2009 and 2010 respectively the Programme had not been implemented up to the end of December 2010.

The reason adduced in this connection in that this programme could not be implemented due a policy decision. Any return on the sum of Rs.20 million released to the Central Bank of Sri Lanka for the years 2008 up to date had not been obtained.

As such the development expected from the programme by the Government had not been achieved.

ii. Agricultural Livestock Development Loan Scheme

This Loan Scheme had been established in the year 2008 for the purpose of granting concessionary loans to the small scale milk producing farmers and milk producers. Even though a sum of Rs.75 million had been allocated in the year 2010 for the payment of interest subsidy, a sum of Rs.51.54 million out of that only had been paid. That represented 69 per cent of the estimated provision. As such the targets expected from the programme in the year under review had not been achieved.

8.6 Human Resources Management

Approved Cadre and Vacancies

The position of the cadre as at 31 December 2010 had been as given below.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	02	01	01
(ii) Tertiary Level	07	07	-
(iii) Secondary Level	07	07	-
(iv) Primary Level	08	07	01
Total	24	22	02

9. Appropriation Head 244 - Department of Trade, Tariff and Investment Policy

The audit of the Appropriation Account including the financial records, reconciliation statements, books, registers and other records of the Department of Trade, Tariff and Investment Policy for the year ended 31 December 2010 was carried out in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 30 January 2012. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

9.2 Responsibility of the Chief Accounting Officer and Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

9.3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Accounts and the Books for the year ended 31 December 2010, it was observed that except for the effects of the general observations appearing at (a) and other major observations appearing in paragraphs 9.4 and 9.5 herein, the Appropriation Account and the Reconciliation Statements of the Department of Trade, Tariff and Investment Policy had been prepared satisfactorily.

(a) Budgetary Variances

Excess provision had been made under one Object and the savings thereunder after the utilization of the provision amounted to Rs.103,927 and that represented 69 per cent of the net provision under that Object.

9.4 Human Resources Management

Approved Cadre and Vacancies

The position of the cadre as at 31 December 2010 had been as given below.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	19	12	07
(ii) Tertiary Level	01	-	01
(iii) Secondary Level	31	24	07
(iv) Primary Level	12	08	04
Total	63	44	19

9.5 Internal Control

A Register of Fixed Assets had not been maintained in the proper and updated manner in terms of the Treasury Circular No. 842 of 19 December 1978.

10. Appropriation Head 245 - Department of Public Finance

The audit of the Appropriation Account including the financial records, reconciliation statements, books, registers and other records of the Department of Public Finance for the year ended 31 December 2010 was carried out in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 30 January 2012. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

10.2 Responsibility of the Chief Accounting Officer and Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

10.3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Records and the Books for the year ended 31 December 2010, it was observed that except for the effects of the general observations appearing at (a) to (c) and other major observations appearing in paragraphs 10.4 and 10.5 herein, the Appropriation Account and the Reconciliation Statements of the Department of Public Finance had been prepared satisfactorily.

(a) Presentation of Accounts

The Department had not presented the following accounts to audit by 31 March 2011.

Head / Item Number	Name of Account
-----	-----
245	Appropriation Account
24501	Reconciliation Statement of the Advances to Public Officers Account

(b) **Budgetary Variances**

Excess provision had been made under 02 Objects and the savings thereunder after the utilization of provision amounted to 27 per cent and 28 per cent of the net provisions.

(c) **Advances Account Under Liquidation**

The unauthorized cumulative working losses of 05 accounts under liquidation amounted to Rs.560,088,622.

10.4 Human Resources Management

Approved Cadre and Vacancies

The position of the cadre as at 31 December 2010 had been as given below.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
(i) Senior Level	27	16	11	-
(ii) Tertiary Level	03	01	02	-
(iii) Secondary Level	28	32	-	04
(iv) Primary Level	17	13	04	-
Total	75	62	17	04

10.5 Internal Control

The Department had not maintained a Register of Fixed Assets in the proper and updated manner in terms of the Treasury Circular No. 842 of 19 December 1978. As such it was observed that the internal control on the fixed assets is weak.

11. Appropriation Head 246 - Department of Inland Revenue

The audit of the Appropriation Account and the Revenue Accounts including the financial records, reconciliation statements, books, registers and other records of the Department of Inland Revenue for the year ended 31 December 2010 was carried out in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 30 December 2011. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

11.2 Responsibility of the Chief Accounting Officer and Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account, the Revenue Accounts and the Reconciliation Statements in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

11.3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Accounts and the Books for the year ended 31 December 2010, it was observed that except for the effects of the general observations appearing at (a) to (f) and other major observations appearing in paragraphs 11.4 to 11.15 herein, the Appropriation Account, the Revenue Accounts and the Reconciliation Statements of the Department of Inland Revenue had been prepared satisfactorily.

(a) Presentation of Accounts

- (i) The Department had not presented the following accounts for audit by 31 March 2011.

Head / Revenue Code / Item Number	Name of Account
----- 246	----- Appropriation Acocunt
10.02.01.01	} 28 Revenue Accounts
10.02.01.02	
10.02.01.03	
10.02.01.04	
10.02.02.01	
10.02.02.02	
10.02.02.03	
10.02.03.01	
10.02.03.02	
10.02.03.03	
10.02.07.00	
10.02.08.00	
10.02.09.00	
10.02.12.01	
10.02.12.02	
10.02.12.03	
10.03.03.00	
10.03.04.00	
10.03.05.00	
10.04.01.02	
10.04.04.00	
10.04.01.01	
10.04.02.01	
10.04.03.01	
10.04.03.99	
10.04.02.99	
10.04.01.03	
20.06.03.00	
24601	Advances to Public Officers Account
--	Incentive Fund Account

- (ii) The Department had not furnished replies to two audit query issued in the year under review and one audit query issued in the preceding year to the Department even by 30 October 2011. The value of quantifiable transactions relating to those audit queries amounted to Rs.162,328,766.

(b) Budgetary Variances

- (i) The entire net provision of Rs.10,000,000 made under one Capital Object had been saved.
- (ii) Even though additional provision totaling Rs.353,800,000 had been made for 04 Objects in the year under review, a sum of Rs.81,604,825 out of that or 23.06 per cent only had been utilized.

(c) Imprest Account

- (i) The imprest balances of the Department not settled as at 30 April 2011 totalled Rs.21,340,870. Out of those balances a sum of Rs.13,441,364 represented balances remaining from 27 March 2009.
- (ii) According to the Departmental books, the unsettled sub-imprest balance as at 31 December 2010 amounted to Rs.21,782,750. That included a sum of Rs.34,294 relating to an error in the preparation of the Summary of Accounts and the reasons for that had not been furnished.
- (iii) According to Financial Regulation 371(5) all imprests issued should be settled by 31 December of the financial year. But postal imprests issued amounting to Rs.637,950 had not been settled on 31 December 2010 due to action taken contrary to that provision.

(d) General Deposit Account

- (i) Action in terms of Financial Regulation 571(3) had not been taken on 04 deposits amounting to Rs.194,590 lapsed for more than 02 years.
- (ii) The balance sum of Rs.38,010,472 out of the sum of Rs.517,710,000 transferred in terms of Financial Regulation 215(3) for incurring expenditure in the years 2009 and 2010 had neither been transferred to the State Revenue or Treasury approval obtained for carry forward for spending in the year 2011.

(e) Revenue Accounts

- (i) According to 25 Revenue Accounts presented and reported revenue amounting to Rs.214,434,026,697 had been in arrears and an age analysis had been furnished only for a sum of Rs.90,200,135,174 out of those arrears of tax. That included arrears of tax amounting to Rs.1,076,254,530 older than 15 years. Those arrears of taxes had not been shown in any of the 25 Revenue Accounts.
- (ii) The Statements of Arreras of Revenue relating to 25 Revenue Codes had not been prepared and presented on the specified dates in terms of Financial Regulation 128(2).
- (iii) The revenue totalling Rs.7,249,716 collected under the Construction Industry Guarantee Fund Levy Revenue Code (10.03.05.00) had been retained in a Deposit Account for more than one year without being credited to that Revenue Code.

- (iv) The revised estimate of revenue for the year 2010 amounted to Rs.420,603 million and the revenue collected amounted to Rs.420,340 million and as compared with the revised estimate of revenue, the revenue was less by Rs.263 million.
- (v) Out of net tax revenue of Rs.420,340 million, a sum of Rs.129,822 million or 30.9 per cent represented the revenue credited direct by various Departments to the Revenue Codes of the Commissioner General of Inland Revenue.
- (vi) Out of gross tax revenue of Rs.431,476 million a sum of Rs.11,136 million or 2.6 per cent of the tax revenue had been refunded.
- (vii) Arrears of revenue totalling Rs.450,050,718 collected under three repealed Tax Acts had not been shown in the Revenue Accounts as the revenue collected on arrears of taxes. Those had been shown as revenue collected in the year under review.
- (viii) The details relating to the accounting for receipts from Social Responsibility Levy, Fines and arrears of revenue of preceding years amounting to Rs.43,222,231 had not been furnished .
- (ix) According to the Departmental Reports of the three Revenue Control Accounts maintained for recording revenue, the revenue amounted to Rs.303,077 million and according to the Treasury records, the revenue amounted to Rs.303,315 million. Hence the Treasury records were overstated by a sum of Rs.238 million. Out of that Rs.202 million overstated in 02 Control Accounts had been transferred to a Deposit Account. The difference of Rs.36 million in the other Control Account had been added to the Revenue Account without identifying the reasons for the difference.
- (x) As the computer systems maintained by the Departments are erroneous, it was not possible to obtain the accurate and updated information on tax payers. .

- (xi) Withholding Tax amounting to Rs.519,174 recovered from the revenue of the Department of Sri Lanka Railways on which Withholding Tax is not recovered and remitted to the Commissioner General of Inland Revenue had been added to the Withholding Tax Revenue Code.

(f) Reconciliation Statement of the Advances to Public Officer Account

- (i) According to the Reconciliation Statement of the Advances to Public Officers Account Item No. 24601, the balances that remained outstanding as at 31 December 2010 totalled Rs.3,106,831 and the follow up action on the recovery of those outstanding balances had been at a weak level. Out of the outstanding amount a sum of Rs.905,464 had been older than 03 years.
- (ii) A difference of Rs.60,000 existed between the Departmental books and the Treasury Computer Printouts. This had resulted from a cheque fraud committed 28 years ago, that is in the year 1982.
- (iii) Action in terms of paragraph 3.2.1 of the National Budget Circular No. 118 of 11 October 2005 had not been taken for the recovery of a sum of Rs.68,340 recoverable from a Senior Tax Officer who had gone on transfer to the Eastern Provincial Council.
- (iv) Even though a sum of Rs.65,589 had been received for the settlement of the loan balances of three persons, that had not been credited to the Advance Account due to the inability to identify the details for accounting of the receipts.
- (v) A sum of Rs.210,267 recoverable from an interdicted officer had become irrecoverable.
- (vi) Loan balances amounting to Rs.718,556 recoverable from 07 officers who had vacated posts had become irrecoverable.
- (vii) The loan balances amounting to Rs.214,374 appearing in Schedule 09 of the Advance Account had become irrecoverable.

11.4 Assets Management

(a) Idle and Underutilised Assets

It was observed during audit test checks that certain assets had been either idling or underutilized as analysed below.

Type of Assets	Number of Units	Period of Idling or Underutilisation
-----	-----	-----
Building	01	Even though a sum of Rs.79,607,442 that is, at the rate of Rs.3,980 per square foot had been spent up to 30 November 2011 for the modernisation of the building at Nawam Mawatha taken over by the Department in the year 2006, the Department had not been able to use the building up to date.

(b) Conduct of Annual Board of Survey

The following observations are made.

- (i) Even though the Department had conducted the Annual Board of Survey in terms of the Financial Regulation 756 and the Finance Circular No. 441 of 09 December 2009, there had been considerable delays in the conduct of the Board of Survey. Accordingly, the Board of Survey of 17 Divisions and 09 Regional Offices for the year 2010 had been conducted after 31 March 2011.
- (ii) There was no evidence of action on the excesses and shortage pointed out and the other recommendations made in the Reports of the Board of Survey for the year.

(c) **Unsettled Liabilities**

According to the Appropriation Account presented to audit, the liabilities less than 01 year old not settled as at 31 December 2010 amounted to Rs.722,835. Even though the unsettled liabilities as at the end of the year under review amounting to Rs.722,835 only had been shown in the Appropriation Account, according to the commitments shown in the Appropriation (Votes) Ledger for the year 2011, liabilities amounting to Rs.3,056,641 in addition to the liabilities shown under 06 Object Codes in the Appropriation Account existed.

11.5 Non-compliances

(a) **Non-compliance with Laws, Rules, Regulations, etc.,**

Instances of non-compliance with the provisions in the laws, rules and regulations observed at audit test checks are analysed below.

Reference to Laws, Rules, Regulations, etc.,	Value	Non-compliance
-----	-----	-----
	Rs.	
(i) <u>Financial Regulations</u>		
Financial Regulation 104(3) (4) } Financial Regulation 109(1) }	801,098	Non-submission of Reports on Losses and Damage.
(ii) Financial Regulation 245(3) Financial Regulation 447(6)		The particulars relating to the payment vouchers and the payment voucher numbers had not been recorded in the Appropriation (Votes) Ledger.

(b) Non-compliance with Tax Requirements

Matters observed at the examination of tax files are given below.

(i) Tax File (i)

- i The tax returns relating to the period 31 March 2001 to 31 March 2006 only had been submitted for the business owned by the tax payer and according to the computer network system maintained by the Department, a sum of Rs.2,574,125 was receivable from him as at 26 August 2011.
- ii Even though it was informed that the business had been terminated in view of the failure to take action in the relevant periods for the failure to send the tax returns after 31 March 2006 the tax payer had been allowed to close down the business even without payment the arrears of tax.

(ii) Tax File (ii)

- i. As expenditure amounting to Rs.26,140,679 not allowed in the computation of tax in terms of Section 26 of the Inland Revenue Act, No. 10 of 2006 had not been added to the accounting profit, income tax amounting to Rs.9,149,238 had been under-recovered in the year of assessment 2008/09.

When this matter was pointed out in audit by audit query on 28 February 2011, an additional assessment for the underpaid tax had been issued.

- ii. In the computation of tax for the years of assessment 2005/06 and 2006/07, expenditure not allowed for the computation of tax amounting to Rs.1,122,462 and Rs.3,469,861 respectively had not been added to the accounting profits. As such tax amounting to Rs.392,861 and Rs.1,214,451 respectively not recovered were revealed at the audit test

checks. The Commissioner General of Inland Revenue had by his letter dated 24 June 2011 informed that action in terms Section 163(5) of the Inland Revenue Act, No. 10 of 2006 (due to prescription) could not be taken.

Accordingly, the income tax relating to the above amounts could not be recovered as the Assessor had not taken proper action within the specified period thus causing a loss to the Government. Even though Financial Regulation 142(1) requires the Assessors to make assessments without causing losses to the Government it had not been so done.

(iii) Tax File (iii)

The accounts of this tax payer submitted for the assessment of the tax for the years of assessment 2004/2005, 2005/06 and 2006/07 had been accepted as correct without carrying out a detailed audit or a field audit. As such income tax amounting to Rs.503,639 in the year 2004/05 due to the understatement of the tax adjustment profit by a sum of Rs.644,297 and the failure to add the expenses not allowed for deduction in the assessment of tax amounting to Rs.794,672 in respect of the year 2004/2005 and income tax amounting to Rs.617,187 for the year 2005/06 due to the failure to add the expenses not allowed for deduction in the assessment of tax amounting to Rs.1,763,391 , had not been recovered. It was pointed out in audit that expenditure of Rs.8,500,087 for the year of assessment 2005/06 is an expenditure not allowed and according to the letter dated 15 November 2011 of the Commissioner General of Inland Revenue, action had been taken to issue an assessment in that connection.

11.6 Weaknesses in the Implementation of Projects

Instances of projects abandoned without commencing, projects abandoned without completion and delays in projects revealed at audit test checks are given below.

Delays in Execution of Projects

Delays in the execution of the following project by the Department were observed.

Project	Estimated Cost	Date of Commencement	Date of Completion	Expenditure up to 31 December 2011	Reason for Delay
-----	-----	-----	-----	-----	-----
	Rs.			Rs.	
Regional Office, Galle	68,137,000	September 2007	December 2010	58,000,000	The activities of the project had not been directed properly

11.7 Performance

The observations of the progress of the Department according to the Annual Budget Estimates / Action Plan are given below.

(a) Key Activities not executed Adequately

A contract for an estimate of Rs.1,564,898,000 for the modernization of the Inland Revenue Building had been awarded in the year 2009 to the State Engineering Corporation. Even though the work on the construction of motor vehicle park of 08 storeys costing Rs.190,000,000 included in that estimate had been commenced, the construction work had been abandoned.

(b) Planning and Performance

A test check of the achievement of the targets shown under the different Divisions included in the Action Plan for the year prepared and presented to audit revealed that the targets shown in the plan had not been achieved in the time frame or subsequently. The Progress Reports in connection with the reviews carried out for the implementation of the targets in the plan relating to the computer Development, Betting and Gaming Levy, Stamp Duty, large scale tax payers and the Pay As You Earn Tax Division, for example had not been furnished to audit.

11.8 Deficiencies in the Operation of Bank Accounts

Balances for Adjustment

Information revealed at an analysis of the adjustments shown in the Bank Reconciliation Statements prepared for December 2010 is given below.

Bank Account	Adjustments	Over 06 Months less than 01 year
-----	-----	-----
		Rs.
(i)	85 Cheques issued but not presented for payment	1,496,037
(ii)	40 Such cheques	68,431,847

Action in terms of Financial Regulation 395(c) had not been taken even up to 30 September 2011 on 40 cheques valued at Rs.678,822 out of the cheques older than 06 months under the Bank Account (i) above.

11.9 Transactions of Contentious Nature

Examination of the Payment at Deyata Kirula Exhibition 2010

The following observations were observed.

- (a) A certificate that the work had been executed as specified had not been annexed in terms of Section 8:12:2 of the Procurement Procedure, to the final payment voucher for the exhibition stall.
- (b) Approval in terms of the Public Administration Circular No. 02/2010 of 16 February 2010 had been granted for the payment of Rs.1,000 per staff officers for exhibition duty exceeding 04 hours on weekdays and Rs.2,000 for duty over 08 hours on weekends and public holidays and Rs.750 and Rs.1,500 for other officers for the officers who served at the Deyata Kirula Exhibition from 27 January 2010 to 11 February 2010 on condition that no other payment is made for that period.

11.10 Irregular Transactions

Certain transactions entered into by the Department had been devoid of regularity. Several such instances observed are given below.

(a) Transactions without Authority

According to Section 5:4:4 of the Procurement Guidelines advances cannot be paid for items not specifically included in the estimate. An advance of Rs.3,040,352 had been paid in connection with Contingencies amounting to Rs.5,144,831, unspecified item of Rs.8,000,000 and price fluctuations amounting to Rs.2,057,932 totalling Rs.15,202,763.

(b) **Others**

(i) **Examination of Assessment Rates Payments**

The matters observed at the examination of the assessment rates on the properties owned by the Department of Inland Revenue are given below.

- i. As the Inland Revenue Building had been attacked by the terrorists, offices had not been maintained in that building and the offices had been started therein subsequent to the modernisation, with effect from April 2010. The exemption from assessment rates had been obtained from the last 03 quarters of the year 2009 only while exception for the first quarter, in which the offices had not been maintained, had not been obtained in advance and a sum of Rs.1,746,889 had been paid as the assessment rates for that quarter.
- ii. Action had not been taken for the settlement of the arrears of assessment rates amounting to Rs.742,252 relating to the period prior to the takeover (prior to the year 2006) of the building owned by the Co-operative Wholesale Establishment situated at Jawatta from the Co-operative Wholesale Establishment.

(ii) **Examination of Recovery of Rent on Official Quarters, Circuit Bungalows and Chummeries Buildings**

- i. Even though rent in terms of Section 5:3:1 and 5:4:1 of Chapter XIX of the Establishments Code should be recovered from the office occupying the scheduled quarters, a test check revealed that rent amounting to Rs.266,911 had not been recovered for 10 officers who had occupied the scheduled quarters at Anuradhapura and Nuwara Eliya.
- ii. Sums totalling Rs.219,725 had been under-recovered from 03 officers who had occupied the scheduled quarters at Nuwara Eliya and Batticaloa.

- iii. Even though the economic rent determined in terms of Section 5:2:4 of Chapter XIX of the Establishments Code should be recovered from the occupiers of the Chummary buildings rent had not been recovered from the Chummary buildings at Anuradhapura. There was no evidence to support that the economic rent determined for the Chummary buildings at Badulla and Nuwara Eliya is the specified economic rent.
- iv. As no one had occupied one of the scheduled quarter and several Chummary buildings at Anuradhapura, those had become idle resources.

(iii) Irregular Removal of the Departmental Goods / Equipment after the Terrorist Attack on 20 February 2009

A large stock of goods and equipment of the Department which remained after the terrorist attack on 20 February 2009 had been irregularly removed by the State Engineering Corporation awarded with the modernization work, thus depriving a large amount of money due to the Government. The matters observed in this connection are given below.

- i. According to the letter dated 22 May 2009 of the Additional Director General of Special Tax Administration of the Ministry of Finance and Planning, the particulars of the goods and equipment of the Department taken over and handed over to other Government institutions by the State Engineering Corporation should have been furnished to the Department of Inland Revenue. But those had not been furnished.
- ii. As revealed at an audit test check 76 air-conditioners, 665 ceiling fans, 1,463 tube lights and accessories and the goods and equipment (furniture, office equipment, refrigerators, fax machines) appearing in the report prepared had been removed in a contentious manner.
- iii. Formal action in terms of Financial Regulation 297 and 804 had not been taken in the removal of the goods and equipment.

(iv) **Rent of Buildings from Private Institutions for the Maintenance of the Offices of the Department of Inland Revenue**

The matters observed in audit are given below.

i **Payments made Contrary to Decisions of the Cabinet of Ministers**

❖ According to the decisions of the Cabinet of Ministers in the year 2009 and 31 August 2010, the approval was granted for the payment at Rs.90 per square foot and 15 per cent thereof as service charges for taking buildings on rent. An overpayment of a sum of Rs.679,755 had been made to a private company for 13 months as service charges at Rs.15 per square foot for 36,910 square feet.

❖ A sum of Rs.855,828 had been paid as service charges from March 2009 to March 2010 to a private institution for which the Cabinet approval for the payment of service charges had not been approved by the Cabinet of Ministers. The Department had not taken action for the recovery of the overpayments made from the respective institutions or the officers responsible.

ii. According to Section 26 A of the Value Added Tax (Amendment) Act, No. 14 of 2007, every Government agency should retain 1/3 of the Value Added Tax shown in the invoices when payments are made for the supplies and services made to such agencies. Nevertheless, the rent for the buildings taken on rent had been paid without retaining 1/3 of the Value Added Tax amounting to Rs.4,062,606.

iii. According to the decision of the Cabinet of Ministers approval had been granted for the payment of an advance of 03 months rent. Contrary to that decision, a sum of Rs.27,726,613 being the rent for 05 months 21 days had been paid for one building 05 months in advance in addition to the

advance of 03 months rent while the rent of another building for 09 months 21 days amounting to Rs.61,110,000 had been paid 09 months in advance. In addition the rent for that building for 03 months amounting to Rs.18,900,000 had been paid again 02 months in advance.

- iv. Payments up to the end of March 2010 had been made for the buildings taken on rent while rent for April and May 2010 had not been paid. The advances amounting to Rs.45,038,650 paid to those institutions had not been recovered after vacating the rented buildings allowing those institutions to retain the money.
- v. Even though the buildings had been taken on rent as buildings with the facilities for use as offices, according to the reply dated 21 October 2010 furnished to Audit Query No. EF/C/IR/Query/2010/12 confirmed that drinking water facilities were not available in those buildings.
- vi. As the State Engineering Corporation had not handed over the modernized Building on 31 December 2009, the agreed date, additional rent totalling Rs.66,520,530 had to be paid up to 31 May 2010 for buildings taken on rent.

11.11 Losses and Damage

A sum of Rs.50 million had been paid on 28 February 2008, to the Chairman of the Building Materials Corporation Limited for the transfer of 100 perches of land from the land belonging to the Building Materials Corporation Limited situated at Sangaraja Mawatha, Colombo 12. That transfer had been stopped and the Chairman of the Building Materials Corporation Limited had, by his letter dated 24 June 2011, informed that the Corporation is unable to repay the sum of Rs.50 million and that amount had become irrecoverable.

11.12 Operating Inefficiencies

Examination of Dishonored Cheques

- (a) Four thousand one hundred and eight (4108) cheques valued at Rs.922,390,059 received by the Divisions of the Department and the Regional Offices in the years 2009 and 2010 had been dishonored by 30 June 2011.
- (b) The following matters were observed at an audit test check of the dishonored cheques of the Nation Building Tax Division.
 - (i) According to the particulars of dishonored cheques furnished by the Data Processing Division 161 cheques valued at Rs.21,322,489 had been dishonored during the period January to August 2010 alone.
 - (ii) Fresh cheques had not been furnished or cash payments had not been made for 56 cheques valued at Rs.7,309,625 dishonored even up to 14 February 2011, the date of audit, despite the elapse of periods ranging from 06 months to 02 years since the lapse of cheques.
 - (iii) An audit test check revealed that periods ranging from 02 to 09 months had elapsed in collecting money on 28 dishonored cheques valued at Rs.2,086,933.
 - (iv) An audit test check revealed that the 26 fresh cheques valued at Rs.3,590,451 furnished for dishonored cheques had been dishonored again.
- (c) Cheques furnished by certain tax payers had been dishonoured on a regular basis.

11.13 Management Weaknesses

A sluggishness was shown by the authorities in the implementation of the recommendations made by the Committee on Public Accounts on the matters arising from the examination of the Paragraphs relating to the Department included in the Reports of the Auditor General, specially the recommendations of the Committee on Public Accounts on the fraud relating to the Value Added Tax had not been implemented.

11.14 Human Resources Management

The position of the cadre as at 31 December 2010 had been as given below.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
-----	-----	-----	-----
(i) Senior Level	893	751	142
(ii) Tertiary Level	1009	603	406
(iii) Secondary Level	352	288	64
(iv) Primary Level	<u>398</u>	<u>371</u>	<u>27</u>
Total	2652	2013	639
	=====	=====	=====

11.15 Internal Control

The Ministry of Finance and Planning had held 03 meetings of the Audit and Management Committee relating to the Department of Inland Revenue for the year 2010.

12. Appropriation Head 247 - Sri Lanka Customs

The audit of the Appropriation Account and the Revenue Accounts including the financial records, reconciliation statements, books, registers and other records of the Sri Lanka Customs for the year ended 31 December 2010 was carried out in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 30 December 2011. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

12.2 Responsibility of the Chief Accounting Officer and Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account, the Revenue Accounts and the Reconciliation Statements in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

12.3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Records and the Books for the year ended 31 December 2010, it was observed that except for the effects of the general observations appearing at (a) to (g) and other major observations appearing in paragraphs 12.4 to 12.13 herein, the Appropriation Account, the Revenue Accounts and the Reconciliation Statements of the Sri Lanka Customs had been prepared satisfactorily.

(a) Presentation of Accounts

- (i) The Department had not presented the following accounts to audit by 31 March 2011.

Head / Revenue Code / Item Number	Name of Account
-----	-----
247	Appropriation Account
10.01.01.00	} 15 Revenue Accounts
10.01.02.00	
10.01.04.00	
10.01.05.01	
10.01.06.00	
10.01.07.00	
10.01.05.02	
10.01.08.00	
10.01.99.00	
10.02.05.01	
10.02.05.02	
10.02.05.03	
10.02.05.04	
10.02.05.99	
20.03.02.17	
24701	Advances to Public Officers Account
7000-0-0-24702	} Expenditure on the Seized and Confiscated Goods Advance Account
6000/0/0/3/138	
6000/0/0/15/127	} Sundry Deposit Account
6000/0006/0032	
6000/0006/0061	Customs Overtime and Cargo Examination Charges Fund
6000/0006/0062	Customs Officers Management and Compensation Fund
6000/0006/0062	Customs Officers Reward Fund

- (ii) One hundred and fourteen payment vouchers valued at Rs.856,145,830 on which action in terms of Financial Regulation 272(2) had not been finalized were not furnished to audit.
- (iii) Replies to 66 audit queries issued to the Department in the year under review and 08 audit queries issued in the preceding years had not been furnished even by 31 March 2011.

(b) Budgetary Variances

The entire net provisions amounting to Rs.13,550,000 made for 03 Objects under Head 247 had been saved.

(c) Imprest Accounts

The unsettled imprest balances of the Department by 30 April 2011 totalled Rs.4,931,600. Those balances included Rs.1,846,600 and Rs.3,060,000 relating to the years 2007 and 2008 respectively.

(d) General Deposit Account

The following matters were observed.

- (i) Action in terms of Financial Regulation 565(3), 565(4), 565(5) and 571(1) had not been taken on the General Deposit Account.
- (ii) A material difference of Rs.100,909,158 was observed between the total of the individual balances shown in the subsidiary registers maintained for the receipts and payments of sundry deposits of the General Deposit Account No. 6000/00/15/127 and the total of the individual balances in the accounts.

(e) **Revenue Accounts**

The following matters were observed.

- (i) According to 10 Revenue Accounts presented, revenue amounting to Rs.9,773,860,826 had been in arrears and those arrears of revenue related to periods ranging from 01 year to 03 years the follow up action on the recovery of the arrears of revenue had been at a weak level.
- (ii) The arrears of revenue for the year 2010 as compared with the year 2009 had increased by Rs.4,195,202,533 or 75.20 per cent.
- (iii) The duty on liquor amounting to Rs.172,781,322 and the other Excise Duty amounting to Rs.8,418,840 included in the arrears of revenue as at 31 December 2010 were observed to be in arrears due to the default in the payment of duty by the institutions concerned.
- (iv) Due to the deficiencies in the revision of the rates of Export Cess in the Computer systems, the cess amounting to Rs.23,383,177 recoverable from 66 exporters could not be recovered. This cess had also been included in the arrears of revenue and it was observed that the recoverability of that amount is doubtful.

(f) **Reconciliation Statements of the Advances to Public Officers Account**

The following matters were observed.

- (i) According to the Reconciliation Statement as at 31 December 2010 of the Advances to Public Officers Account Item No. 24701, the balances that remained outstanding as at that date totalled Rs.5,792,166 and the follow up action on the recovery of those outstanding balances had been at a weak level.

- (ii) The property loan balances of 02 officers totalling Rs.323,323 and the distress loans and bicycle loans of 04 officers totalling Rs.502,561 had been understated in the account.
- (iii) Instances of lesser amounts recovered as installments, non-compliance with the specified limits on loans, non-presentation of specified documents to the relevant institutions, non-recovery of instalments specified, non-recording of installments recoveries correctly in the registers, non-recording of relevant information in the registers, non-settlement of loans amounting to regulations and recording of contradictory information in the schedules of accounts and age analysis, etc. were observed.

(g) Other Advance Accounts

Expenditure on Seized and Confiscated Goods Advance Account

The following matters were observed.

- (i) Unidentified receipts amounting to Rs.488,506 were observed in the receipts amounting to Rs.1,446,652 as at 31 December 2010 and that balance included receipts brought down from the year 2003.
- (ii) Action had not been taken to identify the long outstanding amounts in the balances appearing in the accounts and settle them.

12.4 Assets Management

(a) Idle and Underutilised Assets

It was observed during audit examination that certain assets of the Department had been idling and underutilized. Several such instances are given below.

- (i) Four scanners purchased for the examination of containers from a loan of US\$ 15,600,000 obtained from the Bank of Ceylon at an annual interest of 7.03 per cent.
- (ii) C 15 Vessel purchased for Rs.6,932,567 on 14 December 1996.

(b) Conduct of Annual Board of Survey

The following observations are made.

- (i) Even though the Department should conduct Board of Survey annually in terms of Financial Regulation 756 and Letter No. PF/FS/Board of Survey/01 dated 17 December 2010 of the Director General of Public Finance, the Board of Survey for the years 2009 and 2010 conducted had not been finalized.
- (ii) As the Board of Survey Reports relating to the year had not been furnished to audit it was not possible to examine whether action in terms of regulations had been taken on the excesses and shortages.

(c) Assets Supplied to External Parties

The Department had released certain assets irregularly to external parties. Details appear below.

Category of Assets	Number / Quantity of Assets	Assets used by	Value
-----	-----	-----	-----
Lands	01	Department of Coast Conservation	Not computed
Buildings	02	<ul style="list-style-type: none"> • Multipurpose Co-operative Society, Trincomalee • Fathima Church, Negombo 	Not computed

(d) **Unsettled Liabilities**

The unsettled liabilities of the Department less than 01 year old as at 31 December 2010 amounted to Rs.1,157,585.

12.5 Non-compliances

Non-compliance with Laws, Rules, Regulations, etc.,

Instances of non-compliance with the provisions in laws, rules, regulations observed during audit test checks are analysed below.

(a) **Statutory Provisions**

One hundred and twenty three instances of non-recovery of stamp duty at Rs.25 for payments exceeding Rs.25,000 in terms of the notification published in the Gazette No. 1350/13 of 01 January 2008 were observed.

(b) **Establishments Code**

Instances of action not taken on accidents to motor vehicles and travelling expenses in terms of Section 13.2 of Chapter XLVIII and Section 28.6 of Chapter XIV of the Establishments Code respectively were observed.

(c) **Financial Regulations**

There were instances where action in terms of certain provision of Financial Regulations 103, 104, 128, 225, 232, 262, 264 ,447, 802 and 1645 in connection with accidents to motor vehicle, payment vouchers, Appropriation Ledger and the Register of Fixed Assets.

(d) **Public Administration Circulars**

Action on fuel consumption and allocated motor vehicles had not been taken in terms of Paragraph 04 of Section 4.11 of the Circular No. 41/90 of 19 October 1990 and No.07/92 of 18 February 1992 respectively.

(e) **Public Finance Circulars**

There were instances of failure to insure motor vehicles in terms of Paragraph 02 of the Public Finance Circular No. PF/427/(1) of 13 March 2008 and the Public Finance Circular No. PF/437 of 18 September 2009.

(f) **Treasury Circulars**

There were instances of action not taken on overseas training in terms of the Circular No. MF/GA/2 Circular/2001/03 dated 02 July 2001 of the Deputy Secretary to the Treasury. Action on computer accessories and Software had not been taken in terms of the Treasury Circular No. IAI/2002/02 of 28 November 2002.

12.6 Performance

(a) **Planning and Performance**

The observation on the progress of Sri Lanka Customs according to the Budget Estimates for the year 2010 are given below.

Class of Revenue	<u>Year 2010</u>			<u>Year 2009</u>		
	Revenue from Duty according to the Revised Estimate	Actual Revenue from Duty	Actual Revenue from Duty as a Percentage of the Estimated Revenue	Revenue from Duty according to the Revised Estimate	Actual Revenue from Duty	Actual Revenue from Duty as a Percentage of the Estimated Revenue
-----	-----	-----	-----	-----	-----	-----
	Rs. Millions	Rs. Millions	%	Rs. Millions	Rs. Millions	%
<u>Sundry Duties</u>						
Import Duties	66,304	64,223	96.86	60,667	79,810	131.55
Export Duties	21	21	100.00	106	80	75.47
Ports and Airport						
Development Levy	49,000	49,633	101.29	51,695	36,286	70.19
Cess Levy						
(Imports)	27,926	28,022	100.34	29,804	26,938	90.38
Motor Vehicles						
Comessionary Levy	-	-	-	-	1	100.00

Regional						
Infrastructure						
Development Levy	2,500	4,718	188.72	486	546	112.35
Special Commodity						
Cess Levy	1,848	1,730	93.61	2,081	1,581	75.97
(Exports)						
Special Trading						
Goods Duty	10,393	10,173	97.88	23,460	18,965	80.84
<u>Excise Duty</u>						
Cigarettes	40,164	40,643	101.19	41,670	37,581	90.19
Liquor	-	20	100.00	-	9	100.00
Petroleum Products	25,973	28,038	107.95	22,500	23,018	102.30
Motor Vehicles	20,420	21,199	103.81	8,500	3,192	37.55
<u>Other Revenue</u>	3,500	3,298	94.22	9,300	5,268	56.65
Fees on Local Sale						
of Garments	62	87	140.32	50	67	134.00
	-----	-----		-----	-----	
Grand Total	248,111	251,805	101.48	250,319	233,342	93.22
	=====	=====		=====	=====	

The following observations are made.

- (i) The actual performance of the expected revenue for the year from duties according to the revised estimates of revenue amounted to 101.48 per cent and that had been 93.22 per cent in the preceding year.
- (ii) The primary source of the Excise duty on Motor Vehicles which could not reached the expected revenue in the preceding year, had exceeded the expected revenue in the year under review. Revenue collected amounted to 37.55 per cent or Rs.3,192 million of the expected revenue for the preceding year and 103.81 per cent or Rs.21,199 million of the expected revenue for the year under review.

Even though the rate of duty charged on the import of motor vehicles had been reduced by the Government in the year 2009, the increase in the import of motor vehicles had resulted in the increase of revenue from duty.

- (iii) In the overall, the revenue collected from duties in the year under review as compared with the preceding year had increased by Rs.18,463 million or 7.9 per cent.

- (iv) Even though the estimated revenue on Excise Duty on liquor had not been shown, the revenue from duty collected in the year under review amounted to Rs.19,621,931 and that represented receipts of arrears of revenue.
- (v) The overall revenue of the Government of Sri Lanka from the Value Added Tax in the year 2010 amounted to Rs.219,242 million and that included the Value Added Tax amounting to Rs.99,257 million collected on imports by the Sri Lanka Customs. Even though 45.27 per cent (approximately) of the revenue of the Government Value Added Tax had been collected by the Sri Lanka Customs, the information on the Value Added Tax had not been included in the Revenue Accounts of the Sri Lanka Customs as the responsibility for accounting for the Value Added Tax rests with the Commissioner General of Inland Revenue .

(b) Annual Action Plan

Sri Lanka Customs had not prepared an Annual Action Plan at the beginning of the year.

12.7 Deficiencies in the Operation of Bank Accounts

Balances for Adjustment

The information revealed at an analysis of the Bank Reconciliation Statements prepared for December 2010 by the Sri Lanka Customs is given below.

Particulars of Adjustments	Over 06 months less than 01 year	Over 01 year less than 03 years	Total
-----	-----	-----	-----
	Rs.	Rs.	Rs.
(i) Cheques issued but not presented for payment	2,140,476	3,744,795	5,885,271
(ii) Unidentified Debits	5,145,046	1,810,733	6,955,779.
(iii) Unidentified Credits	46,779	4,941,675	4,988,454

The following observation is made in this connection.

Action in terms of Financial Regulation 396(d) had not been taken on the cheques issued but not presented for payment for more than 06 months.

12.8 Transactions of Contentious Nature

Certain transactions entered into by the Department were of contentious nature, Several such instances observed during the course of audit test checks are given below.

- (a) Even though the Sri Lanka Customs had conducted investigations of various Customs offences, it was pointed out in the previous audit reports that there was no adequate contribution to cover the lost revenue from duty caused due to the relevant Customs offences. Even though a sum of Rs.85,580,000 had been collected only on 07 Customs investigations, the specified credit out of that amount to the State Revenue amounted to Rs.25,674,000. The balance sum of Rs.59,906,000 had been proposed to be allocated for the payment of rewards to officers and for crediting to the Welfare Funds of the Officers. In addition, it was observed that the laws etc relating to the allocations made to the Funds for payment of rewards to the officers and the welfare had not been revised on a timely basis.
- (b) According to the relevant file, the frauds of Customs Duties committed by a company engaged in the export and import trade during a period of three months by reporting information contrary to the regulations of the Board of Investments of Sri Lanka amounted to Rs.57,276,549. The relevant export company and certain officers of the Sri Lanka Customs had agreed to compound the matter by recovering a sum of Rs.30,000,000 from the importer. As such the under-recovery from the importer amounted to Rs.27,276,549. In this connection, it was observed that opinions contrary to each other existed between the officer directing the complaints on behalf of the Sri Lanka Customs and the officers presenting the complaints.

- (c) Audit test checks revealed the existence of substantial losses to the State Revenue due to the weaknesses in the procedure in place for the identifications of the goods imported under erroneous classifications in the initial stage and that the contribution made to the State Revenue subsequent to the Customs investigations was not adequate at all to cover the loss caused to the State Revenue. In this connection, the Customs investigations conducted subsequently had revealed that a paper importer had committed a duty fraud of Rs.1,679,164 in 5 instances of imports and a sum of Rs.750,008 only had been credited to the State Revenue at the conclusion of the investigation.
- (d) Even though the examination of containers and the collection of the duties defaulted by the importers is the primary duty of the staff attached to the Container Examination Centres of the Sri Lanka Customs, the allocations of 70 per cent of the duties defaulted by importers detected at those examinations to the Rewards Fund and the Management and Compensation Fund while the balance 30 per cent only is credited to the State Revenue remains a contentious matter in audit.
- (e) An importer had imported 06 motor vehicles on presenting 06 Customs Declarations and according to the files it was observed that the import of motor vehicles 12 to 16 days older than the specified age of 05 years had been the Customs offence committed by him. Even though the importer had agreed to pay a sum of Rs.4,717,467 on the 06 customs declarations to the Government, the estimated recovery after the conclusion of the Customs investigation on the offence amounted to Rs.9,838,989. Nevertheless, a sum of Rs.7,500,000 had been recovered from him and released the 06 motor vehicles to him. In that connection, the credit proposed for the State Revenue amounted only to Rs.2,250,000. If investigations had not been conducted, the importer had agreed to pay a sum of Rs.4,717,467 to the Government, and the additional loss of duty to the Government caused due to the investigation amounted to Rs.2,467,467.
- (f) The parties defaulting the payment of duties in terms of the Customs Ordinance and other Acts relating to duties are investigated in accordance with certain sections of the Customs Ordinance itself, revealed instances causing huge losses to the State Revenue. It is difficult to accept in audit that such investigations would help in controlling Customs Duty frauds. The money deprived to the Government in 05 such instances subjected to an audit test check amounted to about Rs.45,732,863.

- (g) Audit test checks revealed instances of importers submitting fraudulently altered invoices intentionally for committing Customs Duty frauds. In view of the relief granted on the conclusion of investigations under the existing laws and rules, it is a contentious issue as to whether any control of fraudulent declaration has been achieved. An audit examination of a sample of 11 files relating to the investigations conducted by the Post-investigation and Audit Division of the Sri Lanka Customs, revealed that the duty defaulted on 11 imports made on understated prices amounted to Rs.18,057,974. Even though a sum of Rs.23,030,000 had been collected as the defaulted duty and fines the sum added therefrom to the State Revenue amounted to above Rs.6,909,152 only.
- (h) An importer of fish to Sri Lanka had admitted the offence of understatement of values at a Customs investigation of understatement of prices and the value of duty defaulted through underpricing amounted to Rs.781,847. The money defaulted due to the erroneous declaration detected in the year 2007 had not been recovered even by September 2010. Even though the importer had made about 45 fish imports in the years 2005 and 2006, only one import had been investigated. It was observed that the prices declared by the importer for the 45 imports were similar to the prices relating to the duty fraud.
- (i) A local branch of a company registered in India had remitted the annual profit earned to the mother country without payment of duty and a fine of Rs.4 million had been imposed on that company in the year 2006 for the years 2004/2005 and 2005/2006. Instead of making arrangements for the recovery of the duty from then onwards, another customs investigation had been conducted in the year 2010 and a fine of Rs.7 million had been imposed for the years 2002/2003, 2003/2004 and 2006/2007. The involvement of a particular officer for both investigations had been reported and the duty for the years 2007/2008 and 2008/2009 had not been recovered even during the year 2010. The possibility of further investigations for the recovery of this duty cannot be ruled out in audit.

- (j) A fine of Rs.2,564,363 had been imposed on an importer who had defaulted the payment of duty in the year 2006 and again a fine of Rs.10,000,000 had been imposed on him for the default in the payment of Customs Duty by him in the year 2007. Even though the total amount computed as recoverable by the Government for the Customs Duty fraud in the year 2007 amounted to Rs.15,816,705 , the recovery of a sum of Rs.5,816,705 had been waived. Out of the sum of Rs.10,000,000 decided for recovery from that importer, a sum of Rs.4,000,000 had been recovered in the year 2008 and relief had been granted to pay the balance sum in installments up to June 2010.
- (k) Audit test checks revealed instances where the Sri Lanka Customs is not following a uniform policy in the assessment of the values of motor vehicles seized for Customs Offences.

As the import of dual purpose motor vehicles older than 05 years are banned, the valuation of 05 of those motor vehicles retained by the “D” Division of the Sri Lanka Customs had been assessed for duty purposes by deducting the depreciation for a maximum of 05 years and the assessment of the other motor vehicles illegally imported or assembled motor vehicles of the same class by deducting the depreciation for a maximum of 7 ½ years is a contentious matter.

12.9 Transactions of Fraudulent Nature

Particulars of transactions of fraudulent nature observed at audit test checks are given below.

- (a) The data at the conclusion of a Customs investigation on a Customs entries subjected to a customs investigation had been conveyed to the Commissioner General of Motor Traffic by a letter instead of entering the data to the computer. Subsequent to the registration of that motor vehicle concerned the importer had fraudulently registered 07 motor vehicles comprising 04 Toyota Prado Jeeps, one Benz car and 02 diesel vans either imported without the payment of customs duty or assembled by fraudulently altering the data of that letter. The loss of duty from those motor vehicles to the Government could not be obtained. But it was observed that the loss amounts to more than Rs.50 million. Several important letters and documents were missing from the file furnished to audit.

- (b) The internal decisions taken on the transactions of fraudulent nature reported in the preceding years had been at an extremely low level.
 - (i) Loss of foreign currency valued at Rs.7,883,805
 - (ii) Loss of a large quantity of furniture with archaeological value
 - (iii) Misplacing of valuable goods seized by Baggage Clearance Division
 - (iv) Removal of a stock of gold from the Katunayake International Airport by fraudulently replacing with pieces of copper

12.10 Losses and Damage

It was observed at audit test checks that motor vehicles had met with 12 accidents in the years 2009 and 2010. The loss could not be computed due to the non-submission of accurate information.

12.11 Management Inefficiencies

The following weaknesses were observed.

- (a) Even though 09 officers had been attached to the Bonds Investigation Division of the Sri Lanka Customs for Bonds investigations, the new investigations started from the year 2007 to August 2010 had been 116 only. The investigations of this Division not finalised by August 2010 had been 452 and comprised 206 investigations older than 10 years, 108 investigations older than 05 years and 138 investigations less than 05 years old.
- (b) In certain instances, the detailed information on the goods confiscated at the Container Examination Centres was not available. As such it was observed that there was no possibility of checking whether the goods offered for sale after the conclusion of investigations were in the same condition as at the time of confiscation. An audit examination of 12 items of goods in 06 files of the Greyline I Container Handling Centre revealed that the detailed information was not available and that the accessories available at the time of confiscation were not available at the time of sale.

- (c) Even though there is a separate Division in charge of the refund of Customs Duty recovered on imports and exports for various reasons, it was observed that the performance of that Division is not at an adequate level. The audit test checks carried out revealed that the action on 07 applications valued at Rs.3,711,596 received in the year 2008 had not been completed even by 17 September 2010 while even the amount refundable on 03 applications had not been computed. Even though Section 22 of the Customs Ordinance requires applications for refunds to be made within 06 months, refunds had been made on applications submitted after the specified period. In addition, instances of non-maintenance of detailed files also existed.
- (d) The normal procedure for the sale of goods confiscated for different Customs offences is for the Central Sales Division of the Sri Lanka Customs to sell by calling for bids and the sales income from such sales during the first half of the year amounted to Rs.231 million. Audit test checks revealed that the sales process is not conducted in the formal and transparent manner due to numerous weaknesses.
- (e) Adequate strategies had not been followed for the identification of new products for which Excise Duty should be paid and the registration of new companies in the year under review had been limited to two.
- (f) Certain institutions had filed cases in the Supreme Court that the Sri Lanka Customs / Excise Officers do not have the power to recover Excise Duty in terms of the Excise Duty (Special Provisions) Act, No. 13 of 1989. As such the recovery of duty amounting Rs.6,100 million (approximately) relating to the cases withdrawn or compounded was doubtful. It was also observed that several cases filed against 07 companies for the recovery of a sum of Rs.469.26 million could be challenged. Even though the need for strengthening the legal base by making amendments that existed over a long period, there was no evidence of action taken by the senior management.
- (g) One company subject to the payment of Excise Duty, had imported 541 motor vehicle bodies without payment of duty and had paid duty in respect of 77 motor vehicles. In addition duty had not been paid for 269 motor vehicles sold. Even though shortages such as non-submission of sales invoices, non-submission of Tax Returns, the expiry of the Bank Guarantees for Rs.45,432,000 furnished, etc were observed in connection with this company, there was no evidence of formal action taken in that connection.

- (h) A company registered for the manufacture of motor vehicles locally had obtained duty exemption concession by submitting information that local components ranging from 30.46 per cent to 35.92 per cent are used for 06 categories of motor vehicles. Nevertheless, there was no evidence of adequate action taken to ensure the accuracy of the percentage of local components used. In addition the Excise Duty Division of the Sri Lanka Customs did not have the detailed information relating to the use of local components. Appropriate action had not been taken up to date for the recovery of the duty amounting to Rs.4,362,889 outstanding from the company from the fourth quarter of the year 2003 to second quarter of the year 2006.
- (i) A sum of Rs.23,533,291 had been spent in the year 2010 for the repair of motor vehicles and numerous deficiencies existed in the arrangements made for carrying out repairs to motor vehicles. It was also observed that the Senior Management had not paid proper attention to the matter.

12.12 Human Resources Management

Approved Cadre and Vacancies

The position of the cadre as at 31 December 2010 had been as given below.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	4	4	-
(ii) Tertiary Level	324	321	03
(iii) Secondary Level	2087	1414	673
(iv) Primary Level	464	255	209
	-----	-----	-----
Total	2879	1994	885
	=====	=====	=====

The information of the accuracy of certificates of officers recruited had not checked through the respective institutions.

12.13 Internal Audit

- (a) Weaknesses in the systems and controls of the following areas were observed.
- (i) Maintenance of Incidents Register and action on incidents not finalised
 - (ii) Storage and Protection of Confiscated goods
 - (iii) Recording of arrival, departure and overtime of officers
 - (iv) Import Duty Rebate Scheme operated on Treasury provisions
 - (v) Motor Vehicles
 - (vi) Fuel Expenses
 - (vii) Travelling Expenses
 - (viii) Fixed Assets

(b) **Implementation of Audit and Management Committee**

Three meetings had been held in the year 2010.

13. Appropriation Head 248 – Department of Excise

The audit of the Appropriation Account and the Revenue Accounts including the financial records, reconciliation statements, books, registers and other records of the Department of Excise for the year ended 31 December 2010 was carried out in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 27 November 2011. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

13.2 Responsibility of the Chief Accounting Officer and Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account, the Revenue Accounts and the Reconciliation Statements in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

13.3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Records and the Books for the year ended 31 December 2010, it was observed that except for the effects of the general observations appearing at (a) to (f) and other major observations appearing in paragraphs 13.4 to 13.12 herein, the Appropriation Account, Revenue Account, the Revenue Accounts and the Reconciliation Statements of the Department of Excise had been prepared satisfactorily.

(a) Budgetary Variance

Deficiencies in the Preparation of Estimates

Even though the estimates should be prepared according to a specific plan after identifying the requirements of the Department, the savings under 03 Objects of the Annual Budget Estimates for the year 2010 after the deductions under Financial Regulation 66 and provision frozen, ranged between 8 per cent to 21 per cent while the savings under 03 other Objects, without deducting under Financial Regulation 66 and freezing of provisions, ranged between 22 per cent to 76 per cent. The liabilities committed under 05 Objects had exceeded the estimated provisions and the provisions transferred under Financial Regulation 66 by a sum of Rs.1,858,200.

(b) Reasons Adduced for Savings

The reasons adduced in the Appropriation Account for the savings under certain Objects could not be accepted in audit.

(c) Liabilities

As only the forecasted payments due to each institution had been shown in the Statement of Liabilities in the Appropriation Account it was not possible to confirm by checking with the actual payments made in the year 2011.

(d) The settlement of bills on water, electricity and telephones of the Regional Officers are made from the petty cash imprests. The Head Office had not maintained Registers of Bills settled to ascertain the amount payable for the year. As such it was not possible to confirm the information on the liabilities.

(e) Revenue Account

(i) According to Revenue Account presented and reported, revenue amounting to Rs.482 million had been in arrears and such arrears related to the period from the year 1997 to the year 2008. The follow up action on the recovery of the revenue in arrears had been at a weak level.

(ii) Non-tax revenue amounting to Rs.23,898,064 comprising Rs.1,972,000 received in the year 2008 and Rs.21,926,064 received in the year 2009 had been brought to account as revenue for the year 2010.

(f) Reconciliation Statement of the Advances to Public Officers Account

According to the Reconciliation Statement of the Advances to Public Officers Account Item No. 24801, the balances that remained outstanding as at 31 December 2010 totalled Rs.2,602,064. The follow up action on the recovery of a sum of Rs.1,806,789 out of that amount had been at a weak level.

13.4 Assets Management

Conduct of Annual Board of Survey

Action in terms of the regulations had not been taken on the excesses and shortages pointed out and the other recommendations made in the Board of Survey Reports for the year 2009.

13.5 Non-compliance

Non-compliance with Laws, Rules, Regulations, etc.,

Instances of non-compliance with the provisions in laws, rules and regulations observed at audit test checks are analysed below.

Reference to Laws, Rules, Regulations, etc., -----	Non-compliances -----
(a) Treasury Circular No. 842 of 19 December 1978	A Register of Fixed Assets had not been maintained for the fixed assets.
(b) Financial Regulations -----	
(i) Financial Regulation 104(4)	The computation of the loss and damage and the final report had not been furnished.
(ii) Financial Regulation 272(1)	The payment vouchers had not been filed securely according to the serial numbers.

13.6 Performance

Planning and Performance

The number of excise raids according to the Annual Action Plan amounted to 52,750 and the actual raids had been 49,030.

13.7 Deficiencies in the Operation of Bank Accounts

Balances for Adjustment

The information revealed at an analysis of the adjustments shown in the Bank Reconciliation Statements prepared as at 31 December 2010 is given below.

	Less than 06 months	Over 01 year less than 03 years	Over 03 years	Total
	-----	-----	-----	-----
	Rs.	Rs.	Rs.	Rs.
Unidentified Credits	44,077,212	17,312,244	1,328,909	62,718,365

13.8 Irregular Transactions

Certain transactions entered into by the Department were devoid of regularity. Such an instance observed is given below.

The efficient suppliers of buildings had not been selected by calling for competitive quotations in terms of the Procurement Guidelines.

13.9 Uneconomic Transactions

Test checks revealed that building rent amounting to Rs.723,000 had been overpaid according to the agreements entered into uneconomically without accruing any benefits to the institution.

13.10 Operating Inefficiencies

A summary of the operating inefficiencies observed at test checks is given below.

- (a) Stocks of apparels purchased for the use of the officers of the Department in the years 2006 to 2010 had been received by the stores at the end of the respective year or in the ensuing year. As such the uniforms required for the year had not been received as required.
- (b) Even though 155 tyres had been removed from the motor vehicles in the year 2010, those had not been recorded in the stock books. It was not possible to ascertain in audit as to what happened to the stock.

- (c) The following weaknesses were observed in connection with repairs of motor vehicles.
- (i) Motor vehicles handed over to garages for repairs had not been repaired during the specified periods and there were delays of several years.
 - (ii) Instances of repairs not done according to the repair estimates were observed.
- (d) The following matters resulting from the failure to take proper action on the offences detected by the Colombo Special Operations Unit were observed.
- (i) Compounding fines and liquidation charges amounting to Rs.3,149,891 for the years 2007, 2008 and 2009 and Rs.1,086,250 totalling Rs.4,236,141 for the year 2010 could not be recovered as proper action had not been taken for the recovery of the compounding fees and liquidation fees.
 - (ii) The failure to take action in terms of Section 27 of the Excise Ordinance for not taking action to compound technical offences committed by licenceholders had resulted in committing further technical offences before the settlement of the former technical offences.
 - (iii) Out of the offences detected in the years 2008 and 2009 the number of offences not settled by October 2010 had been 268.

13.11 Management Weaknesses

The authorities concerned had shown a sluggishness in the implementation of the following directives made on the Department by the Committee on Public Accounts.

- (i) To take disciplinary steps immediately against the officers guilty for the fraudulent non-payment excise money committed on 11 December 2010.
- (ii) To take action to strengthen the Internal Audit and increase the number of examinations carried out by the Internal Audit.

13.12 Human Resources Management

Approved Cadre and Vacancies

The position of the cadre as at 31 December 2010 had been as given below.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	56	33	23
(ii) Tertiary Level	1130	835	295
(iii) Secondary Level	102	96	06
(iv) Primary Level	129	115	14
Total	1417	1079	338

14. Appropriation Head 249 – Department of Treasury Operations

The audit of the Appropriation Account and the Revenue Accounts including the financial records, reconciliation statements, books, registers and other records of the Department of Treasury Operations for the year ended 31 December 2010 was carried out in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 27 February 2012. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

14.2 Responsibility of the Chief Accounting Officer and Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account, the Revenue Accounts and the Reconciliation Statements in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

14.3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Records and the Books for the year ended 31 December 2010, it was observed that except for the effects of the general observations appearing at (a) to (d) and other major observations appearing in paragraph 14.4 herein, the Appropriation Account, the Revenue Accounts the Reconciliation Statements of the Department of Treasury Operations had been prepared satisfactorily.

(a) Presentation of Accounts

The Department had not presented the following account to audit by 31 March 2011.

Item Number	Name of Account
-----	-----
24901	Reconciliation Statement of the Advances to Public Officers Account

(b) Budgetary Variances

- (i) The total net provision of Rs.900,000,000 made under 02 Objects of Head 249 had been saved.
- (ii) Excess provisions had been made for 02 Objects and the savings thereunder after utilization of the provisions ranged between 29 per cent to 38 per cent of the net provision.

(c) Revenue Accounts

(i) Arrears of Revenue

According to 05 accounts presented, revenue totaling Rs.6,018,506,939 had been in arrears and that revenue in arrears related to the years from 2007 to 2010.

The follow up action on the recovery of these outstanding revenue had been at a weak level.

(ii) Other Rents - 20.02.01.99

i. The lease rent of a private company for the years 1992 to 2010 had increased from US\$ 40,000 to US\$ 87,453. The relevant lease agreement had not been furnished to examine the correctness of the increase.

ii. The Government of Sri Lanka and private company had entered into a lease agreement on 09 September 1982 and the lease rent thereon remained unchanged over a period of 28 years up to the year 2010.

(iii) Rent on Government Buildings - 20.02.01.01

The recovery of revenue on rent from Government buildings had been at a very low level.

(d) Conduct of Annual Boards of Survey

- (i) Action had not been taken on the 13 excesses and 15 shortages of inventory goods pointed out in the Reports of the Board of Survey for the year 2010.
- (ii) One hundred and eleven (111) obsolete materials relating to 27 inventory goods had not been recorded in the Register of Obsolete Goods in the year 2011.

14.4 Human Resources Management
Approved Cadre and Vacancies

The position of the cadre as at 31 December 2010 had been as given below.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
-----	-----	-----	-----
(i) Senior Level	20	16	04
(ii) Tertiary Level	01	-	01
(iii) Secondary Level	84	66	18
(iv) Primary Level	18	16	02
	-----	-----	-----
Total	123	98	25
	=====	=====	=====

15. Appropriation Head 250 – Department of State Accounts

The audit of the Appropriation Account including the financial records, reconciliation statements, books, registers and other records of the Department of State Accounts for the year ended 31 December 2010 was carried out in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 05 August 2011. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

15.2 Responsibility of the Chief Accounting Officer and Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account, the Revenue Accounts and the Reconciliation Statements in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

15.3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Records and the Books for the year ended 31 December 2010, it was observed that except for the effects of the general observations appearing at (a) to (f) and other major observations appearing in paragraph 15.4 to 15.6 herein, the Appropriation Account and the Reconciliation Statements of the Department of State Accounts had been prepared satisfactorily.

(a) Budgetary Variances

Excess provisions had been made under 06 Objects and the savings thereunder after the utilization of the provisions ranged between 45.92 per cent and 87.41 per cent of the net provisions.

(b) Imprests Accounts

The balances of imprests not settled by the Department by 30 April 2011 totalled Rs.3,400,000 and those balances related to a period less than 01 year.

(c) **General Deposit Account**

The deposit balance of Rs.6,417,000 brought to account as expenditure in the year 2008 and transferred to the General Deposit Account in terms of Financial Regulations 215 had not been settled even by 15 May 2011.

(d) **Reconciliation Statements of the Advances to Public Officers Account**

According to the Reconciliation Statement as at 31 December 2010 of the Advances to Public Officers Account Item No. 25001, the balances that remained outstanding as at that date totaled Rs.304,625 and the outstanding balance of Rs.164,953 out of that balance had not been recovered even by 12 August 2011.

(e) **Authorised Advance Account for Payments on behalf of Other Governments**

The reimbursement of provision totalling Rs.353,278 paid by the Department on behalf of the British and Malaysian Governments had been delayed by 04 to 07 months.

(f) **Sundry Advances Accounts**

According to the Reconciliation Statements as at 31 December 2010 of the Sundry Advances Account Item No. 25003, the balance that remained outstanding as at that date totalled Rs.547,443,046. The follow up action on recovery of those outstanding balances had been at a weak level. Details given below.

- (i) The sum of Rs.90,000 out of the advance obtained for the purchase of paddy by the District Secretariat Trincomalee in the year 2008, spent in the handling of paddy could not be recovered and that amount had not been settled even by 31 December 2010. Even though that should be settled by obtaining provision from the Department of National Budget, the District Secretary, Trincomalee had not taken action accordingly even up to 31 December 2010.

- (ii) Two District Secretariats had sold stocks of paddy totalling Rs.14,989,400 to the Co-operative Wholesale Establishment. The Co-operative Wholesale Establishment had not settled that amount and as such the advance could not be settled. Even though it had been decided to settle the amount by obtaining provisions from the Department of National Budget in terms of Financial Regulation 113, the respective District Secretaries had not taken action in that connection even by 31 December 2010.
- (iii) The settlement for the rice supplied by the District Secretary Kurunegala to the World Food Programme had been made by that Programme at prices below the specified price and a difference of Rs.349,487 in the price had existed. Due to such difference it had not been possible to settle the advance granted, even by 31 December 2010.
- (iv) The balance of Rs.2,009,449 paid by 31 December 2010 out of the advances obtained by the District Secretary, Anuradhapura to a Bank Society could not be recovered as the Bank had been liquidated.
- (v) The balance of Rs.4,744,300 comprising Rs.480,000 and Rs.4,264,300 made available by 31 December 2010 to a Farmers Company and Farmers Society without Bank Guarantees could not be recovered. It was observed in audit that the respective officers are responsible for the loss caused to the Government due to the non-settlement of advances.
- (vi) As the Multipurpose Co-operative Societies in the area of authority of the District Offices in Kurunegala had purchased rice in the year 2006 from outside the areas from time to time, expenditure of Rs.3,176,159 had to be incurred. Even though the Treasury provisions had been applied for the provisions had not been made even up to 31 December 2010.

- (vii) Even though the Ministry of Mahaweli and the District Secretariat Hambanthota had settled sums of Rs.3,605,525 and Rs.545,867 respectively totalling Rs.4,151,392 exceeding the advances obtained the excess settlements had not been paid back even up to 31 December 2010.
- (viii) Advances for losses of cash amounting to Rs.10,299,864 had been paid under Financial Regulation 106 to 02 Ministries and 03 Offices. Even though the advances should be settled by taking action in terms of Financial Regulation 109 together with the further losses and damage remaining according to the orders made, by obtaining provisions therefor, those institutions had not settled the advances even by 31 December 2010 despite the elapse of periods ranging from 30 months to 106 months since obtaining advances.

15.4 Performance

Key Functions not Executed Adequately

Even though the collection of all the copies of the audited Appropriation Accounts and the Revenue Accounts of all the Ministries and Departments and taking action for the publication thereof and review the comments and observations made by the Auditor General and take corrective action on the weaknesses in the systems, if any, the audited accounts of the years 2007 to 2010 had not been published even by 31 July 2011.

15.5 Losses and Damage

The further loss remaining recoverable in connection with an accident to a motor vehicle on 27 July 2004 amounted to Rs.30,362. Even though that motor vehicle had been transferred to the Ministry of Finance and Planning as stated in the letter of the Director General of State Accounts dated 17 August 2010, action had not been taken even up to 15 May 2011 to eliminate that loss from the Books.

15.6 Human Resources Management
Approved Cadre and Vacancies

The position of the cadre as at 31 December 2010 had been as given below.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
-----	-----	-----	-----
(i) Senior Level	16	12	04
(ii) Tertiary Level	02	02	-
(iii) Secondary Level	41	34	07
(iv) Primary Level	20	16	04
	-----	-----	-----
Total	79	64	15
	=====	=====	=====

16. Appropriation Head 251 – Department of Valuation

The audit of the Appropriation Account and the Revenue Account including the financial records, reconciliation statements, books, registers and other records of the Department of Valuation for the year ended 31 December 2010 was carried out in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 01 July 2011. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

16.2 Responsibility of the Chief Accounting Officer and Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account, the Revenue Accounts and the Reconciliation Statements in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

16.3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Records and the Books for the year ended 31 December 2010, it was observed that except for the effects of the general observations appearing at (a) to (c) and other major observations appearing in paragraph 16.4 to 16.7 herein, the Appropriation Account, the Revenue Account and the Reconciliation Statements of the Department of Valuation had been prepared satisfactorily.

(a) Presentation of Accounts

- (i) The Department of Valuation had not presented the following accounts to audit by 31 March 2011.

Head / Revenue Code / Item Number -----	Name of Account -----
251	Appropriation Account
20.03.02.09	Revenue Account
25101	Reconciliation Statement of the Advances to Public Officers Account

- (ii) Test checks revealed that the Department of Valuation had not maintained the following registers or not maintained them in the proper and updated manner.

Type of Registers	Relevant Regulation	Observations
----- Register of Computer Hardware and Software	----- Treasury Circular No. IAI/2002/02 of 28 November 2002	----- The Register of Computer Hardware and Software had not been maintained
Register of Motor Vehicle	Financial Regulation 802(3)	Register of Motor Vehicle had not been updated
Motor Vehicle Log Books	Financial Regulation 1645	Motor Vehicle Log Books had not been updated
Daily Running Charts	Financial Regulation 1646	The Daily Running Charts had not been submitted on the due dates

(b) **Revenue Account**

- (i) According to the Revenue Account presented, revenue amounting to Rs.227,188,449 had been in arrears and those arrears of revenue related to periods ranging from 01 year to 03 years. The follow up action on the recovery of the arrears of revenue had been at a weak level.

- (ii) According to the Public Finance Circular No. PF/FS/01, the valuation work of institutions depending on Government financial grants should be done free of charge. Nevertheless, fees in respect of the year 2008, 2009 and 2010 had been collected from such institutions in the year 2010.

Year -----	Number of Institutions -----	Value ----- Rs.
Collection arrears of revenue for the year 2008 in 2010	01	582,100
Collection of arrears of revenue for the year 2009 in 2010	04	55,467
Collection of revenue for the year 2010	09	1,124,055
Total		<u>1,761,622</u>

(c) **Reconciliation Statement of the Advances to Public Officers Account**

- (i) According to the Reconciliation Statement as at 31 December 2010 of the Advances to Public Officers Account Item No. 25101, the balance that remained outstanding as at that date totalled Rs.719,237 and the follow up action on the recovery of those outstanding balances had been at a weak level.
- (ii) According to the Departmental books, the balance of the Control Account amounted to Rs.56,363,767 while the balance of the Register of Individual Balances totalled Rs.56,445,667. As such action had not been taken in the year under review to reconcile the difference of Rs.81,900.

16.4 Non-compliances

Non-compliance with Laws, Ruled, Regulations, etc.,

Instances of non-compliance with the provisions in laws, rules, regulations observed at audit test checks are analysed below.

- (i) Even though the ad hoc sub-impressts granted should be settled immediately after the completion of the purpose, the ad hoc sub-impressts totalling Rs.105,000 granted to 06 officers in 06 instances had been settled after delays.
- (ii) According to the Financial Regulations, the maximum amount that can be granted as an ad hoc sub-impressts at a time is Rs.20,000. An ad hoc sub-impresst of Rs.50,000 exceeding that limit had been granted to an officer in the year under review.
- (iii) Six officers who should furnish security in terms of Financial Regulation 880 had not furnished security and action in terms of Financial Regulation 881 had not been taken on those officers.
- (iv) Even though 03 motor vehicles had been repaired in the year under review at a cost of Rs.555,062 , a recommendation that the repairs had been done correctly had not been obtained from a recognized Technical Officer.

16.5 Financial and Operating Review

- (a) According to the Performance Report for the year 2010, variances were observed between the activities scheduled for the year and the activities carried out by the Department. Details appear below.

Particulars	Targets in the Action Plan (Units)	Actual Performance (Units)
-----	-----	-----
(i) Status reports on the acquisition of private lands	7,750	2,343
(ii) Valuations on the acquisition of lands	5,000	10,478
(iii) Estimating compensation on acquisition for development purposes	650	998
(iv) Valuation for the purchase of lands and the lease of lands by the Government	24,000	17,782
(v) Valuation of rents for Government institutions for renting out their properties or taking properties on rent	3,000	4,029
(vi) Valuations for purposes of Courts	10	01
(vii) Valuation for renting out Government Buildings	3,800	6,338
(viii) Assessment of Rates	1,000,000	417,866
		{ Preliminary inspection 236,505 { Final inspection 181,361
(ix) Valuation of Stamp Duty	300	167
(x) Re-assessment of Rates	35,000	29,279
(xi) Re-assessment of Rate on Buildings	7,000	2,389
(xii) Re-assessment of Objections	8,000	6,248
(xiii) Participation in the Meetings of Rent Boards	425	362

In addition to the actual performance shown above, the following activities not stated in the Action Plan for the year 2010 had been performed by the Department.

- i. Finalisation of 08 compensation examinations in terms of Section 29 of the Land Reform Law.
- ii. Issue of 55 Valuation Reports for Rs.50,484,083,750 on 156 units for the Urban Development Authority and the Sri Lanka Land Reclamation and Development Corporation.

(b) Operating Inefficiencies

(i) Modernization of Buildings

A sum of Rs.8,915,847 (exclusive of taxes) had been spent in the year under review for the modernization of the first, fourth and fifth floors of the Department building. The following matters were observed at an audit carried out in this connection.

- i. Procurement Time Schedules had not been prepared in terms of Section 4.2.3 of the Government Procurement Guidelines.
- ii. Even though 21 days time should be allowed in terms of Section 6.2.2 of the Government Procurement Guidelines for submitting quotations for procurement under the National Competitive Quotations, 12 days had been allowed for the above procurement.
- iii. Even though the Performance Security Guarantee of 5 per cent of the contract value or Rs.445,792 should be obtained in terms of Section 5.4.8 of the Government Procurement Guidelines, the value of the guarantee obtained had been Rs.200,000.
- iv. Even though the Performance Guarantee should be obtained before entering into agreement for the contract, the agreement had been entered into on 01 November 2010 and the Performance Guarantee had been obtained on 30 November 2010.

- v. Even though the contract should have been completed within 45 days in terms of the conditions of the agreement the contract period had been extended up to 31 January 2011 without the approval of Procurement Committee. Even though the work on the fifth floor had been completed on 31 January 2011, the final payment of the contract had been made on 31 December 2010.

16.6 Deficiencies in the Operation of Bank Accounts

(a) Balances for Adjustment

The information revealed at an analysis of the adjustments shown in the Bank Reconciliation Statements prepared for December 2010 is given below.

Particulars of Adjustments	6-12 Months	1-3 Years	Total
-----	-----	-----	-----
	Rs.	Rs.	Rs.
(i) Unrealised Deposits	23,256	8,461	31,717
(ii) Cheques issued but not presented for Payment	74,110	22,350	96,460
(iii) Unidentified Debits	100	-	100

- i. Action in terms of Financial Regulation 396(d) had not been taken on 14 cheques totaling Rs.96,460 issued but not presented to the Banks.
- ii. Action in terms of Financial Regulation 189 had not been taken on 29 dishonored cheques totalling Rs.92,363.

16.7 Human Resources Management

Approved Cadre and Vacancies

The position of the cadre as at 31 December 2010 had been as given below.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	80	65	15
(ii) Tertiary Level	361	273	88
(iii) Secondary Level	98	81	17
(iv) Primary Level	95	69	26
Total	634	488	146

17 Appropriation Head 252 – Department of Census and Statistics

The audit of the Appropriation Account including the financial records, reconciliation statements, books, registers and other records of the Department of Census and Statistics for the year ended 31 December 2010 was carried out in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 10 August 2011. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

17.2 Responsibility of the Chief Accounting Officer and Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

17.3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Records and the Books for the year ended 31 December 2010, it was observed that except for the effects of the general observations appearing at (a) to (c) and other major observations appearing in paragraphs 17.4 to 17.9 herein, the Appropriation Account and the Reconciliation Statements of the Department of Census and Statistics had been prepared satisfactorily.

(a) Replies to Audit Queries

Reply to an audit query issued to the Department in the year under review had not been furnished even by 08 August 2011 and the value of quantifiable transactions relating to that audit query amounted to Rs.725,309.

(b) Budgetary Variance

The entire capital provisions made under 03 Objects totalling Rs.24,940,000 and the entire recurrent provision made under one Object amounting to Rs.100,000 had been saved.

(c) **Reconciliation Statement of the Advances to Public Officers Account**

According to the Reconciliation Statement presented, the balances that remained outstanding as at 31 December 2010 totalled Rs.1,546,028 and a note on the reasons for remaining outstanding and the outstanding periods is given below.

Reasons -----	Age Analysis -----				Total
	Less than 01 year	Over 01 year less than 02 years	Over 02 year less than 03 years	Over 03 years	
	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Change of Station Transfers	341,524	51,100	-	158,556	551,180
(ii) Retirements	-	2,480	-	-	2,480
(iii) Deaths and Vacation of Posts	295,835	165,216	236,622	148,965	846,638
(iv) Interdictions, Releases and proceeding Abroad	-	87,050	1,800	56,880	145,730
Total	637,359	305,846	238,422	364,401	1,546,028
	=====	=====	=====	=====	=====

17.4 Non-compliances

Non-compliances with Laws, Rules, Regulation, etc.

Instances of non-compliances with the provisions in laws, rules and regulations observed at audit test checks are analyzed below.

Reference to Laws, Rules and Regulations	Non-compliance
--	----------------

Financial Regulations

(i) Financial Regulations 206

Even though refunds from deposits should be certified two officers, refunds amounting to Rs.1,532,308 made in 9 instances had not been so certified.

(ii) Financial Regulations 880

Action had not been taken in the year under review as well for obtaining security from employees` from whom security should be obtained.

17.5 Performance

The observations on the progress of the Department according to the Annual Budgets Estimates / Action Plan for the year 2010 are given below.

(a) Key Functions not Performed Adequately **Population and Housing Census – 2011**

A sum of Rs.117,108,000 had been allocated for the purpose of this Census. Even after the transfer of a sum of Rs.5,000,000 out of that to other Objects under Financial Regulation 66, a sum of Rs.52,284,206 or 47 per cent had been saved as at the end of the year. The listing scheduled under this activity for the year 2010 had not been completed. The Forms Scanning of the Pilot Census had not been handed over due to the delays in procurement.

(b) **Planning and Performance**

Non-compliance with the Annual Action Plan

It was observed that action in terms of the Action Plan had not been taken in the following instances.

According to the Annual Action Plan -----	According to the Performance Report -----
(i) Annual Survey of Industries	Statistics had not been published
(ii) Annual Data Collection of the Semi-Government Clients - 2009	Data had not fed in to the Internet
(iii) Information Technology Data on Local and International Services	Not completed.
(iv) Sample Survey of Tea Smallholders	Survey had not been conducted
(v) Survey on Production of potatoes and big onions	Not completed
(vi) Formulation of Activities of Agricultural Statistics – 2012	Not completed

17.6 Irregular Transactions

Certain transactions entered into by the Department were devoid of regularity. Several such instances observed are given below.

(a) **Deviation from Procurement Guidelines**

- (i) The Procurement Plan had not been prepared in accordance with Section 4.2.1 (a) of the Procurement Guidelines 2006. The printing of 9,000,000 Census stickers had not been included in the Procurement Plan for the year 2010.
- (ii) One of the conditions of the agreement for the printing of 9,000,000 Census stickers was that the sticker should be quality resistant to inclement weather and

an agreement for stickers to a minimum guarantee of 12 months had been obtained in this connection. Out of the 02 lower quotations received one quotation had been rejected for the reason that, the second part of the condition of quality resistance to inclement weather had not been completed. The rejection of the bid despite the sample of the bidder being of specified standard and being agreeable to all other conditions including the warranty could not be accepted in audit.

- (iii) Even though the second lower bid furnished amounted to Rs.4,320,000, the bid had been awarded for Rs.6,210,000, thus causing a loss of Rs.1,890,000 to the Department from the procurement.

17.7 Operating Inefficiencies

The Color Printer had broken down on 23 July 2009 and the repairs had taken about 08 months. During that period color printing had been done through private institutions at a cost of Rs.725,309.

17.8 Human Resources Management **Approved Cadre and Vacancies**

The position of the cadre as at 31 December 2010 had been as given below.

Category of Employees	Approved Cadre	Actual cadre	Number of Vacancies	Excess
-----	-----	-----	-----	-----
(i) Senior Level	259	164	95	-
(ii) Tertiary Level	494	365	129	-
(iii) Secondary Level	841	607	234	-
(iv) Primary Level	154	106	48	-
(v) Other (Casual / Temporary / Contract Basis)	30	45	-	15
Total	1,778	1,287	506	15
	=====	=====	=====	=====

17.9 Internal Control

Maintenance of Registers

It was observed that the Department had not maintained the following registry in the proper and updated manner.

Type of Register -----	Relevant Register -----
(i) Register of Fixed Assets	Financial Regulation 502 and the Treasury Circular No. 842 of 19 December 1978.
(ii) Register of Computers and Accessories	Treasury Circular No.IA1/2002/029 of 28 November 2002.

18 Appropriation Head 280 – Department of Foreign Aid and Budget Monitoring

The audit of the Appropriation Account including the financial records, reconciliation statements, books, registers and other records of the Department of Foreign Aid and Budget Monitoring for the year ended 31 December 2010 was carried out in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 27 May 2011. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

18.2 Responsibility of the Chief Accounting Officer and Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

18.3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Records and the Books for the year ended 31 December 2010, it was observed that except for the effects of the general observation appearing at (a) and other major observations appearing in paragraphs 18.4 to 18.7 herein, the Appropriation Account and the Reconciliation Statements of the Department of Foreign Aid and Budget Monitoring had been prepared satisfactorily.

(a) Budgetary Variance

- (i) The entire capital provisions totaling Rs.4,400,000 made under 04 Objects had been saved.
- (ii) Excess provisions had been made under 03 Capital Objects and the savings thereunder after the utilization of provision amounted to Rs.18,976,514 and those savings ranged between 83 per cent and 88 per cent of the net provisions of those Objects.

18.4 Performance

The observations on the progress of the Department according to the Annual Budgets Estimates / Action Plan for the year 2010 are given below.

(a) Key Functions not Performed Adequately

The Department had not performed the key functions at all / not performed adequately and several such instances observed are given below.

- (i) Even though a provision of Rs.3,000,000 had been made in the year 2010 for strengthening of the Supervision Mechanism at the National and Sub-national level, the entire provision had been saved as the activity had not been implemented.
- (ii) Even though the Handbook book on Guidelines for the introduction of the International Framework based on the Results under the Management of Development should have been presented in the year 2010 it had not been done. As such the entire provision of Rs.1,000,000 had been saved.
- (iii) In addition to the supervision of the operation of the Foreign Aid Projects other main functions of the Department included assisting on acceleration of the use of foreign aid and the development projects and taking necessary steps for avoiding weaknesses in the use of foreign aid. Nevertheless, out of the foreign aid projects each costing over US\$ 5 million supervised by the Department, there were projects not executed within the specified time frames. The number foreign aid projects costing over Rs. 50 million supervised by the Department as at 31 December 2010 had been 139 and out of those 49 projects or 35 per cent represented projects not executed within the specified time frame.

18.5 Uneconomic Transactions

As the Department is not having a building of its own, the Department is maintained from the year 2005 in 02 floors with 10,707.04 square feet of floor space taken on rent from the Central Bank Building. The monthly rent thereon amounted to Rs.1,873,795 and a sum of Rs.22,485,540 had been paid in the year 2010. Even though the Department is maintained by paying such high rent attention had not been paid for the maintenance of the Department in a building belonging to the Government.

18.6 Irregular Transactions

A sum of Rs.1,361,484 had been paid on voucher No. 380 dated 22 December 2010 to a private institution for the printing of 500 copies of the Performance Report of the Ministry of Finance and Planning. As provision for that purpose was not available the payment had been made under the Object on Evaluation of other Investment Projects and the Supervision System based on Web Sites. The payment is observed as an item extraneous to the objectives of the Department while the expected targets of the Project Evaluation and Web Site based supervision had also not been achieved.

18.7 Human Resources Management

Approved Cadre and Vacancies

The position of the cadre as at 31 December 2010 had been as given below.

Category of Employees	Approved Cadre	Actual cadre	Number of Vacancies
(i) Senior Level	38	32	06
(ii) Tertiary Level	01	01	-
(iii) Secondary Level	26	18	08
(iv) Primary Level	18	18	-
Total	83	69	14

19. Appropriation Head 296 – Department of Import and Export Control

The audit of the Appropriation Account and the Revenue Accounts including the financial records, reconciliation statements, books, registers and other records of the Department of Import and Export Control for the year ended 31 December 2010 was carried out in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 04 August 2011. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

19.2 Responsibility of the Chief Accounting Officer and Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account, the Revenue Accounts and the Reconciliation Statements in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

19.3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Records and the Books for the year ended 31 December 2010, it was observed that except for the effects of the general observations appearing at (a) and other major observations appearing in paragraphs 19.4 and 19.5 herein, the Appropriation Account, the Revenue Account and the Reconciliation Statements of the Department of Export and Import Control had been prepared satisfactorily.

(a) **Budgetary Variance**

- (i) The entire net provision of Rs.100,000 made under one object of Head 296 had been saved.
- (ii) Excess provisions had been made for 05 Objects and out of the total net provision of Rs.430,000 a sum of Rs.284,219 only had been utilized. The savings amounted to Rs.145,781 and that ranged between 20 per cent to 100 per cent of the net provision.

19.4 Non-compliance

Non-compliance with Laws, Rules, Regulations, etc.

Instances of non-compliance with the provision in laws, rules and regulations observed at audit rest checks are analyzed below.

Reference to Laws, Rules, Regulations	Value	Non-compliance
-----	-----	-----
	Rs.	
(i) Financial Regulation 94	107,725	Contrary to Financial Regulation 94, the liabilities entered into under 02 Objects amounted to Rs.107,725 and exceeded the savings after the utilization of net provisions by a sum of Rs.54,769.
(ii) Treasury Circular No. 06/2010 dated 04 November 2010		The instructions of the Treasury Circular had not been followed in closing the cash books.

19.5 Human Resources Management

Approved Cadre and Vacancies

The position of the cadre as at 31 December 2010 had been as given below.

Category of Employees	Approved Cadre	Actual cadre	Number of Vacancies
-----	-----	-----	-----
(i) Senior Level	08	08	-
(ii) Secondary Level	63	47	16
(iii) Primary Level	19	19	-
	-----	-----	-----
Total	90	74	16
	=====	=====	=====

20. Appropriation Head 323 – Department of Legal Affairs

The audit of the Appropriation Account including the financial records, reconciliation statements, books, registers and other records of the Department of Legal Affairs for the year ended 31 December 2010 was carried out in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 27 July 2011. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

20.2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

20.3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Records and the Books for the year ended 31 December 2010, it was observed that except for the effects of the general observation appearing at (a) and other major observations appearing in paragraphs 20.4 and 20.5 herein, the Appropriation Account and the Reconciliation Statements of the Department of Legal Affairs had been prepared satisfactorily.

(a) Imprest Account

- (i) According to the Treasury books the balance of the Imprest Account as at 31 December 2010 amounted to Rs.8,109,500 and according to the Departmental Books there was no balance in the account. In this connection the sum of Rs.8,088,375 that should have been credited to the Imprest Account had not been credited by the Treasury. Even though this error had continued throughout the year, the Department had not taken to rectify the error.
- (ii) The imprest balance had not been reconciled with the Treasury books in terms of Financial regulation 427.

20.4 Performance

The observations on the progress of the Department according to the Annual Budgets Estimates / Action Plan for the year 2010 are given below.

(a) Key Functions not Performed Adequately

The key functions of the Department had not been adequately performed and several such instances observed are given below.

- (i) The number of files received by 31 December 2010 in connection with cases had been 59 and out of that work had been finalised on 24 cases or 41 per cent.
- (ii) Even though 11 files had been received up to 31 December 2010 seeking legal advice but work had been completed only 02 files or 18 per cent.

**20.5 Human Resources Management
Approved Cadre and Vacancies**

The position of the cadre as at 31 December 2010 had been as given below.

Category of Employees	Approved Cadre	Actual cadre	Number of Vacancies
-----	-----	-----	-----
(i) Senior Level	14	06	08
(ii) Secondary Level	06	05	01
(iii) Primary Level	06	03	03
	-----	-----	-----
Total	26	14	12
	=====	=====	=====

21. Appropriation Head 324 – Department of Management Audit

The audit of the Appropriation Account including the financial records, reconciliation statements, books, registers and other records of the Department of Management Audit for the year ended 31 December 2010 was carried out in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 27 July 2011. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

21.2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

21.3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Records and the Books for the year ended 31 December 2010, it was observed that except for the effects of the major observations appearing in paragraphs 21.4 to 21.6 herein, the Appropriation Account and the Reconciliation Statements of the Department of Management Audit had been prepared satisfactorily.

21.4 Non-compliances

Non-compliance with Laws, Rules, Regulations, etc

An instances of non-compliance with the provision in laws, rules and regulations observed at audit rest checks is given below.

Reference to Laws, Rules, Regulations	Value	Non-compliance
-----	-----	-----
	Rs.	
Circular Provisions		

Section 9.3.1 (b) of the Procurement Guidelines 2006	715,000	Even though the approval of the Secretary to the Ministry should be obtained, for repairs carried out costing more than Rs.100,000 , that approval had not been obtained in connection with the repairs carried out to the official motor vehicle allocated to the Additional Director General of the Department.

21.5 Performance

The observations on the progress of the Department according to the Annual Budget Estimates / Action Plan for the year 2010 are given below.

Key Functions not Performed Adequately

The key functions of the Department had not been performed adequately.

- i Even though the development of the capacity of the audit officers of the Internal Audit Units through the organization of Workshops on Management Audit is among the key functions of the Department 02 workshops only had been conducted in this connection in the year 2010. The provision allocated for that purpose amounted to Rs.293,000. It was observed that the number of workshops conducted for the development of capacity of Internal Audit Officers and the provision allocated for that purpose are inadequate.

- ii One of the functions of the Department is the introductions of a Handbook of Guidelines on Internal Audit and Updating that with the introduction of new trends thereto is a function of this Department. But the Handbook had not been introduced even up to the end of the year under review.

21.6 Human Resources Management
Approved Cadre and Vacancies

The position of the cadre as at 31 December 2010 had been as given below.

Category of Employees	Approved Cadre	Actual cadre	Number of Vacancies
(i) Senior Level	13	09	04
(ii) Secondary Level	18	13	05
(iii) Primary Level	08	07	01
Total	39	29	10

22. Report of the Auditor General on the Financial Statements of the Democratic Socialist Republic of Sri Lanka

22.1 Financial Statements

22.1.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the financial statements have been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the financial assets and liabilities of the Democratic Socialist Republic of Sri Lanka as at 31 December 2010 and the financial results of its operations and cash flows for the year then ended.

22.1.2 Financial Performance

The financial performance of the Democratic Socialist Republic of Sri Lanka for the year ended 31 December 2010, as compared with the preceding year is given below.

Revised Estimate for the year 2010		2010 Actual	2009 Actual
----- Rs. Million		----- Rs. Million	----- Rs. Million
	Income		

135,040.0	Income Tax	135,623.0	139,558.0
426,758.0	Domestic Goods and Services Tax	430,353.1	315,176.5
158,242.5	Taxes on International Trade	158,830.1	164,447.7
----- 720,040.5	Tax Income	----- 724,806.2	----- 619,182.2
100,681.9	Non-tax and Other Income	100,882.2	89,198.8
----- 820,722.4	Total Income (a)	----- 825,688.4	----- 708,381.0
	Less : Expenditure		

238,184.4	Salaries, Wages and Other Service Benefits	236,861.1	212,401.3
98,165.0	Other Goods and Services	95,893.3	99,934.7
280,162.8	Subsidies, Grants and Transfers	271,043.5	266,423.3
359,530.2	Interest Payments	347,688.3	303,177.1
8.1	Other Recurrent Expenditure	7.7	0.0
----- 976,050.5	Total Recurrent Expenditure (b)	----- 951,493.9	----- 881,936.4
----- 155,328.1	Income deficit (a) - (b)	----- 125,805.5	----- 173,555.4

392,323.9	Government Investments	347,006.7	365,753.9
-----		-----	-----
547,652.0	Budget Deficit	472,812.2	539,309.3
=====		=====	=====
	Financing of Budget Deficit		

148,584.1	Foreign Borrowings	261,700.7	207,766.4
	Repayment of Foreign		
(69,713.1)	Loans	(69,112.3)	(112,692.2)
-----		-----	-----
78,871.0	Net Foreign Borrowings	192,588.4	95,074.2
19,000.0	Foreign Grants	16,950.0	25,922.2
-----		-----	-----
	Total Foreign Financial Contribution		
97,871.0	Contribution	209,538.4	120,996.4
	Domestic Non-banking		
752,584.0	Loans	639,569.5	785,592.4
	Repayment of Domestic		
(393,567.2)	Loans	(383,499.5)	(386,681.7)
-----		-----	-----
359,016.8	Net Domestic Loans	256,070.0	398,910.7
15,144.0	Recovery of Loans	15,534.5	11,978.2
250.0	Sale of Capital Assets	240.5	77.9
	Net Difference in Deposit		
0.0	Accounts and Liabilities	(1,779.7)	(2,846.3)
	Increase / (Decrease) in		
0.0	Cash and Cash Equivalent	(6,791.5)	10,192.4
-----		-----	-----
472,281.8	Total Financing	472,812.2	539,309.3
=====		=====	=====

22.1.3 Financial Position

A comparison of assets and liabilities of the Democratic Socialist Republic of Sri Lanka in the year under review and the preceding year is given below.

	As at 31 December	
	2010	2009
	-----	-----
	Rs. Million	Rs. Million
Financial Assets		

Loans to Public Officers	25,695.8	24,079.3
Advances to Government Departments	8,337.3	8,155.2
Payment of Membership Fees	3,517.2	3,517.2
Granting of Loans	273,906.1	281,139.5
Government Contribution in Public Enterprises	121,865.1	116,666.8
Remittance Account for Crown Agents	13.0	-
Stamp stock account	994.7	-
	-----	-----
Total Financial Assets	434,329.2	433,558.0
	-----	-----
Liabilities		

Bank Overdraft	58,278.9	65,070.4
Central Bank Advances	77,878.8	73,880.5
Foreign Loan Scrolling Fund	21,455.3	22,177.3
Miscellaneous Funds	2,098.3	2,299.9
Government Borrowings	4,099,414.5	3,657,463.4
Deposits and Other Liabilities	75,963.2	75,061.4
Operating Account with Government Department	1,013.0	3,170.2
Miscellaneous Accounts	(2,462.5)	(1,669.7)
	-----	-----
Total Liabilities	4,333,639.5	3,897,453.4
Contingencies Fund	140.0	140.0
	-----	-----
Total of Liabilities and Contingencies Fund	4,333,779.5	3,897,593.4
	-----	-----
Total Liabilities and Contingencies Fund balance over		
Financial Assets	3,899,450.3	3,464,035.4
	=====	=====

Consolidated Fund - Accumulated Deficit	196,423.8	204,995.0
Total Investments on Physical Assets and the Accumulated		
Net Income Deficit	3,703,026.5	3,259,040.4
	-----	-----
	3,899,450.3	3,464,035.4
	=====	=====
Contingencies and Commitments	230,825.2	182,656.9

22.1.4 Accounting Deficiencies

The following deficiencies were observed.

(a) Cash Flow Statement

Dividends and profits generated from capital contributions to Public Corporations, government owned companies and other companies, plantation companies and development banks had been included in the operating activities without being included in the Investment income in the cash flow statement.

(b) Bank Overdraft

A sum of Rs.58,278,914,237 had been shown as the bank overdraft in the financial statements. In Note 21 presented along with the financial statements, it was stated that the bank balance consisted of 13 favourable and unfavourable balances. Particulars are given below.

Account No.	Name of Account	Balance as at 31 December 2010
-----	-----	-----
		Rs.
7002	Treasury Approved Imprest Account	17,504,441,191
	Treasury Approved Imprest Account -	
7003	Scrolling Funds	103,979,252
8020	DST Bank Account	(76,527,923,075)
8030	Crown Foreign Agent's Current Account	(1,473,987)
8192	Temporary Savings Account in the Central Bank of Sri Lanka	(13,154,696,259)
8813	International Development Society Special Dollar Account in the Central Bank of Sri Lanka	6,041,924,364
8918	Asian Development Bank Special Dollar Account in the Central Bank of Sri Lanka	3,325,223,435
8973	Special Dollar Account in the Central Bank of Sri Lanka (International Fund for Agricultural Development Loan)	177,599,233
9094	Special Yen Account in the Central Bank of Sri Lanka	19,286,310,929
9101	Special Deutschmark Account in the Central Bank of Sri Lanka	187,937,603
9110	NORDIAL Special Account in the Central Bank of Sri Lanka	2,168,712
9114	Special Rupee Account	(15,735,820,472)
9125	Foreign Special Transfer Account France Development Institution	511,414,839
	Total	----- (58,278,914,237) =====

The following matters were observed in this regard.

- (i) Although it was stated in the above note that the bank overdraft of the Deputy Secretary to the Treasury as Rs.76,527,923,075 , that balance also consisted of favourable and unfavourable total balances of 08 bank accounts. Particulars are given below.

Name of Account -----	Balance as at 31 December 2010 ----- Rs.
Balance of Favourable Bank Accounts in the Central Bank of Sri Lanka	249,728,132
Account of a Bank of Ceylon	(52,952,416,720)
Favourable Balances of 4 Bank Accounts in the Bank of Ceylon	10,164,361,437
Account in the People's Bank	(33,989,595,924)
Total	<u><u>(76,527,923,075)</u></u>

It was stated under policies on the preparation of financial statements that the Account of the Deputy Secretary to the Treasury consists of several accounts. However the balances of such accounts had not been disclosed in the financial statements. As such, without disclosing the overdraft balances totalling Rs.86,942,012,644 in 2 bank accounts of the Deputy Secretary to the Treasury, that overdraft had been set off against the favourable balance of 6 bank accounts totalling Rs.10,414,089,569 under the accounts of the Deputy Secretary to the Treasury and shown the net balance in the financial statements as an overdraft.

- (ii) The Treasury approved imprest account balance of Rs.17,504,441,191 had been shown in the financial statements as a balance of cash and cash equivalent. It was observed that the balance had included debit balances and credit balances of Rs.1,012,782,031 and 223,410,210 respectively remained for the period from 1 to 17 years. Such balances had been shown in the financial statements as cash and cash equivalent assets without been examined whether such balances had arisen as a result of accounting errors or other reasons. Of this debit balance of Rs.1,012,782,031 , the debit balance of Rs.51,720,565 had been settled by 25 June 2012. Particulars are given below.

Year	Account Number					Balance as at 01.01.2010	Debits during the year 2010	Credits during the year 2010	Balance as at 31 December 2010	
									Dr	Cr
						Rs.	Rs.	Rs.	Rs.	Rs.
1993	7002	36	93	Dr		51,720,565			51,720,565	
1997	7002	77	97	Dr		94,960,816	671,689		94,289,127	
1998	7002	77	98	Dr		161,096,408			161,096,408	
1998	7002	325	98	Cr		(223,410,210)				223,410,210
1999	7002	328	99	Dr		101,591,142			101,591,142	
2000	7002	325	0	Dr		10,854,275			10,854,275	
2008	7002	35	8	Dr		388,449,682	5,442,555	14,060,044	379,832,193	
2009	7002	35	9	Dr		275,381,827	215,649	62,199,155	213,398,321	
Total						860,644,505	5,658,204	76,930,888	1,012,782,031	223,410,210

(iii) The favourable balance of Rs.103,979,252 of the reimbursable foreign aid Treasury approved imprest had been deducted from the bank overdraft treated as a balance of cash and cash equivalent asset. That imprest balance of such list had consisted of debit balances of Rs.75,402,897 and credit balances of Rs.25,632,787 which had remained for period 01 to 14 years. Out of the debit balances of Rs.75,402,897 , balances totalling Rs.20,286,631 relating to 11 accounts had been settled by 25 June 2012 after being reconciled. Similarly, out of credit balances of Rs.25,632,787 a sum of Rs.25,617,787 , had been settled after being reconciled by 25 June 2012 after being reconciled. Accordingly, balances which could be settled by reconciling the accounts had been shown in the financial statements as cash balances.

Year	Account Number					Balance as at 01 January 2010	Debit during the year	Credits during the year	Balance as at 31 December 2010	
									Dr	Cr
						Rs.	Rs.	Rs.	Rs.	Rs.
1996	7003	372	0003	3	Dr	20,000,000			20,000,000	
2001	7003	11		1	Cr	(13,165,062)				13,165,062
2001	7003	43		1	Dr	11,359			11,359	

2002	7003	43	2	Dr	60,136		60,136		
2003	7003	62	3	Cr	(4)			4	
2003	7003	64	3	Dr	10,868,883		10,868,883		
2003	7003	68	3	Cr	(717,793)			717,793	
2004	7003	43	4	Cr	(15,000)			15,000	
2004	7003	64	4	Cr	(3,870,845)			3,870,845	
2004	7003	68	4	Cr	(981,878)			981,878	
2005	7003	13	5	Cr	(2,430,616)			2,430,616	
2005	7003	43	5	Dr	16,724,428		16,724,428		
2006	7003	13	6	Dr	2,109,395	333,267	1,776,128		
2006	7003	82	6	Dr	3,500,000		3,500,000		
2006	7003	100	6	Cr	(101,033)			101,033	
2007	7003	13	7	Cr	(850,556)			850,556	
2007	7003	79	7	Dr	20,757,840		20,757,840		
2008	7003	13	8	Dr	4,347		4,347		
2008	7003	82	8	Cr	(3,500,000)			3,500,000	
2009	7003	83	9	Dr	4,231,212	2,582,236	1,648,976		
2009	7003	84	9	Dr	5,258,086	3,000	5,210,286	50,800	
Total					57,892,899	3,000	8,125,789	75,402,897	25,632,787

(iv) When the adjustments in respect of overdraft interest of Rs.215,470,346 charged by the bank for the bank overdraft existed during the period from December 2007 to December 2010 in a bank current account which had not been taken to the books accounts of the Republic and a sum of Rs.88,753,413 refunded by the Bank during the period from 08 October 2008 to 31 December 2010 but not taken to the books of accounts of the Republic had been made, the bank overdraft would have been increased by Rs.126,716,933.

(c) Suspense Accounts

It was failed to settle the balance of Rs.403,306,128 existed in the Suspense Account (8583) of the Cash Management Branch even by the end of the year under review.

(d) Losses and Damages

An expenditure of Rs.7,672,709 had been shown as losses and damages in the financial statements of the year under review. This expenditure had represented only for losses and damages for which action had been taken in terms of F.R.106 and 109. The value of

other losses and damages not coming under F.R. 106 and written off under F.R.109 had not been disclosed in the financial statements. The Director General of State Accounts had informed that as this information had not been brought to account at the time of preparing Republic Accounts, action would be taken to include losses written off under F.R. 109 and not coming under F.R. 106 in the financial statements of the subsequent year of accounts.

(e) **Fixed Assets Accounting**

It was explained in a note to the financial statements that fixed assets were not included in the financial statements. The following balances of assets totalling Rs.84,543 Million had been presented in a schedule attached to the financial statements as at 31 December 2010.

Type of Assets	Balance as at 01 January 2010	Additions	Balance as at 31 December 2010
-----	-----	-----	-----
	Rs. Million	Rs. Million	Rs. Million
Motor Vehicles	34,505,564	5,666,310	40,171,874
Office Equipment	13,833,211	2,832,232	16,665,443
Plant	22,121,043	5,584,743	27,705,786
Total	70,459,818	14,083,285	84,543,503
	=====	=====	=====

Even though the balances of the above assets had been computed as book values of Ministries and Departments since 01 January 2004, it was failed to include those assets in the financial statements of the Republic. As an adjustment in respect of assets balances disposed by the Ministries and Departments during the year 2010 had not been made to the balances presented in the schedule but not included in the financial statements as at 31 December 2010. As such it was observed that the assets balances stated in that schedule were also not accurate.

(f) Dormant Control Accounts

Debit balance of Rs.2,464,978,742 and credit balances of Rs.3,997,820,760 consisting of 12 control accounts as per detailed below had remained dormant for the periods ranging from 05 to 15 years.

Account No	Name of Account	Balance as per Trial Balance		Idle Period years
		Dr Rs.	Cr Rs.	
9099	DST Refundable Fund		986,855	6
	Sri Lanka Nation Building Board			
9129	Investment Account	493,972,071		5
	Sri Lanka Nation Building Loan			
9128	Account		493,972,071	5
9098	DST Collection Account	38,940,420		11
8982	IBRD Rotation Fund Account		1,570,884,206	4
8575	Sinking Fund Account		46,492,720	15
8574	Sinking Fund Investment Account	46,492,720		15
	Transfer of Investment in Company			
8491	Shares as Capital Tax	88,589		15
	Payment of Money to International			
8340	Financial Institutions Fund Account		616,811,553	15
	Payment of Money to International			
	Financial Institution Investment			
8339	Account	616,811,553		15
	Membership of the International			
8234	Monetary Fund	1,268,673,389		9
	Advances of the Central Bank of Sri			
8233	Lanka - Breatonwuds Agreement Act		1,268,673,355	15
		<u>2,464,978,742</u>	<u>3,997,820,760</u>	

(g) Capital Contributions in the Government Own Business Undertakings

According to the financial statements as at 31 December 2010, the capital contributions in the Government Own Business Undertaking amounted to Rs.121,865 million and this amount in the preceding year was Rs.116,667 million. A sum of Rs.8,168 million had been invested in the year 2010 and the investment had been reduced by Rs.2,970 million. Accordingly, a net increase of Rs.5,198 million was observed in the capital contributions in Government Own Business Undertaking. The following observations are made in this regard.

- (i) Out of the capital contributions in Government Own Business Undertaking totalling Rs.121,865,113,583 as at 31 December 2010 in 142 institutions, balances totalling Rs.17,770,840,517 relating to 63 institutions had not confirmed their balances. Particulars are given below. Balances of such institutions which did not confirm their balances totalling Rs.6,309,439,166 relating to 13 institutions were confirmed as per their annual reports. Businesses of 7 institutions in which a sum of Rs.134,516,440 had been contributed to the capital had become dormant. Accordingly, capital contributions in 43 institutions totalling Rs.11,326,884,911 could not be satisfactorily vouched due to non-confirmation of balances by them.

Capital Contribution	No. of Institutions	Value of Shares	Balances Confirmed		Balances not Confirmed	
			No. of Institutions	Value of Shares	No. of Institutions	Value of Shares
		Rs.		Rs.		Rs.
Capital Contributions in Commercial Public Corporations	33	83,659,272,851	29	79,039,243,116	4	4,620,029,735
Central Bank of Sri Lanka	1	15,000,000	1	15,000,000	0	0
Government Own or other Companies	79	31,740,085,686	36	24,505,925,020	43	7,234,160,666
Plantation Companies	24	1,677,234,640	13	534,104,930	11	1,143,129,710
Share Holdings in Corporations Stated at US\$	3	224,282,840	0	0	3	224,282,840
Development Banks	2	4,549,237,566	0	0	2	4,549,237,566
Total	142	121,865,113,583	79	104,094,273,066	63	17,770,840,517

- (ii) Out of 147 institutions in which the government had contributed to the capital, only 33 institutions had credited dividends of Rs.4,970.5 million during the year under review to the Consolidated Fund. As compared with Rs.2,213.1 million of dividends income received during the preceding year, it had increased by Rs.2,757.4 million or 124.59 per cent. However, the value of dividends credited to the Consolidated Fund represented at a low percentage of 4.08 from the total capital stock in government own business enterprises, taken as a percentage of overall investment. The Director General of State Accounts had explained in this connection that there are instances where investment are made in order to maintained efficient common public utility services without profit making objectives and in certain instances investments are made to strengthen the Balance Sheets of certain institutions and providing long term economic facilities expecting direct returns with the Treasury participation from time to time. Further more, as investments are made in purchase of paddy, fertilizer subsidy, providing financial assistance for the purchase of drugs, providing housing and vehicle loan facilities to Public Officers without profit making objectives, the overall dividend percentage had fallen short.

Type of Institution	No. of Institutions	Government Investment	No. of institutions by which Dividends were sent	Amount of Dividends sent	Gross Dividend as a Percentage of Investments
-----	-----	-----	-----	-----	-----
		Rs. Million		Rs. Million	%
Commercial Public Corporations	33	83,659.3	05	1,885.6	2.25
Central Bank of Sri Lanka	01	15.0	-	-	-
Government Own or other Companies	79	31,740.1	16	778.7	2.45
Plantation Companies	24	1,677.2	07	2,270.9	135.39
Share Holdings in Corporations Stated at US\$	03	224.3	-	-	-
Development Banks	07	4549.2	05	35.3	0.77
	----	-----	----	-----	
Total	147	121,865.1	33	4,970.5	4.08
	=====	=====	====	=====	=====

(h) Receipt of Unaccounted Foreign Loans

According to the 854 report on foreign loans, the reimbursement of Rs.67.3 billion received during the year 2010 in respect of 6 projects had not been brought to accounts as receipt of foreign loans in the year under review. The Director General of State Accounts had sent the following explanation for audit. “A sum of Rs.67,267,498,853 received for 3 projects had been the loans obtained by the Ceylon Electricity Board and the Sri Lanka Ports Authority on reimbursable basis and the assets being built up thereon appear in the balance sheets of those institutions and as such the receipt of such loans had not been included in the financial statements. Loans relating to 2 projects included in the 854 report amounting to Rs.53,747,203 would be realized in the years 2011 and 2012 and as such they had not been included in the financial statements. A sum of Rs.7,659,220 included in the 854 report was an erroneous entry and it had been rectified on 25 June 2012 and as such they had not been brought to account as receipt of loans in the year under review”.

(i) Advance Accounts

The following observations are made in respect of the advance accounts.

(i) Advance Accounts Activities which had not Reached to Minimum Limits

The minimum limits of receipts relating to the following 5 advance account activities authorised by Parliament to pay advances to Public Officers as detailed in the schedule of the Appropriation Act No. 7 of 2010 had not been reached even by the end of the year under review.

Ministry / Department	Item No.	Government Activity	Receipts	
			Minimum Limit	Deficit
-----	-----	-----	-----	-----
			Rs.	Rs.
Judicial Service Commission	01301	Advances to Public Officers	1,800,000	358,801
Department of Elections	01701	Advances to Public Officers	19,000,000	3,759,856
Minister of Foreign Affairs	11201	Advances to Public Officers	29,600,000	7,514,987
Minister of Technology and Research	13301	Advances to Public Officers	12,500,000	2,862,245
Postal Department	30801	Advances to Public Officers	517,300,000	11,384,359

(ii) Dormant Advance Activities

The maximum limits of debit balances in respect of 22 advance accounts activities in the Appropriation Act, No. 07 of 2010 had not been authorized. There were debit balances totalling Rs.12,197,119 of those advance activities as at 31 December 2010. A committee had been appointed with the participation of a Deputy Secretary to the Treasury to examine such balances and to make recommendation on what action to be taken and action had been taken to write off three debit balances totalling Rs.291,713 in the year 2011.

Even though Chief Accounting Officers and Accounting Officers relating to 9 advance activities totalling 4,050,117 had been identified, such balances had not been settled even by 25 June 2012. Although the Committee is taking action in respect of the balance 10 activities, the Chief Accounting Officers and the Accounting Officers relating to those activities had not been identified.

Account No. -----	Actual debit Balance ----- Rs.
8493/0/0/0009/0011	3,900
8493/0/0/0137/0011	2,002
8493/0/0/0180/0011	2,814,355
8493/0/0/0325/0011	14,192
8493/0/0/0326/0011	203,371
8493/0/0/0601/0019	31,083
8493/0/0/0601/0022	28,385
8493/0/0/0000/0000	6,483,163
8493/0/0/0149/0001	166,975
8493/0/0/0157/0001	3,200
8493/0/0/0433/0011	3,978
8493/0/0/0570/0011	93,655
8493/0/0/0603/0021	20,950
8493/0/0/0604/0011	9,084
8493/0/0/0999/0015	47,069
8493/0/0/0999/0017	550,769
8493/0/0/0999/0018	311,451
8493/0/0/0999/0021	75,042
8493/0/0/0999/0303	95,357
8493/0/0/0999/0313	173,655
8493/0/0/0999/0320	297,031
8493/0/0/0999/0354	768,452

Total	12,197,119
	=====

22.2 Financial and Operating Review

22.2.1 Government Revenue

The following observations are made.

- (a) According to the annual budget estimates presented to Parliament for the year 2010 the total government revenue (including foreign grants) amounted to Rs.854.37 billion. According to the financial statements for the year under review, the total overall revenue estimate, including foreign grants had been revised as Rs.839.72 billion and the actual revenue including foreign grants amounted to Rs.842.64 billion. Accordingly the actual revenue for the year 2010 had increased by Rs.2.92 billion or 0.35 per cent in excess of the revised revenue estimate.
- (b) The original revenue estimates of the following revenue code numbers included in the revenue estimates presented to Parliament for the year 2010 had been revised by reducing these estimated during the year under review, but the collected revenue had also been exceeded the original estimates.

Revenue Code No.	Particulars of Revenue	Original Estimate	Revised Estimate	Actual Revenue
-----	-----	-----	-----	-----
		Rs.	Rs.	Rs.
1004.01.02	Dividend Tax	4,134,000,000	3,850,000,000	5,645,471,773
1004.04.00	Economic Service Charge	17,972,000,000	15,000,000,000	18,047,723,175
2001.03.00	Advance Account (Trading)	85,000,000	65,000,000	100,166,569
2002.02.99	Others	1,350,000,000	1,200,000,000	1,468,032,576
2002.04.00	Dividends	3,100,000,000	1,384,000,000	4,970,556,572
2003.02.14	Charges recoverable under Motor Traffic Act and Others	3,000,000,000	2,800,267,000	3,485,849,970

2003.03.00	Fines and Confiscations	3,000,000,000	1,500,000,000	3,078,482,083
2003.99.00	Other Receipts	8,000,000,000	5,000,000,000	8,140,791,587
2004.01.00	Social Security Contributions - Central Government	7,500,000,000	7,350,000,000	8,232,406,849

(c) As the revenue had not been accurately estimated, revenue had been collected from the following revenue code numbers in excess of the estimated revenue by 50 per cent to 259 per cent.

Revenue Code No.	Particulars	Estimated Revenue	Actual Revenue	Actual Revenue in Excess of Estimated Revenue	Revenue in Excess of Estimated Revenue as a Percentage of Estimated Revenue
-----	-----	----- Rs.	----- Rs.	----- Rs.	----- %
2002.04.00	Dividends	1,384,000,000	4,970,556,572	3,586,556,572	259.14
2003.03.00	Fines and Confiscations	1,500,000,000	3,078,482,083	1,578,482,083	105.23
1001.07.00	Regional Infrastructure Facilities Development Tax	2,500,000,000	4,717,512,848	2,217,512,848	88.70
1002.03.01	National Defence Tax Services	10,000,000	16,759,064	6,759,064	67.59
2003.99.00	Other Receipts	5,000,000,000	8,140,791,587	3,140,791,587	62.82
2003.02.01	Audit Fees	38,000,000	59,325,819	21,325,819	56.12
1002.03.00	National Defence Levy	15,000,000	23,222,185	8,222,185	54.81

2001.03.00	Advance Account (Trading)	65,000,000	100,166,569	35,166,569	54.10
2005.01.00	Central Bank Profit	10,000,000,000	15,000,000,000	5,000,000,000	50.00

22.2.2 Government Expenditure

Provisions required for government expenditure for the period 01 January to 30 April 2010 had been made from the on account budget authorized by Parliament under Articles 150(2) of the constitution on 05 November 2009. Under that, a sum of Rs.197 billion for recurrent expenditure for 187 Heads of expenditure and a sum of Rs.159 billion for capital expenditure, totalling Rs.356 billion had been provided. Financial provisions for performing public services during the period of 3 months beginning from the date of 22 April 2010 scheduled to meet the present Parliament had been granted by the President under Article 150 (3) of the Constitution. Accordingly, a sum of Rs.156 billion for recurrent expenditure under 190 expenditure Heads and Rs.137 billion for capital expenditure totalling Rs.293 billion had been provided. After meeting the present Parliament, the Appropriation Act, No. 07 of 2010 had been passed for the period from 01 January 2010 to 31 December 2010. In terms of Sections 10 and 11 of that Act it was stated that provisions in the on account budget passed by Parliament under Article 150(2) of the Constitution, provisions made by the President under Article 150(3), all monies spent within these periods and any money not spent immediately before the date of implementation of the Appropriation Act No. 07 of 2010, should be treated as inclusion of moneys allocated to a corresponding programme specifically shown under corresponding heads in the first schedule attached to the Appropriation Act for all purposes. Accordingly, a provision of Rs.982 billion had been made as the government expenditure estimate for the year 2010 for 191 appropriation Heads stated in the first schedule of the Appropriation Act No. 7 of 2010. The total provision of Rs.1,831 billion comprising Rs.982 billion from the Appropriation Act No. 07 of 2010, Rs.806.1 billion as government expenditure approved by the existing laws which should have been a debit to the Consolidated Fund, (including the repayment of domestic and foreign loans) a sum of Rs.27.9 billion by special law warrants, Rs.834 billion for special law services and a sum of Rs.15 billion from supplementary estimates had been approved by Parliament for the year 2010. As compared with the expenditure estimate of Rs.1934 billion provided for the preceding year, it had dropped by 103 billion or 5.33 per cent of the government expenditure estimate of the preceding year.

The following matters were observed with regard to government expenditure.

- (a) Foreign loans of Rs.69,112 million and the domestic loans of Rs.383,499 million totalling Rs.452,611 million had been re-paid during the year under review. It represented 25.85 per cent of the total government expenditure of the year under review.
- (b) Out of the provision of Rs.1,831,655 million for the year 2010, a sum of Rs.1,751,112 million had been spent, leaving net savings of Rs.80,542 million. These savings represented 4.39 per cent of the provision made. Particulars are given below.

Type of Expenditure	Net Provision	Expenditure	Savings	Savings as a Percentage of Net Provision
-----	-----	-----	-----	-----
	Rs.	Rs.	Rs.	%
Recurrent Government	976,050,553,004	951,493,955,879	24,556,597,125	2.52
Investments	392,323,914,180	347,006,678,875	45,317,235,305	11.55
Repayment of Foreign loans	69,713,100,000	69,112,362,273	600,737,727	0.86
Repayment of Local Loans	393,567,200,000	383,499,478,979	10,067,721,021	2.56
Total	1,831,654,767,184	1,751,112,476,006	80,542,291,178	4.39

The following matters were observed in respect of savings.

- The entire provision of Rs.9,023,825,396 made for 434 expenditure items had been saved. Of these expenditure items, provisions made for 283 expenditure items relating to the government investments totalling Rs.4,950,847,135 had also been saved.
- Savings between 50 per cent to 99.99 per cent from the net provision were observed and it was Rs.16,367,429,144 relating to 877 expenditure items.

(c) In terms of Section 6(1) of the Appropriation Act, No. 07 of 2010 provisions made for recurrent or Capital expenditure stated in the first schedule under expenditure Head 240 of the Department of National Budget, could be transferred only in 8 instances, subject to guidelines stated in the printed budget estimates authorized by Parliament for the relevant year.

Accordingly, provisions of Rs.41,323,424,344 had been transferred to another Heads by that programme as follows.

Nature of Expenditure	Financing Particulars		Net Provisions	Provision Released to Other Heads	Savings
			Rs.	Rs.	Rs.
Recurrent	Domestic Funds	11	13,000,000,000	12,857,999,989	142,000,011
Capital	Domestic Funds	11	14,933,000,000	14,742,772,577	190,227,423
	Foreign Aid Loans	12	8,200,000,000	8,199,046,000	954,000
	Foreign Aid Grants	13	1,000,000,000	195,326,146	804,673,854
	Reimbursable Foreign Aid Loans	14	567,000,000	528,190,000	38,810,000
	Reimbursable Foreign Aid Grants	15	50,000,000	-	50,000,000
	Counterpart Fund	16	50,000,000	-	50,000,000
	Foreign Aid Related Domestic Funds	17	4,900,000,000	4,800,089,632	99,910,368
	Total		42,700,000,000	41,323,424,344	1,376,575,656

It was ordered to transfer a sum of Rs.41,323,424,344 to some other Heads by supplementary estimates for the year 2010. Although those provisions should be granted only for emergency purposes they had been granted to the following purposes which were non-emergency purposes.

- (i) Due to non-transfer of provisions of Rs.50,000,000 each under reimbursable foreign grants (15) and Counterpart Fund (16) totalling Rs.100,000,000 under supplementary estimates the entire provisions had been saved.
- (ii) Provisions of Rs.41.32 billion had been transferred to other, Heads by 325 warrants under the supplementary estimates. Of those provisions a sum of Rs.37.46 billion had been spent by respective institutions and a sum of Rs.3.86 billion had been saved.
- (iii) Out of the provisions of Rs.2,808.8 million made to 13 Ministries and Departments under 10 supplementary estimates warrants, a provision of Rs.347.2 million had been accounted as expenditure and it had been transferred to general deposit account with the approved.
- (iv) Even though a provisions of Rs.737.8 million had been made by 53 supplementary estimates provisions warrants, the entire provisions had not been utilized and had been saved.
- (v) Even though provisions of Rs.2,110.9 million had been transferred to other expenditure Heads by 52 supplementary estimates warrants, only Rs.183.7 had been utilized and it was observed that the balance of Rs.1,927.2 million had been saved. It represented 50 per cent to 99.99 per cent of the provision.

22.2.3 Budget Deficit

According to the Budget for the year 2010 the budget deficit had been Rs.438.84 billion and the budget deficit for the preceding year amounted to Rs.476.36 billion. Accordingly, the budget deficit had decreased by Rs.37.52 billion as compared with the preceding year. According to the revised estimates for the year 2010 the estimated budget deficit had been Rs.547.65 billion. The original estimates had been increased by Rs.108.81 billion after being revised the estimates, but the actual deficit had been Rs.472.81 billion. The actual budget deficit had decreased by Rs.74.84 billion over the revised estimates and it had increased by Rs.33.97 billion as compared

with the original estimates. The budget deficit had approximated to the original budget estimates but had been distant from the revised estimates. Accordingly it was observed in audit that there were instances where the revision of budget estimates had not been appropriate. According to the financial statements of the Republic the estimated budget deficit for the year amounted to Rs.547.65 billion but according to the economic classification the estimated budget deficit had been Rs.446.7 billion and the actual budget deficit according to that classification amounted to Rs.446.0 billion. Accordingly, as there were differences in the budget deficit between the computation as per the economic classification and the financial statements had been the reason for this difference.

In terms of Section 3(a) of the Financial Management (responsibilities) Act No. 03 of 2003, the budget deficit should not exceed 5 per cent of the Gross Domestic Product. According to the estimated Gross Domestic Product for the year 2010 of Rs.5,445 billion, the estimated budget deficit had been 8.06 per cent of the estimated G.D.P. but according to the actual GDP of Rs.5,602 billion (as per financial statements) the actual budget deficit represented 8.44 per cent. As compared with the percentage of 11.18 in the preceding year, a considerable increase was observed. According to the economic classification, the estimated budget deficit amounted to Rs.446.7 million and as compared with the estimated GDP it was 8.2 per cent. According to the economic classification the actual budget deficit amounted to Rs.446.0 billion and as compared with GDP, it was 7.96 per cent. The reason for non-compliance with the limit under Section 3(a) of the Financial Management (Responsibility) Act, No. 3 of 2003 had been published on 29 June 2010 by the Financial Management report in terms of Section 6(f) of the Act.

22.2.4 Utilization of foreign loans

Out of projects to be implemented and completed by 31 December 2010, two foreign aid projects agreed at Rs.2106.6 million had to be completed as at that date. Although, it was informed to audit that one of these projects valued at Rs.1,112.5 million had been completed, the details of utilization of that project were not made available for audit. Although a request was made to extend the project period of another project valued a Rs.994.12million from the donor country as it has not been implemented, the period had not been extended even by 25 June 2012. As such any utilization whatsoever of this project had not been reported.

22.2.5 Utilisation of Foreign Grants

Grants relating to 47 projects to be completed by 31 December 2010 amounted to Rs.26,698.2 million out of which a sum of Rs.15,096.2 million had been utilized. Accordingly, the unutilized amount was Rs.11,062.0 million. The unutilized amount represented 30.7 per cent to 100 per cent of the agreed grants. Out of that, the entire agreed grants amounting to Rs.2,640.11 million for 16 projects had not been utilized.

22.2.6 Liabilities of the Republic

According to the financial statements the total liability of the Government as at 31 December 2010 amounted to Rs.4,333,639 million. As compared with the liability of Rs.3,897,453 million in the preceding year it had increased by 12.85 per cent or Rs.436,186 million. This increase can be analysed as follows.

Liability	Year 2010	Year 2009	Difference	Difference Percentage
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	Rs..	Rs.	Rs.	%
Bank Overdraft	58,278,914,237	65,070,406,256	(6,791,492,019)	(10.43)
Central Bank Advances	77,878,822,800	73,880,500,000	3,998,322,800)	5.41
Foreign Loan Scrolling Fund	21,455,287,347	22,177,279,135	(721,991,788)	(3.25)
Miscellaneous Funds	2,098,246,350	2,299,909,566	(201,663,216)	(8.76)
Government Borrowings	4,099,414,489,679	3,657,463,431,775	441,951,057,904	12.08
Deposits and other Liabilities	75,963,233,860	75,061,352,776	901,881,084	1.20
Operating Account with Government				
Departments	1,013,041,844	3,170,227,898	(2,157,186,054)	(68.05)
Miscellaneous Accounts	(2,462,511,689)	(1,669,688,660)	(792,823,029)	47.48
Total	4,333,639,524,428	3,897,453,418,746	436,186,105,682	

In terms of Section (f) of the Public Finance (Responsibilities) Act No. 03 of 2003, the total liabilities of the government should not exceed 85 per cent of the estimated GDP of that year. As compared with the estimated GDP of Rs.5,445 billion for the year under review, it was 79.60 per cent.