

**Head 102 - Report of the Auditor General for the Ministry of Finance and Planning and the Departments and Institutions under the Ministry - Year 2012**

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This report comprises two Parts.

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

Part 2 – The detailed Report relating to each Head

**Part I**

**The Summary Report on the Accounts of the Ministry of Finance and Planning and the Departments and Institutions under the Ministry**

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**1. Departments under the Ministry**

Head	Name of the Departments
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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 Project Management and Monitoring
296	Department of Import and Export Control
323	Department of Legal Affairs
324	Department of Management Audit
	Miloda Institute
-	Financial Statements of the Democratic Socialist Republic of Sri Lanka

## **2. Accounts**

### **2.1 Appropriation Accounts**

#### **(a) Total Provision and Expenditure**

The total net provision made for the Ministry and the 20 Departments under the Ministry amounted to Rs.512,051,344,197 and a sum of Rs.433,334,018,424 had been utilized by the end of the year under review. Accordingly, the savings out of the net provisions of the Ministry and each Department ranged between Rs.962,708 and Rs.2,588,329,339 or 0.61 per cent to 97.16 per cent of the total net provisions.

Head	Ministry / Department	Net Provision as at 31 December 2012		Utilisation as at 31 December 2012		Savings as at 31 December 2012			
		Recurrent	Capital	Recurrent	Capital	Recurrent	Capital	Total	Percentage
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
102	Ministry of Finance and Planning	635,718,000	1,855,195,270	601,799,179	1,298,459,476	33,918,821	556,735,794	590,654,615	23.71
237	Department of National Planning	55,920,500	123,023,500	54,717,891	122,084,857	1,202,609	938,643	2,141,252	1.20
238	Department of Fiscal Policy	636,800,000	1,600,000	127,561,375	1,142,707	509,238,625	457,293	509,695,918	79.84
239	Department of External Resources	255,966,927	639,176,000	176,049,527	635,890,072	79,917,400	3,285,928	83,203,328	9.29
240	Department of National Budget	39,280,845,000	35,197,950,000	68,473,412	1,409,412,522	506,182,816	1,038,749,794	1,544,932,610	2.07
241	Department of Public Enterprises	48,375,000	4,600,000	44,205,234	2,330,481	4,169,766	2,269,519	6,439,285	12.16
242	Department of Management Services	32,800,000	1,450,000	30,995,445	862,279	1,804,555	587,721	2,392,276	6.98
243	Department of Development Finance	366,225,000	2,378,700,000	315,775,337	1,560,816,339	50,459,663	817,883,661	868,343,324	31.63
244	Department of Trade, Tariff and Investment Policy	830,434,000	900,000	23,062,721	561,500	807,371,279	338,500	807,709,779	97.16
245	Department of Public Finance	136,490,000	1,385,000	113,492,491	1,253,070	22,997,509	131,930	23,129,439	16.78

246	Department of Inland Revenue	1,563,600,000	57,900,000	1,562,267,310	42,061,640	1,332,690	15,838,360	17,171,050	1.06
247	Sri Lanka Customs	1,392,627,000	932,800,000	1,391,536,742	902,832,384	1,090,258	29,967,616	31,057,874	1.34
248	Department of Excise	455,096,000	67,000,000	445,495,674	60,358,987	9,601,326	6,641,013	16,242,339	3.11
249	Department of Treasury Operations	416,478,342,000	6,305,300,000	414,147,477,550	6,047,835,111	2,330,864,450	257,464,889	2,588,329,339	0.61
250	Department of State Accounts	34,880,500	15,469,500	33,713,683	11,461,332	1,166,817	4,008,168	5,174,985	10.28
251	Department of Valuation	235,570,000	20,700,000	229,100,462	18,556,751	6,469,538	2,143,249	8,612,787	3.36
252	Department of Census and Statistics	578,900,000	1,271,453,000	568,752,974	1,137,027,123	10,147,026	134,425,877	144,572,903	7.81
280	Department of Project Management and Monitoring	64,130,000	4,700,000	59,055,714	3,655,425	5,074,286	1,044,575	6,118,861	8.89
296	Department of Import and Export Control	39,698,372	11,091,628	36,945,353	10,480,135	2,753,019	611,493	3,364,512	6.62
323	Department of Legal Affairs	10,612,000	650,000	10,191,281	108,011	420,719	541,989	962,708	8.55
324	Department of Management Audit	24,620,000	2,650,000	23,882,818	2,277,049	737,182	372,951	1,110,133	4.07
	Total	<u>463,157,650,299</u>	<u>48,893,693,898</u>	<u>420,064,551,173</u>	<u>13,269,467,251</u>	<u>43,093,099,126</u>	<u>35,624,226,647</u>	<u>78,717,325,773</u>	

## 2.2 Revenue Accounts

### Estimated and Actual Revenue

Nine Departments under the Ministry had prepared Revenue Estimates totalling Rs.1,036,329,632,000 under sixty seven (67) Revenue Codes for the year 2012 and collected revenue amounting to Rs.990,664,916,396. Accordingly, revenue ranging from 35.82 per cent to 553.04 per cent of the estimated revenue had been collected. Details appear below.

Revenue Accounting Officer	Revenue Code	Estimated Revenue	Actual Revenue	(Under-collection) / Over-collection	Percentage
		Rs.	Rs.	Rs.	
Director General of Customs	10.01.01.00	76,830,000,000	73,488,797,447	(3,341,202,553)	95.65
- do -	10.01.02.00	20,000,000	20,869,945	869,945	104.35
Controller of Imports and Exports	10.01.03.00	450,000,000	512,671,434	62,671,434	113.92
Director General of Customs	10.01.04.00	75,211,000,000	70,110,728,468	(5,100,271,532)	93.22
- do -	10.01.05.01	29,287,000,000	29,603,817,902	316,817,902	101.08
- do -	10.01.05.02	3,120,000,000	3,136,571,565	16,571,565	100.53
- do -	10.01.06.00	-	-	-	-
- do -	10.01.07.00	-	-	-	-
- do -	10.01.08.00	36,608,000,000	33,665,823,105	(2,942,176,895)	91.96
- do -	10.01.99.00	-	-	-	-
- do -	10.02.05.01	54,924,000,000	53,528,703,599	(1,395,296,401)	97.46
- do -	10.02.05.02	-	39,070,605	39,070,605	
- do -	10.02.05.03	23,000,000,000	28,466,074,809	5,466,074,809	123.77
- do -	10.02.05.04	57,510,000,000	46,495,735,189	(11,014,264,811)	80.85
- do -	10.02.05.99	5,132,000,000	3,336,130,676	(1,795,869,324)	65.01
Commissioner General of Inland Revenue	10.02.01.01	22,208,300,000	21,090,795,631	(1,117,504,369)	94.97
- do -	10.02.01.02	56,925,200,000	45,609,087,661	(11,316,112,339)	80.12
- do -	10.02.01.03	35,340,500,000	38,487,278,292	3,146,778,292	108.90
- do -	10.02.01.04	109,487,000,000	99,468,871,221	(10,018,128,779)	90.85

- do -	10.02.02.01	12,000,000	8,012,275	(3,987,725)	66.77
- do -	10.02.02.02	6,000,000	3,982,398	(2,017,602)	66.37
- do -	10.02.02.03	-	-	-	-
- do -	10.02.03.01	2,000,000	2,008,516	8,516	100.43
- do -	10.02.03.02	2,000,000	1,921,838	(78,162)	96.09
- do -	10.02.03.03	-	-	-	-
Commissioner General of Excise	10.02.04.00	60,971,000,000	60,046,840,535	(924,159,465)	137.38
- do -	10.02.06.00	25,000,000	34,344,008	9,344,008	
Commissioner General of Inland Revenue	10.02.08.00	-	(481,999)	(481,999)	
- do -	10.02.09.00	25,000,000	138,260,169	113,260,169	553.04
Director General of Fiscal Policy	10.02.10.00	200,000,000	128,505,342	(71,494,658)	64.25
Director General of Treasury Operations	10.02.11.00	22,900,000,000	22,289,140,870	(610,859,130)	97.33
Commissioner General of Inland Revenue	10.02.12.01	17,441,000,000	13,534,045,176	(3,906,954,824)	77.60
- do -	10.02.12.02	7,489,190,000	9,542,448,857	2,056,258,857	127.42
- do -	10.02.12.03	18,823,000,000	15,659,658,331	(3,163,341,669)	83.19
- do -	10.03.03.00	312,000,000	289,175,098	(22,824,902)	92.68
- do -	10.03.04.00	2,200,000,000	1,285,744,429	(914,255,571)	58.44
- do -	10.03.05.00	950,000,000	709,648,933	(240,351,067)	74.70
Director General of Treasury Operations	10.03.06.00	-	-	-	-
Commissioner General of Inland Revenue	10.04.01.02	7,409,210,000	8,712,982,193	1,303,772,193	117.60
- do -	10.04.04.00	17,318,000,000	14,864,241,267	(2,453,758,733)	85.83
- do -	10.04.01.01	75,790,000,000	68,285,005,102	(7,504,994,898)	90.10
- do -	10.04.02.01	17,411,000,000	14,763,457,967	(2,647,542,033)	84.79
- do -	10.04.03.01	52,574,000,000	59,262,107,756	6,688,107,756	112.72
- do -	10.04.03.99	400,000,000	344,211,910	(55,788,090)	86.05
- do -	10.04.02.99	6,388,790,000	6,305,109,016	(83,680,984)	98.69
- do -	10.04.01.03	12,000,000	56,028,959	44,028,959	466.91
Director General of National Budget	20.01.03.00	100,000,000	289,427,871	189,427,871	289.43
Director General of Treasury Operations	20.02.01.01	650,000,000	582,263,523	(67,736,477)	89.58
- do -	20.02.01.99	62,000,000	50,139,146	(11,860,854)	80.87

- do -	20.02.02.01	7,704,000,000	8,100,515,778	396,515,778	105.15
- do -	20.02.02.99	1,325,000,000	1,387,710,751	62,710,751	104.73
Director General of Public Enterprises	20.02.03.00	36,459,060,000	42,214,108,456	5,755,048,456	115.78
- do -	20.02.04.00	5,096,800,000	4,546,957,702	(549,842,298)	89.21
Director General of Treasury Operations	20.03.01.00	130,000,000	143,436,379	13,436,379	110.34
Chief Valuer	20.03.02.09	30,000,000	32,585,761	2,585,761	108.62
Director General of Public Enterprises	20.03.02.11	32,000,000	34,359,965	2,359,965	107.37
Director General of Treasury Operations	20.03.02.99	7,114,582,000	2,941,497,189	(4,173,084,811)	41.34
Director General of Customs	20.03.02.17	100,000,000	104,693,242	4,693,242	104.69
Director General of Treasury Operations	20.03.03.00	3,000,000,000	5,137,117,410	2,137,117,410	171.24
- do -	20.05.99.00	9,042,000,000	3,238,910,549	(5,803,089,451)	35.82
Director General of Fiscal Policy	20.05.01.00	32,000,000,000	43,000,000,000	11,000,000,000	134.38
Director General of Treasury Operations	20.05.99.00	1,800,000,000	2,222,737,157	422,737,157	123.49
- do -	20.06.02.00	500,000,000	831,151,867	331,151,867	166.23
Commissioner General of Inland Revenue	20.06.03.00	-	-	-	-
Director General of Treasury Operations	20.06.04.00	16,470,000,000	16,409,105,273	(60,894,727)	99.63
- do -	30.01.01.00	20,000,000,000	16,070,771,882	(3,929,228,118)	80.35
<b>Total</b>		<u>1,036,329,632,000</u>	<u>990,664,916,396</u>	<u>(45,664,715,604)</u>	

**2.3 Advance Accounts****2.3.1 Advances to Public Officers Accounts****Limits Authorised by Parliament**

The following limits authorized by Parliament for the Advances to Public Officers Accounts of the Ministry and the twenty (20) Departments under the Ministry had been complied with. Details appear below.

Head	Item Number	Expenditure		Receipts		Debit Balance	
		Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
102	10201	24,000,000	10,815,088	7,500,000	10,222,247	90,000,000	44,678,838
237	23701	4,000,000	3,685,564	2,500,000	3,257,921	30,000,000	16,832,869
238	23801	2,600,000	2,069,916	1,000,000	1,653,259	10,000,000	7,151,436
239	23901	5,000,000	4,241,921	2,880,000	3,086,126	32,000,000	17,255,208
240	24001	7,000,000	3,968,834	3,700,000	4,813,624	35,000,000	22,223,115
241	24101	4,000,000	1,913,495	1,500,000	1,965,027	18,000,000	10,820,522
242	24201	5,000,000	2,596,073	2,000,000	2,144,103	23,000,000	10,437,504
243	24301	2,500,000	1,437,657	500,000	809,643	12,000,000	4,160,448
244	24401	2,500,000	1,892,364	1,500,000	1,578,843	15,000,000	8,608,918
245	24501	4,000,000	1,806,388	1,000,000	2,159,529	16,000,000	9,425,671
246	24601	45,000,000	44,681,193	48,000,000	59,858,857	295,000,000	219,759,166
247	24701	40,100,000	40,057,661	35,000,000	46,697,536	294,000,000	243,699,139
248	24801	28,000,000	25,997,714	22,000,000	25,943,682	195,000,000	130,598,452
249	24901	5,500,000	3,532,868	2,800,000	3,204,052	30,000,000	17,874,645
250	25001	5,000,000	2,682,229	2,000,000	6,016,206	25,000,000	8,598,509
251	25101	15,000,000	12,305,765	12,500,000	12,970,015	60,000,000	58,186,946
252	25201	52,000,000	21,079,978	19,500,000	32,048,355	215,000,000	139,987,869
280	28001	6,000,000	2,646,481	1,600,000	2,658,137	21,000,000	12,954,686
296	29601	4,500,000	3,825,966	2,000,000	3,718,583	20,000,000	11,929,264
323	32301	1,000,000	240,292	200,000	343,320	3,000,000	1,286,198
324	32401	2,000,000	1,284,767	1,200,000	2,008,870	11,000,000	8,055,013



### 2.3.2 Non-commercial Advance Accounts

#### Limits Authorised by Parliament

The following limits authorized by Parliament for 02 Non-commercial Advance Accounts of a Department under the Ministry had been complied with. Details appear below.

Head	Item Number	Expenditure		Receipts		Debit Balance	
		Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
250	25002	4,250,000	3,836,933	4,250,000	4,088,717	3,500,000	909,279
250	25003	10,000,000	1,872,138	3,000,000	14,573,099	520,000,000	490,459,153

### 2.4 Imprest and General Deposit Accounts

#### (a) Imprest Accounts

The debit balances of the Imprest Accounts of four (04) Departments under the Ministry as at 31 December 2012 totalled Rs.102,550,997. Details appear below.

Department	Balances as at 31 December 2012- Debit
	Rs.
Department of National Budget	83,325
Department of Inland Revenue	70,021,041
Sri Lanka Customs	4,938,397
Department of Excise	27,508,234
	<u>102,550,997</u>

**(b) General Deposit Accounts**

The balances of the General Deposit Accounts of the Ministry and 15 Departments under the Ministry as at 31 December 2012 totalled Rs.5,322,927,661. The details appear below.

<b>Ministry / Department</b>	<b>Account Number</b>	<b>Balance as at 31 December 2012</b>
		<b>Rs.</b>
Ministry of Finance and Planning	6000/0000/00/0015/0016/000	700,498
Department of Fiscal Policy	6000/00000/00/0015/118/000	38,317
Department of National Budget	15/120	14,058
Department of Public Enterprises	6000/0/0/15/121	2,950
Department of Management Services	6000/0000/00/0015/0122/000	3,505
Department of Trade, Tariff and Investment Policy	6000/00000/00/0015/124/000	19,625
Department of Public Finance	6000/0/0/15/25	330,888
Department of Inland Revenue	6000/0/0/15/0126	36,079,237
	6000/0/0/14/3	1,096,890,829
Sri Lanka Customs	6000/0/0/15/127	3,820,783,061
Department of Excise	6000/15/128	83,085,184
	6000/08/051	14,437,857
	6000/06/60	215,954,027
Department of State Accounts	6000/0000/00/0015/0130/000	2,925
Department of Valuation	6000/0000/00/0015/0131/000	435,149
Department of Census and Statistics	6000/0000/00/0015/0132/000	39,803,307
	6000/0000/00/0011/0592/000	13,865,258
Department of Project Management and Monitoring	6000/0/0/15/135	3,175
Department of Import and Export Control	6000/0000/00/0015/0151/000	477,811
<b>Total</b>		<b>5,322,927,661</b>

**Part 2**  
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**1. Head 102 – Ministry of Finance and Planning**

**1.1 Scope of Audit**

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 2012 was carried out in pursuance of provisions in 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 26 November 2013. 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 Accounts and the Reconciliation Statements in accordance with the provisions in 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 Observation**

According to the Financial Records and the Books for the year ended 31 December 2012, it was observed that except for the effects of the general observations appearing at (a) to (d) and other major audit findings appearing in paragraphs 1.4 to 1.8 herein, the Appropriation Account and the Reconciliation Statement of the Ministry of Finance and Planning had been prepared satisfactorily.

**(a) Budgetary Variances**

- (i) The entire Capital provisions totalling Rs.2,120,000 made under three (03) Objects had been saved.
- (ii) Provisions totaling Rs.529,302,566 had been made for fifteen (15) Objects and after utilization of provisions totalling Rs.112,570,615 out of that a saving of Rs.416,731,951 was observed. Those saving ranged between 6 per cent to 98 per cent of the net provisions made under the respective Objects.

**(b) Public Expenditure Management**

Contrary to the provisions in paragraph 2.4 of the National Budget Circular No. 155 of 30 December 2011, additional provisions amounting to Rs.12,500,000 had been obtained from Supplementary Estimates under the Authority No. 391 for an Object identified under savings.

**(c) Fuel and Electricity Expenditure Management**

- (i) Contrary to the instructions in the National Budget Circular No.156 of 16 February 2012, transfers of provisions amounting to Rs.5,963,000 had been made to Objects in the year under review under Financial Regulation 66.
- (ii) According to the provisions in paragraph 3 of the National Budget Circular No. 156 of 16 February 2012 based on the expenditure incurred on fuel and electricity in January 2012, the monthly expenditure in the ensuing months should be maintained without exceeding that limit. Nevertheless, expenditure totalling Rs.4,934,821 comprising Rs.1,108,001 for fuel and Rs.3,826,820 for electricity in respect of the other months exceeding the expenditure for January had been incurred contrary to such provisions.

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

Outstanding loan balances totalling Rs.719,257 relating to four (04) non-moving outstanding loan balances existed and the follow up action on the recovery of the money had been at a weak level.

#### **1.4. Good Governance and Accountability**

##### **1.4.1 Corporate Plan**

Even though the Ministry should prepare a Corporate Plan at least for a period of 03 years at the beginning of the year from the year 2010 onwards in terms of the letter No. PF/R/2/2/3/5(4) dated 10 March 2010 of the Director General of Public Finance addressed to all Secretaries to Ministries, the Chief Secretaries of Provincial Councils, Heads of Departments, District Secretaries and the Heads of Local Authorities, that Plan had not been prepared even by 31 December 2012.

##### **1.4.2 Implementation of the Audit and Management Committee**

The Audit and Management Committee had held only 03 meetings in the year 2012.

#### **1.5 Non-compliances**

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

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

Reference to Laws, Rules and  
Regulations

Non-compliance

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(a) Statutory Provisions  
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Government Quarters (Recovery of Possession) Act, No.7 of 1969 as amended by Act, No.3 of 1971 and Act, No.40 of 1974

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If an officer fails to vacate quarters when ordered to do so in terms of Section 7.1 of Chapter XIX of the Establishments Code, he should be evicted under this Act. But such action had not taken in connection with a former Deputy Secretary to the Treasury.

(b) Establishments Code

(i) Section 6.15 of Chapter XIX

An officer allocated with Government quarters should vacate quarters at the end of the period of occupation or when ordered to do so by the Allocating Authority. But that had not been so done by a former Deputy Secretary to the Treasury and an Assistant Director of the Department of National Budget.

(ii) Section 7.2

Penal rent up to 31 December 2012 had not been recovered for the periods of overstay of tenure of Government quarters from the above two officers and an Assistant Director of the Department of Fiscal Policy.

(iii) Section 5.2.1

Even though 12 ½ per cent of the salary of a married officer not entitled to scheduled quarters occupying scheduled quarters should be recovered only 10 per cent of the salary had been recovered.

(iv) Section 5.4

Where husband and wife, both public officers not entitled to scheduled quarters are in occupation of Government quarters, 12 ½ per cent of the salary of the higher paid officer and 5 per cent of the salary of the lower paid officer should be recovered. But 10 per cent of the salary of the officer only had been recovered for the official quarters under this Ministry and such rent had not been recovered up to 31 December 2012 from

the spouse in three instances where the spouses of the recipients of quarters are public officers.

(c) Public Administration Circulars

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(i) Circulars No. 26/92 of 19 August 1992, No. 26/92 (1) of 03 August 1994 and No. 01/2002 of 26 February 2002

The State Emblem and the name of the institution had not been painted on the pool motor vehicles of the Ministry.

(ii) Paragraph 07 of Circular No. 13/2008 of 26 June 2008

Even though the maximum distance out and back for providing group transport between residence and office is 50 kilometers, 05 motor vehicles had been deployed for providing groups transport for 58 to 86 kilometers which exceeded that limit of distance.

(d) Public Finance Circulars

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Paragraph 3 II of Circular No. 353 of 30 September 1997

Even though the Assessment Report Status Report and other relevant data on motor vehicles offered for disposal should be obtained by appointing a Board of Survey / Valuation Board, the Status Reports and the other data had not been obtained for 25 motor vehicles disposed of in the year 2011 and 24 motor vehicles disposed of in the year 2012.

(e) National Budget Circulars

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Circular No. 150 of 07 December 2010

Even though priority should be given for the disposal of motor vehicles older than 10 years and economically ineffective, 04 motor vehicles registered in the years 2004, 2005 and 2007 had been disposed of.

(f) Pension Circulars

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Paragraph vii of the Pension Circular  
No. 4/2010 of 25 May 2010

Even though it is the responsibility of the Chief Accounting Officer to arrange for remittance of the contributions for each month to the Public Service Provident Fund before the tenth day of the month following and for sending a credit advice of the contributions so recovered, the contributions had been remitted after delays ranging from 3 months to 2 years without taking action as specified.

**1.6 Performance**

The observations on the progress of the Ministry according to the Annual Budget Estimates / Action Plan for the year 2012 are given below.

**Planning**

**Action not taken according to the Annual Action Plan**

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



Division -----	Activity -----
(i) Sri Lanka Planning Service Division	Conduct of training sessions the Sri Lanka Institute of Development Administration.
(ii) Buildings Control Division	(i) Award of the contract for the construction of a five storeyed building adjucent to the General Treasury Building and Commencement of Construction.  (ii) Repairs to the Buddhist Shrine Room  (iii) Repairs to the Ceiling of second floor
(iii) Sri Lanka Accountants' Service Division	Conduct of training sessions through the Sri Lanka Institute of Development Administration.
(iv) Administrative and Resources Development Division	(i) Creation of a post of Protocol Officer for the Ministry of Finance and Planning.  (ii) Disposal of the disposable files in the Record Room after obtaining the approval in terms of the Public Administration Circular No. 25/2008.

## 1.7 Management Weaknesses

The following weaknesses were observed during the course of audit test checks.

### Landscaping Work 2011/2012

The following deficiencies were observed in connection with the sum of Rs.963,166 spent from June 2011 to August 2012 for landscaping.

- (a) Even though one of the objectives had been the establishment of a Herbal Garden in the building premises, the herbal seeding had not been planted in accordance with the design of a herbal garden. In addition, selection of seedlings had not been done in a manner to protect the landscaping and the selection of seedlings fit for the protection of the environment and due the failure to carry out proper maintenance, certain seedlings had perished. New seedlings had not been planted in place of perished plants. The voids of perished seedlings had not been filled.
- (b) Even though plan had been made to place 50 natural flowers pots with a minimum height of three feet at special places, that had been eliminated and attention had been paid for the planting of vegetable seedlings in the Treasury premises. An income had not been earned from the vegetable cultivation and the seedlings had perished.

## 1.8 Human Resources Management

### Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2012 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	25	19	06
(ii) Tertiary Level	08	04	04
(iii) Secondary Level	139	107	32
(iv) Primary Level	110	99	11
Total	282	229	53

The Ministry had failed to fill 53 vacancies even by the end of the year under review.

## **2. Head 237 – Department of National Planning**

### **2.1 Scope of Audit**

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 2012 was carried out in pursuance of provisions in 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 09 December 2013. 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 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 Accounts and the Reconciliation Statements in accordance with the provisions in 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**

According to the Financial Records and the Books for the year ended 31 December 2012, it was observed that except for the effects of the general observations appearing at (a) to (d) and other major audit findings appearing in paragraphs 2.4 to 2.7 herein, the Appropriation Account and the Reconciliation Statement of the Department of National Planning had been prepared satisfactorily.

(a) **Budgetary Variance**

Provision amounting to Rs.2,250,000 had been made for one Object and it was observed the Savings after the utilization of Rs.1,730,192 out of that, amounted to Rs.519,808. The savings represented 23 per cent of the net provision. It was observed that the savings had resulted from the excess provision made for the Object.

(b) **Public Expenditure Management**

According to the National Budget Circular No. 155 of 30 December 2011 out of the provisions made in the Annual Budget Estimates, 2 per cent and 9 per cent of the recurrent provision and the Capital provisions respectively should be saved. Nevertheless, the Department had saved only 1.72 per cent and 0.2 per cent respectively in the year 2012.

(c) **Fuel and Electricity Expenditure Management**

Even though instructions had been issued by the Treasury Circular No. 156 of 16 February 2012 that additional money will not be provided for expenditure on fuel and electricity in terms of Financial Regulation 66, provisions of Rs.100,000 had been transferred to those Objects under Financial Regulation 66 contravening those instructions.

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

According to the Reconciliation Statement as at 31 December 2012 of the Advances to Public Officers Account Item No. 23701, the balances that remained outstanding as at that date totalled Rs.233,836 and the Department had failed to recover the outstanding balances.

**2.4 Good Governance and Accountability**

**2.4.1 Corporate Plan**

Even though the Department should prepare a Corporate Plan at least for a period of 03 years at the beginning of the year from the year 2010 onwards in terms of the letter No. PF/R/2/2/3/5(4) dated 10 March 2010 of the Director General of Public Finance that Plan had not been prepared even by the date of this report.

## 2.4.2 Annual Performance Reports

Even though the Annual Performance Report that should be prepared by the Department in terms of the Public Finance Circulars No. 402 of 12 September 2002 and No.402(1) of 20 February 2004 referred to in paragraph 2.4.1 above should have been tabled in Parliament within 150 days after the close of the financial year with a copy to the Auditor General, the Performance Report for the year under review had been tabled in Parliament only on 03 October 2013.

## 2.5 Assets Management

### Conduct of Annual Boards of Survey

According to the Public Finance Circular No. 441 of 09 December 2009 as amended by the letter No. PF/Board of Survey/01 of 17 December 2010 of the Director General of Public Finance, the Annual Board of Survey for the year 2012 should have been conducted and the reports thereon should have been furnished to the Auditor General before 31 March 2013. Nevertheless, the Department had not conducted the Annual Board of Survey even up to the date of this report. The last Board of Survey conducted had been for the year 2011.

## 2.6 Non-compliances

### Non-compliance with Laws, Rules, Regulation, etc.,

Action in terms of Sections 7.1 and 7.2 of Chapter XIX of the Establishments Code had not been taken against 05 officers who had not vacated the official quarters despite the expiry of the agreement periods of the official quarters.

## 2.7 Human Resources Management

### Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2012 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	58	35	23
(ii) Tertiary Level	02	01	01
(iii) Secondary Level	26	22	04
(iv) Primary Level	29	29	-
Total	115	87	28

The Department had failed to fill 28 vacancies up to the end of the year under review.

### **3. Head 238 – Department of Fiscal Policy**

#### **3.1 Scope of Audit**

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 Fiscal Policy for the year ended 31 December 2012 was carried out in pursuance of provisions in Article 154 (1) of the Constitution in the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 03 March 2014. 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 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 Accounts and the Reconciliation Statements in accordance with the provisions in 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 Observation**

According to the Financial Records and the Books for the year ended 31 December 2012, it was observed that except for the effects of the general observations appearing at (a) and (b) and other major audit findings appearing in paragraphs 3.4 to 3.8 herein, the Appropriation Account, the Revenue Accounts and the Reconciliation Statement of the Department of Fiscal Policy had been prepared satisfactorily.

**(a) Budgetary Variance**

Provisions totalling Rs.605,035,000 had been made for 06 Objects and it was observed the savings after utilisation of sums totalling Rs.99,561,167 out of that, amounted to Rs.505,473,833. The savings ranged between 27 per cent to 84 per cent of the net provisions made for the respective Objects.

A sum of Rs.78,728,000 had been transferred in terms of Financial Regulation 66 to the Object No. 238-1-1-1405(i) for which provision had not been made under the Annual Budget Estimates.

**(b) Revenue Accounts**

According to 02 Revenue Accounts presented, revenue amounting to Rs.1,435,858,156 had been in arrears. Out of that a sum of Rs.82,306,007 represented arrears of revenue older than 02 years. The follow up action on the recovery of the outstanding revenue had been at a weak level.

**3.4 Good Governance and Accountability**

**3.4.1 Corporate Plan**

Even though the Department should prepare a Corporate Plan at least for a period of 03 years at the beginning of the year from the year 2010 onwards in terms of the letter No. PF/R/2/2/3/5(4) dated 10 March 2010 of the Director General of Public Finance that Plan had not been prepared even by 31 December 2013.

**3.4.2 Annual Performance Reports**

Even though the Annual Performance Report that should be prepared by the Department in terms of the Public Finance Circulars No. 402 of 12 September 2002 and No.402(1) of 20 February 2004 referred to in paragraph 3.4.1 above should have been tabled in Parliament within 150 days after the close of the financial year with a copy to the Auditor General, the Performance Report for the year under review had been tabled in Parliament only on 19 December 2013.

### 3.4.3 Implementation of Audit and Management Committee

Three meetings of the Audit and Management Committee only had been held in the year under review.

### 3.5 Assets Management

#### (a) Idle and Underutilized Assets

It was observed during the course of audit test checks that assets had been either idle or underutilized as analysed below.

Category of Assets	Number of Units	Idle or Underutilized Period
Machinery	14	Over 1 year
Other Assets	275	Over 1 year
Other Assets (Toner)	84	Over 3 years

#### (b) Conduct of Annual Boards of Survey

According to the Public Finance Circular No. 441 of 09 December 2009 as amended by the letter No. PF/Boards of Survey/01 of 17 December 2010 of the Director General of Public Finance the Board of Survey for the year 2012 should be conducted and the reports thereon should have been furnished to the Auditor General before 31 March 2013. Nevertheless, the Department had conducted the Annual Board of Survey only on 25 July 2013.

### 3.6 Non-compliance

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

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

Reference to Laws, Rules and Regulations	Value	Non-compliance
	Rs.	
(a) <u>Financial Regulations</u>		
Financial Regulation 104 (3) and (4)	72,525	If a delay of more than seven days is envisaged for making a full reports



for damage a preliminary report and a full report within 03 months should be sent. But action had not been taken accordingly.

(b) Treasury Circulars

-----  
Paragraph No. 02 and Schedule No. 3 of the Treasury Circular No. 842 of 19 December 1978

84,228 Several deficiencies had been made in recording 07 UPS machines purchased in 04 instances in the year under review in the Register of Fixed Assets.

**3.7 Performance**

Non-compliances could not be examined as the Department had not prepared a Corporate Plan for the year under review.

**3.8 Human Resources Management**

**Approved Cadre and Actual Cadre**

The position of the cadre as at 31 December 2012 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
-----	-----	-----	-----
(i) Senior Level	22	11	11
(ii) Tertiary Level	03	02	01
(iii) Secondary Level	25	16	09
(iv) Primary Level	15	10	05
Total	65	39	26
	====	====	====

The Department had not taken action even by the end of the year under review to fill 26 vacancies.

#### **4. Head 239 – Department of External Resources**

##### **4.1 Scope of Audit**

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 External Resources for the year ended 31 December 2012 was carried out in pursuance of provisions in Article 154 (1) of the Constitution in the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 07 November 2013. 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.

##### **4.2 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 Accounts and the Reconciliation Statements in accordance with the provisions in 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 Observation**

According to the Financial Records and the Books for the year ended 31 December 2012, it was observed that except for the effects of the general observations appearing at (a) and (b) and other major audit findings appearing in paragraphs 4.4 to 4.6 herein, the Appropriation Account, the Revenue Accounts and the Reconciliation Statement of the Department of External Resources had been prepared satisfactorily.

(a) **Budgetary Variance**

Provisions totaling Rs.7,700,000 had been made for 04 Objects and it was observed that the savings after utilisation of sums totalling Rs.4,629,527 out of that, amounted to Rs.3,070,473. The savings ranged between 26 per cent to 82 per cent of the net provisions made under the respective Objects. It was observed that the savings had been due to making excess provision.

(b) **Public Expenditure Management**

According to the National Budget Circular No. 155 of 30 December 2011, out of the provisions made in the Annual Budget Estimates, 2 per cent and 9 per cent of the recurrent provisions and capital provisions respectively should be saved. Nevertheless, the Department had not effected savings out of recurrent provisions for the year 2012 while only 0.25 per cent of the Capital provision had been saved.

4.4 **Good Governance and Accountability**

**Corporate Plan**

Even though the Department should prepare a Corporate Plan at least for a period of 03 years at the beginning of the year from the year 2010 onwards in terms of the letter No. PF/R/2/2/3/5(4) dated 10 March 2010 of the Director General of Public Finance that Plan had not been prepared even by 31 December 2012.

4.5 **Non-compliances**

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

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

Reference to Laws, Rules and Regulations -----	Value -----	Non-compliance -----
	Rs.	
(a) Financial Regulation 94	1,027,302	Out of the net provisions amounting to Rs.6,594,615 made for 3 Objects the savings after the utilization of Rs.6,593,058 out of that amounted to Rs.1,757. Contrary to Financial Regulation 94 commitments amounting to Rs.1,027,302 which exceeded the savings by Rs.1,025,545 had been incurred.

- (b) State Accounts Circular No. 174 of 18 October 2004 5,750 The purchase of 10 calculators had not been recorded in the Report on the Movement of Non-current Assets.

#### 4.6 Human Resources Management

##### Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2012 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	45	29	16
(ii) Tertiary Level	03	02	01
(iii) Secondary Level	64	40	24
(iv) Primary Level	29	24	05
Total	141	95	46

The Department had not taken action even by the end of the year under review to fill 46 vacancies.

**5. Head 240 – Department of National Budget**

**5.1 Scope of Audit**

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 2012 was carried out in pursuance of provisions in Article 154 (1) of the Constitution in the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 28 February 2014. 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 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 Accounts and the Reconciliation Statements in accordance with the provisions in 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 Observation**

According to the Financial Records and the Books for the year ended 31 December 2012, it was observed that except for the effects of the general observations appearing at (a) to (d) and other major audit findings appearing in paragraphs 5.4 to 5.7 herein, the Appropriation Account, the Revenue Account and the Reconciliation Statement of the Department of National Budget had been prepared satisfactorily.

**(a) Budgetary Variance**

- (i) The entire net provision of Rs.30,000,000 made for one Capital Object had been saved.
- (ii) Provisions totalling Rs.1,161,642,000 had been made for 07 Objects and the savings after the utilization of Rs.787,617,504 out of that amounted to Rs.374,024,496. The savings ranged between 23 per cent to 50 per cent of the net provisions made under the respective Objects. It was observed that the savings resulted from the excess provisions made for the Objects.

**(b) Imprest Account**

The imprest balance of Rs.83,325 brought forward from 09 January 2008 had not been settled even by 31 December 2012.

**(c) Revenue Account**

- (i) According to the account presented, revenue amounting to Rs.270,798,938 had been in arrears and the arrears of revenue related to periods less than one year and over 4 years. The follow up action on the recovery of the arrears of revenue had been at a weak level.
- (ii) Even though the original estimate of revenue amounting to Rs.50,000,000 for the year 2012 had been revised to Rs.100,000,000, the net revenue collected amounted to Rs.289,427,871 thus that represented 579 per cent of the original estimate and 289 per cent of the revised revenue. As such the revenue had been estimated without carrying out a proper study and care.
- (iii) According to the Revenue Account presented, the net revenue collected in the year 2011 amounted to Rs.4,640 and the revenue collected in the year 2012 amounted to Rs.289,427,871 indicating a large increase of Rs.289,423,213 in the revenue. Such wide variance had been due to crediting Rs.250,000,000 by Sri Lanka Navy and Rs.39,427,871 by the Department of Prison in the year 2012 to this revenue Code as the arrears of revenue relating to preceding years.

- (iv) Even though the estimated revenue for the year 2012 amounting to Rs.50,000,000 had been revised to Rs.100,000,000 action had not been taken to report such revision to the Director General of Fiscal Policy in terms of Financial Regulation 85(2)(b).
- (v) Even though the half yearly Statements of Revenue should be furnished to the Director General of Fiscal Policy in terms of Paragraph 07 of the Fiscal Policy and Economic Affairs Circular No. 2002/01 dated 17 July 2002 it had not been so done.
- (vi) According to paragraph 4 of the State Accounts Circular No. 2006/187 of 27 September 2006, the Treasury computer printouts on gross revenue should be reconciled with the Departmental books and reported to the Director General of State Accounts by the end of the month following. Nevertheless, it was observed that such reconciliation had not been done as the Department had not maintained books for the revenue collected from the Advance Accounts by Sri Lanka Navy and the Department of Prisons.
- (vii) The Director General had, by his letter No. BD/RA 2010 dated 31 May 2013 informed the audit that there are no arrears of revenue of the two institutions crediting revenue to this Revenue Code. Though the total net revenue in arrears as at the end of the year under review had been shown as Rs.178,000,000 in the Revenue Account presented, it was revealed in audit that the actual arrears of revenue according to the Advance Accounts of Sri Lanka Navy and the Department of Prisons amounted to Rs.270,798,938.
- (viii) Even though the Statement of Arrears of Revenue as at 30 June and 31 December of each financial year should be prepared and furnished to the Auditor General in terms of Financial Regulation 128(2)(c), it had not been so done.
- (ix) The arrears of revenue for the year 2011 had been shown as Rs.150,000,000 in the Revenue Account presented for the year 2011 whereas according to the Revenue Account presented for the year under review, the arrears of revenue for the year 2011 had been shown as Rs.288,000,000. Nevertheless, according to the

Advance Account of Sri Lanka Navy and the Department of Prisons which collect revenue, the arrears of revenue amounted to Rs.162,713,169.

- (x) Even though it was stated in the Revenue Account that there were no arrears of revenue in respect of the years prior to the year 2011, according to the Advance Accounts of Sri Lanka Navy and the Department of Prisons, arrears of revenue in respect of the years prior to the year 2011 amounting to Rs.165,216,126 and Rs.86,289,503 respectively totalling Rs.251,505,629 existed.
- (xi) Even though the arrears of revenue receivable for the year 2012 from the Advance Accounts of the Department of Prisons and Sri Lanka Navy amounted to Rs.45,566,785 and Rs.100,441,256 respectively totalling Rs.146,008,011 , the arrears for the year of reporting had been shown as Rs.140,000,000 in the Revenue Account thus understating the arrears by a sum of Rs.6,008,011.
- (xii) Even though Rs.39,427,871 from the Advance Account of the Department of Prisons and Rs.250,000,000 from the Advance Account of Sri Lanka Navy totalling Rs.289,427,871 had been received as the arrears of preceding years, the total amount collected against the arrears in the year of reporting as shown in the Revenue Account amounted to Rs.250,000,000 thus resulting in an understatement of Rs.39,427,871.
- (xiii) Out of the net profit earned in the years 2009 to 2010 from the Advance Account of the Department of Prisons sums of Rs.46,622,554 and Rs.39,666,949 , received in the years 2010 and 2011 had been erroneously credited in the years 2010 and 2011 to the Revenue Account of Revenue Code 20-03-02-99 “Sundries” and action for rectification of the error had not been taken up to date.

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

According to the Reconciliation Statement as at 31 December 2012 of the Advances to Public Officers Account Item No. 24001 the balances that remained outstanding as at that date totalled Rs.481,629 and action had not been taken for the recovery of those outstanding balances.



## 5.4 Good Governance and Accountability

### 5.4.1 Corporate Plan

Even though the Department should prepare a Corporate Plan at least for a period of 03 years at the beginning of the year from the year 2010 onwards in terms of the letter No. PF/R/2/2/3/5(4) dated 10 March 2010 of the Director General of Public Finance that Plan had not been prepared even by 31 December 2013.

### 5.4.2 Annual Performance Report

Even though the Annual Performance Report that should be prepared by the Department in terms of the Public Finance Circulars No. 402 of 12 September 2002 and No.402(1) of 20 February 2004 referred to in paragraph 5.4.1 above should have been tabled in Parliament within 150 days after the close of the financial year with copy to the Auditor General, the Performance Report for the year under review had been tabled in Parliament only on 31 October 2013.

## 5.5 Non-compliances

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

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

Reference to Laws, Rules and Regulations	Value	Non-compliance
-----	-----	-----
	Rs.	
Financial Regulations		
-----		
(i) Financial Regulation 110(2)	-	The particulars of accidents to motor vehicles in the year 2012 had not been included in the Appropriation Account.
(ii) Financial Regulation 371 (b)	87,340	Even though an ad hoc sub-imprest granted in an instance should not exceed Rs.20,000 contrary to that ad hoc sub-impressts exceeding the limit had been granted to a staff officer in 03 instances.

- (iii) Financial Regulation 371(c) 7,000 The settlement of fuel advances granted under the ad hoc sub-impressts had been delayed for more about 3 ½ months.

## 5.6 Performance

The total provision of Rs.5,000,000,000 made for 15 Budget Proposals out of the 30 Budget Proposals planned for implementations during the year under review from provisions in the Development Programme and 80 per cent of the provision of Rs.12,625,000,000 made for the balance 15 proposals amounting to Rs.10,073,700,000 had been transferred under Financial Regulation 66 to other Objects. As such it had not been possible for the implementation of the Budget Proposals.

## 5.7 Human Resources Management

### Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2012 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	36	22	14
(ii) Tertiary Level	02	02	-
(iii) Secondary Level	83	65	18
(iv) Primary Level	37	32	05
Total	158	121	37

The Department had not taken action for filling 37 vacancies even up to the end of the year under review.

**6. Head 241 – Department of Public Enterprises**

**6.1 Scope of Audit**

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 Public Enterprises for the year ended 31 December 2012 was carried out in pursuance of provisions in Article 154 (1) of the Constitution in 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 2013. 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 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 in 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 Observation**

According to the Financial Records and the Books for the year ended 31 December 2012, it was observed that except for the effects of the general observations appearing at (a) to(c) and other major audit findings appearing in paragraphs 6.4 to 6.8 herein, the Appropriation Account, the Revenue Account and the Reconciliation Statement of the Department of Public Enterprises had been prepared satisfactorily.

**(a) Budgetary Variances**

- (i) The entire net provision of Rs.1,500,000 made for 01 Object had been saved.
- (ii) Provisions totaling Rs.14,455,000 had been made for 09 Objects and it was observed the savings after the utilization of provisions amounting to Rs.10,522,719 out of that amounted to Rs.3,932,281. The savings ranged between 11 per cent to 85 per cent of the net provisions made under the respective Objects. It was observed that the savings had resulted from the excess provisions made for the Objects.
- (iii) Even though the payments relating to the Public Enterprises Reform Commission should be made from the Object 241-1-1-1503 (Public Enterprises Reform Commission – Public Institutions) gratuity payments amounting to Rs.4,743,309 had been made from the Object 241-1-1-1405 (Others).

**(b) Revenue Accounts**

- (i) The Statements of Arrears of Revenue relating to two Revenue Codes had not been prepared in terms of Financial Regulation 128(2).
- (ii) Revenue Account Code – 20.02.30.00 - Profits
  - i. Preparation of Revenue Estimates

Even though the original estimate of Rs.30,091,000,000 for the year under review had been revised to Rs.36,459,060,000 , the net revenue collected in the year amounted to Rs.42,214,108,456. That as compared with the original estimate of revenue amounted to 140 per cent and as compared with the revised revenue amounted to 116 per cent. As such it was observed that the estimated had been made without carrying out a proper study.
  - ii. Reporting on Arrears of Revenue

Due to the non-maintenance of Records of Arrears of Revenue by the Department the revenue receivable had not been reflected in the Departmental books.

- Even though a sum of Rs.5,000,000 had been received for the year 2007 from the Sri Lanka Rupavahini Corporation in the year 2012, that amount had not been recorded as arrears of revenue in the Departmental books.
- According to the financial statements of Sri Lanka Rupavahini Corporation the profit declared for the year 2011 amounted to Rs.32,498,000 and the profit declared for the year 2012 amounted to Rs.922,000. The revenue receivable from that Corporation had not been recorded in the Departmental books.

iii. Non-inclusion of Profit Portion of Profit making Institutions in the Estimate

- Even though 12 institutions had earned profits amounting to Rs.21,508 million in the year 2012, the portion due to the Revenue Code from those profits had not been estimated and recorded in the Departmental books as revenue receivable.
- Even though the Sri Lanka Export Credit Insurance Corporation had earned profits of Rs.113 million and Rs.163 million respectively in the years 2011 and 2012 while the State Printing Corporation had earned profits of Rs. 134 million and Rs.141 million respectively in the years 2011 and 2012, the portion due to the Revenue Code from those profits had not been estimated and recorded in the Departmental books as revenue receivable.

iv. Profits Receivable from Institutions

According to the Statement of Classification of the Institutions from which profits are receivable furnished to audit, the number of institutions from which profits should be received had been stated as 199. Nevertheless, only 24 institutions had been taken into consideration in the preparation of revenue estimates.

(iii) Revenue Codes 20.02.04.00 - Dividends

i. Preparation of Revenue Estimates

The original estimate of revenue for the year under review amounting to Rs.8,012,000,000 had been revised to Rs.5,096,800,000 and the net revenue collected in the year amounted to Rs.4,546,957,702. That as compared with the original estimate of revenue amounted to 57 per cent and as compared with the revised estimate of revenue amounted to 89 per cent. As such it was observed that the estimates had been made without carrying out a proper study.

ii. Reporting on Arrears of Revenue

Due to the non-maintenance of Records of Arrears of Revenue by the Department, the revenue receivable had not been revealed from the Departmental books. For example, according to the letter dated 27 September 2012 sent by the Department of Public Enterprises, to the Chilaw Plantation Company, a sum of Rs.75 million is receivable from that company as the dividends for the year 2010. Even though that amount had not been received up to date that had not been recorded in the books as arrears of revenue.

iii. Non-inclusion of Profit making Institution in the Estimates

Even though 08 institutions had earned profits amounting to Rs.8,463 million in the year 2012, the portion due to the Revenue Code from those profits had not been estimated and recorded in the Departmental books as revenue receivable.

iv. Dividends Receivable from Institutions

According to the Statement of Classification of Institutions from which profits and dividends are receivable furnished to audit, the number of institutions from which dividends are receivable had been stated as 52. Nevertheless, only 24 institutions had been taken into consideration in the preparation of revenue estimates.

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

According to the Reconciliation Statement as at 31 December 2012 of the Advances to Public Officers Account Item No. 24101, the balances that remained outstanding as at that date totalled Rs.745,556 and the follow up action on the recover of those outstanding balances had been at a weak level.

**6.4 Good Governance and Accountability**

**6.4.1 Corporate Plan**

Even though the Department should prepare a Corporate Plan at least for a period of 03 years at the beginning of the year from the year 2010 onwards in terms of the letter No. PF/R/2/2/3/5(4) dated 10 March 2010 of the Director General of Public Finance that Plan had not been prepared even by the date of this report.

**6.4.2 Annual Performance Reports**

Even though the Annual Performance Report that should be prepared by the Department in terms of the Public Finance Circulars No. 402 of 12 September 2002 and No.402(1) of 20 February 2004 referred to in paragraph 6.4.1 above should have been tabled in Parliament within 150 days after the close of the financial year with a copy to the Auditor General, the Performance Report for the year under review had not been tabled in Parliament even by 11 November 2013.

**6.4.3 Conducting Audit and Management Committee**

Even though the Audit and Management Committee should meet at least once in each quarter, only 03 meetings of the Audit and Management Committee had been held in the year 2012.

**6.5 Non-compliances**

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

An instance of non-compliance with the provisions in laws, rules and regulations observed during the course of audit test checks is given below.

A Loans Control Account had not been maintained in terms of Paragraph 9(iv) of the Public Enterprises Circular No. 96 of 10 August 1994.

## 6.6 Performance

The key functions of the Department had not been adequately executed in accordance with the Annual Action Plan for the year 2012 and several such instances observed are given below.

- (a) Updating the Guidelines of the Department of Public Enterprises - Even though indicated as an activity not executed in the year 2011 it remains in the same condition up to date.
- (b) Re-activation of dormant public enterprises.
- (c) Introduction of a Cost Accounting System.

## 6.7 Uneconomic Transactions

Even though the Public Enterprises Reform Commission is a dormant institution at present, and the officers who served in the Commission had been attached to the Department of Public Enterprises with effect from 01 January 2011, a sum of Rs.616,000 at the rate of Rs.56,000 per month had been paid to the Lady Lochore Loan Fund in the year 2012 as rent for the Office maintained by the Commission in the building of the Fund. A sum of Rs.6,000 had been paid as the lawyers fee for the rent agreement.

## 6.8 Human Resources Management

### Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2012 had been as follows.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
(i)	Senior Level	22	21	01	-
(ii)	Tertiary Level	04	04	-	-
(iii)	Secondary Level	34	20	14	-
(iv)	Primary Level	15	15	-	-
(v)	Others (Casual / Temporary / Contract Basis)	-	-	-	03
	<b>Total</b>	<b>75</b>	<b>60</b>	<b>15</b>	<b>03</b>

Fifteen vacancies existed as at the end of the year under review and the Department had not taken to obtain the formal approval for the excess cadre of 03.



**7. Head 242 – Department of Management Services**

**7.1 Scope of Audit**

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 2012 was carried out in pursuance of provisions in Article 154 (1) of the Constitution in 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 January 2014. 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 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 in 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 Observation**

According to the Financial Records and the Books for the year ended 31 December 2012, it was observed that except for the effects of the general observations appearing at (a) and other major audit findings appearing in paragraphs 7.4 and 7.5 herein, the Appropriation Account, and the Reconciliation Statement of the Department of Management Services had been prepared satisfactorily.

(a) **Budgetary Variance**

Provisions totaling Rs.881,000 had been made for three (03) Objects and it was observed that the savings after the utilization of provisions totalling Rs.292,069 out of that, amounted to Rs.588,931. The savings ranged between 53 per cent to 100 per cent of the net provisions made under the respective Objects. It was observed that the savings had resulted from the excess provisions for the Objects.

**7.4 Good Governance and Accountability**

**Corporate Plan**

Even though the Department should prepare a Corporate Plan at least for a period of 03 years at the beginning of the year from the year 2010 onwards in terms of the letter No. PF/R/2/2/3/5(4) of 10 March 2010 of the Director General of Public Finance, that Plan had not been prepared even by 31 December 2012.

**7.5 Human Resources Management**

**Approved Cadre and Actual Cadre**

The position of the cadre as at 31 December 2012 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
-----	-----	-----	-----
(i) Senior Level	22	11	11
(ii) Tertiary Level	02	02	-
(iii) Secondary Level	40	35	05
(iv) Primary Level	13	11	02
	-----	-----	-----
Total	77	59	18
	=====	=====	=====

The Department had not taken action even up to the end of the year under review to fill 18 vacancies.

## **8. Head 243 – Department of Development Finance**

### **8.1 Scope of Audit**

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 2012 was carried out in pursuance of provisions in Article 154 (1) of the Constitution in the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 06 November 2013. 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 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 in 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 Observation**

According to the Financial Records and the Books for the year ended 31 December 2012, it was observed that except for the effects of the general observations appearing at (a) to (c) and other major audit findings appearing in paragraphs 8.4 and 8.7 herein, the Appropriation Account, and the Reconciliation Statement of the Department of Development Finance had been prepared satisfactorily.

(a) **Budgetary Variance**

- (i) The entire net provisions totalling Rs.302,234,402 made for 03 Objects had been saved. The provision amounting to Rs.1,764,952 for one of these Objects had been obtained from Financial Regulation 66 under the Virement Procedure.
- (ii) Provisions totalling Rs.2,207,838,650 had been made for eleven (11) Objects and it was observed that the savings after the utilization of Rs.1,861,452,119 out of that amounted to Rs.346,386,531. The savings ranged from 9 per cent to 91 per cent of the net provision made for the respective Objects. It was observed that the savings had resulted from the excess provisions made for those Objects.

(b) **Management of Expenditure on Fuel and Electricity**

Contrary to the instruction in the National Budget Circular No. 156 of 16 February 2012, provision amounting to Rs.167,280 had been obtained in the year under review under Financial Regulation 66 for the Objects on Fuel and Electricity Expenses.

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

- (i) The loan installments and the interest thereon in connection with the distress loans totalling Rs.102,000 comprising Rs.46,000 and Rs.56,000 paid two Drivers in two (2) instances in March and May 2012 had not been recovered up to August 2012, that is up to the date of their transfers out of the Department.
- (ii) The loan of Rs.46,000 had not been added to the loan balance of one of the Drivers transferred to the Department of Inland Revenue on 06 August 2012.

**8.4 Good Governance and Accountability**

**Annual Performance Reports**

Even though the Annual Performance Report that should be prepared by the Department in terms of the Public Finance Circulars No. 402 of 12 September 2002 and No.402(1) of 20 February 2004 referred to in the letter No. PF/R/2/2/3/5(4) of 10 March 2010 should have been tabled in Parliament within 150 days after the close of the financial year with a copy to the Auditor General, the Performance Report for the year under review had been tabled in Parliament only on 21 August 2013.

## 8.5 Non-compliances

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

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

Reference to Laws, Rules and Regulations	Non-compliance
-----	-----
Public Administration Circulars -----	
(i) Circular No.03/92 of 25 January 1992	(i) Even though an officer arriving in office at any time between 8.30 a.m. and 9.00 a.m. is allowed to cover duties after 4.15 p.m. up to 4.45 p.m. instances of officers leaving office without covering duties were observed.
	(ii) Even though minor employees arriving in office between 8.00 a.m. and 8.15 a.m. are allowed to cover the period of delay after 4.45 p.m. most of the minor employees who had reported for duty after 8.15 a.m. had not covered the delay in most instances.
(ii) Circular No. 06/94 of 21 January 1994	If an officer fails to take action according to (i) above, half day out of his leave should be reduced for three periods of such delay. But it had not been so done.
(iii) Circular No. 09/2006 of 30 May 2006	Even though the office times of all employees other than the minor employees is 8.30 a.m. to 4.15 p.m. there were instances of officers reporting for duty after 9.00 a.m. In such instances the officers had not obtained short leave or leave for a half day.

- (iv) Circular No. 09/2009 of 16 April 2009
- Even though the arrival and departure from the work place by the officers of State institution should be authorized through the finger print machines, an examination of the printouts of the finger print machines revealed several instances in which either the time of arrival or the time of department of the officers only had been recorded.

## **8.6 Performance**

### **Key Functions not Executed Adequately**

(a) Project for Grant of Loans for Self Employment

The Project for the Grant of Loans for Self Employment for the rehabilitated trainees introduced on a Budget Proposals of the year 2013 had not been implemented due to the non-receipt of imprests.

(b) New Sapiri Loan Scheme

Out of the amount allocated for this scheme, a sum of Rs.48,273,656 or 19 per cent had been saved due to non-receipt of imprests.

(c) Warehouse Receipts Financing Project

Even though the agreement of this Project had been signed with World Bank in July 2012, the total sum of Rs.300,000,000 allocated under the foreign funds and 69 per cent or Rs.16,881,754 allocated from the Consolidated Fund had been saved due to the non-commencement of the Project activities during that year.

- (d) Even though the agreement on the National Agri Business Development Programme under the Small, Medium and Micro Rural Enterprises Development Project between the International Fund for Agricultural Development and the Government of Sri Lanka had been signed on 23 February 2010, it was informed that steps had been taken to implement the Project jointly with the Divineguma Project of the Ministry of Economic Development. Nevertheless, a sum of Rs.11,618,165 under the foreign funds and a sum of Rs.188,788 under the Objects of the Consolidated Fund had been debited through Treasury computer printouts in the year 2012. That expenditure had been reported as incurred on the salaries of the Project staff, salaries of Social Animators, training expenses, purchases and payment of taxes.

Accordingly 97 per cent or Rs.338,381,836 from allocations made from foreign funds and 81 per cent of local funds or Rs.811,212 totalling Rs.339,193,048 had been saved.

**8.7 Human Resources Management**

**Approved Cadre and Actual Cadre**

The position of the cadre as at 31 December 2012 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	10	09	01
(ii) Secondary Level	07	06	01
(iii) Primary Level	09	09	-
Total	26	24	02

The Department had not taken action up to the end of the year under review to fill 02 vacancies.

**9. Head 244 – Department of Trade, Tariff and Investment Policy**

**9.1 Scope of Audit**

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 2012 was carried out in pursuance of provisions in Article 154 (1) of the Constitution in the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 21 January 2014. 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 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 in 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 Observation**

According to the Financial Records and the Books for the year ended 31 December 2012, it was observed that except for the effects of the general observations appearing at (a) and other major audit findings appearing in paragraphs 9.4 and 9.7 herein, the Appropriation Account, and the Reconciliation Statement of the Department of Trade, Tariff and Investment Policy had been prepared satisfactorily.



**(a) Budgetary Variance**

- (i) The entire net provisions totaling Rs.804,510,000 made for 03 Objects had been saved.
- (ii) Provisions totalling Rs.3,900,000 had been made for 07 Objects and it was observed that the savings after the utilization of Rs.2,743,809 out of that, amounted to Rs.1,426,191. The savings ranged between 27 per cent to 92 per cent of the net provisions made under the respective Objects. It was observed that the savings had resulted from the excess provisions made under the Objects.

**9.4 Good Governance and Accountability**

**9.4.1 Corporate Plan**

Even though the Department should prepare a Corporate Plan at least for a period of 03 years at the beginning of the year from the year 2010 onwards in terms of the letter No. PF/R/2/2/3/5(4) dated 10 March 2010 of the Director General of Public Finance that Plan had not been prepared even up to the date of this report.

**9.4.2 Annual Performance Reports**

Even though the Annual Performance Report that should be prepared by the Department in terms of the Public Finance Circulars No. 402 of 12 September 2002 and No.402(1) of 20 February 2004 referred to in paragraph 9.4.1 above should have been tabled in Parliament within 150 days after the close of the financial year with copy to the Auditor General, the Performance Report for the year under review had not been tabled in Parliament even up to the date of this report.

**9.4.3 Audit and Management Committee**

The Audit and Management Committee had held only 03 meetings in the year under review.

**9.5 Assets Management**

**Unsettled Liabilities**

The unsettled liabilities of the Department less than one year old as at 31 December 2012 amounted to Rs.306,228.

## 9.6 Performances

The observations on the progress of the Department according to the Annual Budget Estimates and the Action Plan for the year 2012 are given below.

- (a) As the participation in the discussions relating to the implementation of the Indo – Sri Lanka Comprehensive Economic Co-operation Agreement had been temporarily suspended, that activity had not been carried out.
- (b) The Department had not participated in the discussion on the implementation of the Technology and Economic Co-operation Agreement of the Bay of Bengal Countries.
- (c) The Progress Review of the Asia Pacific Trade Agreement had not been completed.
- (d) The observations on the revision of the sensitivity list of the South Asian Free Trade Zones Co-operation Agreement had been sent to the Ministry of Industries and Commerce and the revision had not been completed up to date.
- (e) The action on the publication of the particulars of all institutions exempt from customs duty in terms of the provisions in Section 19(a) of the Customs Ordinance and tabling in Parliament had not been finalized.

## 9.7 Human Resources Management

### Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2012 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
-----	-----	-----	-----
(i) Senior Level	14	11	03
(ii) Secondary Level	25	23	02
(iii) Primary Level	13	13	-
	-----	-----	-----
Total	52	47	05
	=====	=====	=====

**10. Head 245 – Department of Public Finance**

**10.1 Scope of Audit**

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 2012 was carried out in pursuance of provisions in Article 154 (1) of the Constitution in the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 21 January 2014. 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 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 in 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 Observation**

According to the Financial Records and the Books for the year ended 31 December 2012, it was observed that except for the effects of the general observations appearing at (a) to (c) and other major audit findings appearing in paragraphs 10.4 and 10.7 herein, the Appropriation Account, and the Reconciliation Statement 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 2013.

Head / Item Number	Name of Account
-----	-----
24501	Advances to Public Officers Account
999/408	Advance Account under Liquidation
999/407	Advance Account under Liquidation
0999/08	Advance Account under Liquidation

(b) Non-maintenance of Registers and Books

All the registers relating to the Advances B Account had not been written and balanced as at 31 December of the year under review in terms of paragraph 6.1 of the Public Enterprises Circular No.96 of 10 August 1994. The Control Account of the Advances to Public Officers B Account of the Department of Public Finance had been presented to audit only on 25 July 2013. In addition, the Control Account of the Advances to Public Officers B Account had not been properly balanced.

(c) Budgetary Variance

The provision of Rs.499,500 made for the Object Code No. 1504 from Virement Procedure under Financial Regulation 66 had not been utilization even by the end of the year.

## **10.4 Good Governance and Accountability**

### **10.4.1 Corporate Plan**

Even though the Department should prepare a Corporate Plan at least for a period of 03 years at the beginning of the year from the year 2010 onwards in terms of the letter No. PF/R/2/2/3/5(4) dated 10 March 2010 of the Director General of Public Finance that Plan had not been prepared even by 31 December 2012.

#### **10.4.2 Annual Performance Reports**

Even though the Annual Performance Report that should be prepared by the Department in terms of the Public Finance Circulars No. 402 of 12 September 2002 and No.402(1) of 20 February 2004 referred to in paragraph 10.4.1 above should have been tabled in Parliament within 150 days after the close of the financial year with copy to the Auditor General, the Performance Report for the year under review had been tabled in Parliament only on 23 October 2013.

#### **10.4.3 Audit and Management Committee**

The Audit and Management Committee had held only 03 meetings during the year under review.

#### **10.5 Assets Management**

##### **Conduct of Annual Boards of Survey**

According to the Public Finance Circular No. 441 of 09 December 2009 as amended by the letter No. PF/Boards of Survey/01 of 17 December 2010 the Boards of Survey for the year 2012 should be conducted and the report thereon should be furnished to the Auditor General before 31 March 2013. Nevertheless, the Department had furnished the Report of the Annual Board of Survey only on 30 April 2013.

#### **10.6 Performance**

The revision of the Financial Regulation 1992 in force at present had been shown as a main activity in the Action Plan of the Department of Public Finance over a number of years. But the revision of the Financial Regulation had not been finalized even by 31 December 2012.

## 10.7 Human Resources Management

### Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2012 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
(i) Senior Level	27	15	12	-
(ii) Tertiary Level	04	01	03	-
(iii) Secondary Level	28	26	02	01
(iv) Primary Level	17	14	03	-
Total	76	56	20	01

The Department not taken action even by the end of the year to fill 20 vacancies.

## **11. Head 246 – Department of Inland Revenue**

### **11.1 Scope of Audit**

The audit of the Appropriation Account and the Revenue Accounts and the Revenue Account including the financial records, reconciliation statements, books, registers and other records of the Department of Inland Revenue for the year ended 31 December 2012 was carried out in pursuance of provisions in Article 154 (1) of the Constitution in the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 13 February 2014. 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 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 in 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 Observation**

According to the Financial Records and the Books for the year ended 31 December 2012, it was observed that except for the effects of the general observations appearing at (a) to (g) and other major audit findings appearing in paragraphs 11.4 and 11.13 herein, the Appropriation Account, Revenue Accounts and the Reconciliation Statement of the Department of Inland Revenue had been prepared satisfactorily.

(a) Presentation of Account

The Department had not presented the Revenue Accounts relating to 31 Revenue Codes even by 31 March 2012.

(b) Budgetary Variance

Out of the provisions totalling Rs.41,900,000 made for 04 Capital Objects the savings after the utilization totalling Rs.27,808,309 amounted to Rs.14,091,691. The savings ranged between 21 per cent to 49 per cent of the net provisions made under the respective Objects. It was observed that the savings had resulted from the excess provisions made for the Objects.

(c) Provisions obtained under the Budgetary Support Services Contingent Liabilities Project

Even though additional provision of Rs.10,000,000 had been obtained for the Object Code No. 2001 under the Budgetary Support Services Contingent Liabilities Project no utilization had been made out of that even up to the end of the year under review.

(d) Public Expenditure Management

Savings had not been effected under 16 Objects in respect of which savings should have been effected out of the provisions made from the Budget Estimates in terms of the National Budget Circular No. 155 of 30 December 2011. Even though the approval of the Secretary to the Treasury should be obtained for exemption from the request in accordance with the decision of the Cabinet of Ministers dated 19 December 2012, such approval had not been obtained.

(e) General Deposit Account

The differences in the Revenue Code between the Treasury records and the Departmental records as at 31 December 2010 amounting to Rs.202,076,920 had been transferred in the year 2010 to the General Deposit Account No. 6000/0000/000/015/0126/00 had been credited the Revenue Code 10.02.01.02 in the year 2012 without being identified and settled the General Deposit Account.



(f) Revenue Accounts

The revised estimated revenue of the Department of Inland Revenue for the year 2012 amounted to Rs.448,526,190,000 and the revenue collected amounted to Rs.418,423,600,997, thus indicating a decrease of Rs.30,102,589,003 as against the estimated revenue. Out of the net revenue reported amounting to Rs.418,423,600,997 a sum of Rs.118,098,650,535 or 28 per cent represented revenue directly credited to the Account of the Commissioner General of Inland Revenue by various Departments / Institutions.

Out of the gross tax revenue for the year under review amounting to Rs.433,333,049,649 a sum of Rs.14,909,448,652 or 3 per cent had been refunded. The arrears of revenue of the year 2002 amounting to Rs.52,102,129,721 had increased to Rs.192,663,476,919 by the end of the year under review. The details thereof had not been shown in the Revenue Accounts. Out of the arrears of tax amounting to Rs.192,663,476,919 age analysis had been furnished only in respect of Rs.183,937,243,290. As the revenue amounting to Rs.418,423,600,997 collected in the year under review included the arrears of taxes relating to the preceding years, it was impossible to determine accurately the actual revenue relating to the year under review.

The arrears relating to the Turnover Tax, Goods and Services Tax and the Defence Levy abolished 10 years ago amounted to Rs.6,052,626,880 , Rs.8,658,357,263 and Rs.2,123,845,021 respectively.

In view of the Value Added fraud revealed in the year 2005/2006 , the 15 per cent Value Added Tax refunds the year 2003 had decreased to 2 per cent by the end of the year 2012.

A separate Unit had been established in the year 2012 for the recovery of the defaulted taxes under the Settlement of Defaulted Taxes (Special Provision) Act, No. 16 of 2010 and taxes amounting to Rs.91,161,681,174 relating to the period prior to 31 December 2009 had been transferred to that Unit. Out of that a further sum of Rs.71,094,633,641 remained for recovery as at 31 December 2012. As such there was no evidence of satisfactorily collection of taxes by that Unit.

The journal entries, cancelled cheques, etc for ascertaining the assessments made, write offs and discharges made during the year had not been furnished to audit. The taxes assessed in the 9 preceding years amounted to Rs.238.2 billion and the amount collected had been Rs.85.3 billion of 35.8 per cent. Nevertheless, the assessments made during the 9 preceding years and subsequently written off / discharged amounted to Rs.98.9 billion or 41.5 per cent.

The following observations are made in connection with the Revenue Accounts.

- (i) Transfers made under Transfer Advices without reconciling the individual accounts and the Control Accounts were observed. Details appear below.

Name of Account	Code Number	Difference	Code Number Transferred to
-----	-----	-----	-----
		Rs.	
i. Value Added Tax Control Account	10.02.01.01	12,496,608	10.02.01.02
ii. Goods and Services Tax Control Account	10.02.02.00	47,479	10.02.02.01
iii. Other Tax Accounts	10.04.02.99	26,553,978	Adjusted to the same account

The Commissioner General of Inland Revenue had informed that the reasons for the difference is the non-receipt of the Tax Paid Advices in the same year and the Tax Paid Advice for Rs.26,583,868 in respect of the years 2008 and 2011 had been received in the year 2012. The particulars of the difference in the revenue under No. 6(1) above had not been furnished to audit.

(ii) Crediting Without Bank Payment Advices

Economic Services Charges amounting to Rs.43,489,718 and Income Tax amounting to Rs.93,336,460 had been credited in the year 2012 to the Account of the Commissioner General of Inland Revenue without the Payment Advices. The Payment Advices for Economic Services Charges amounting to Rs.10,534,796 and Income Tax amounting to Rs.392,278 had been identified by 31 December 2013. The balance had not been identified.

(iii) The evidence to authenticate the accuracy of the receipt of revenue relating to Rs.55,095,335 of 3 categories of tax shown under incorrect codes out of the 4 categories of tax amounting to Rs.395,432,094 shown as not registered in the Monthly Returns in the year under review had not been furnished to audit.

(iv) The evidence relating to the following items had also not been furnished to audit.

	Rs.
i. Refund of Value Added Tax	702,527,076
ii. Refunds to Sri Lanka Army	17,838,913
iii. Nation Building Tax refunded by Sri Lanka Army	4,620,480
iv. Refund of Share Transactions Tax	1,220,515
v. Refund of Income Tax	3,242,259
vi. Refund of Value Added Tax	2,430,112

(v) According to the Statement of Arrears of Goods and Services Tax receivable as at the beginning and the end of the year the amount receivable had been less by Rs.93,123,713 and that included tax exemption amounting to Rs.7,976 and write off of penalty amounting to Rs.93,115,738.

(vi) According to Financial Regulation 128(2)(a) half yearly Statements of Arrears of Revenue should be furnished to audit before 31 July and 31 January of the year following. Nevertheless, the statement as at 31 December 2012 had been furnished to audit only on 14 June 2013, that is, after a delay of 133 days.

Even though the arrears of Stamp Duty as at the end of the year under review amounted to Rs.62,130,578, that had been shown as Rs.66,384,917 in the books and records.

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

According to the Reconciliation statement as at 31 December 2012 of the Advances to Public Officers Account Item No. 24601, the balances that remained outstanding as at that date amounted to Rs.2,409,450. The following matters were observed in that connection.

- (i) No recoveries whatsoever had been made in the year under review from the sum of Rs.8,196 recoverable from three employees interdicted prior to the year 1997.
- (ii) The loan balances amounting to Rs.230,534 shown in the schedules No. 07 and 08 of the Advances “B” Account had become irrecoverable balances.
- (iii) A property loan of Rs.250,445 granted to an employee who had vacated post in the year 1999 could not be recovered as action had not been taken to write the deed in the name of that officer.
- (iv) Even though sums totalling Rs.76,226 remained recoverable from 05 officers who had vacated post in the years 1996, 1997, 1998 and 2010, that money had not been recorded.

#### **11.4 Good Governance and Accountability**

##### **11.4.1 Corporate Plan**

Even though the Department should prepare a Corporate Plan at least for a period of 03 years at the beginning of the year from the year 2010 onwards in terms of the letter No. PF/R/2/2/3/5(4) dated 10 March 2010 of the Director General of Public Finance that Plan had not been prepared even by 31 December 2012.

#### 11.4.2 Annual Action Plan

The Department had not prepared an Annual Action Plan.

#### 11.4.3 Annual Performance Reports

Even though the Annual Performance Report that should be prepared by the Department of Inland Revenue in terms of the Public Finance Circulars No. 402 of 12 September 2002 and No.402(1) of 20 February 2004 referred to in letter No. PF/R/2/2/3/5(4) of 10 March 2010 of the Director General of Public Finance should have been tabled in Parliament within 150 days after the close of the financial year with a copy to the Auditor General, the Performance Report for the year under review had not been tabled in Parliament even by 30 September 2013.

#### 11.4.4 Annual Procurement Plan

The Annual Procurement Plan in terms of the National Budget Circular No. 128 of 24 March 2006 had been prepared. But procurement had not been done according to the Plan.

#### 11.4.5 Internal Audit

Even though an Internal Audit Unit had been established, the Internal Audit Unit had not carried out an audit of the taxes.

#### 11.4.6 Implementation of the Audit and Management Committee

The Audit and Management Committee functioned under the Ministry of Finance and Planning and 03 meetings of the Committee only had been held in the year 2012.

### 11.5 Assets Management

#### (a) Idle and Underutilized Assets

It was observed during the course of audit test checks that certain assets had been either idle or underutilized as analysed below.

Category of Assets	Number of Units	Period of Idle or Underutilised
-----	-----	-----
(i) Electricity Generator	01	The electricity generator had been removed by the State Engineering Corporation during the modernization of the Inland Revenue Building in the year 2009.

- |       |              |    |  |
|-------|--------------|----|--|
| (ii)  | Transformers | 02 | The transformers used during the modernization of the Inland Revenue Building had not been used since in the year 2009.  |
| (iii) | CCTV Cameras | 70 | Even though the cameras had been installed in the floors of the Inland Revenue Building during the modernization in the year 2013, during the modernization those had not been used. |

(b) **Balances Recoverable**

An advance of Rs.50 million had been paid to the Chairman of the Building Materials Corporation Ltd, on 28 February 2008 for the transfer to the Department a land parcel 100 perches in extent from the land belonging to the Building Materials Corporation Ltd situated at Sri Sangaraja Mawatha, Colombo 12. Even though the transfer of the land parcel had been stopped subsequently the advance paid had not been recovered.

(c) **Unsettled Liabilities**

Even though a sum of Rs.76,294,694 had been shown as the unsettled advances less than 01 year old in the Appropriation Account for the year under review, according to the commitments incurred in the Appropriation (Votes) Ledger for the year 2013, further liabilities exceeding the amount shown in the Appropriation Account amounting to Rs.2,144,523 existed.

## 11.6 **Non-compliances**

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

(i) **Financial Regulations**

- i. The Daily Running Charts and the Monthly Performance Summaries of motor vehicles had not been furnished to audit as specified in Financial Regulation 1646.

- ii. According to Financial Regulation 245(3), all the particulars relating to vouchers should be recorded under the Object Details in the relevant Appropriation (Votes) Ledger. Further, according to Financial Regulation 447(6), the number of the voucher should be recorded in the relevant column of the Appropriation (Votes) Ledger. But the Department of Inland Revenue had not recorded the particulars and the numbers of the vouchers in the Appropriation Votes Ledger.

(ii) Circulars

The following deficiencies were observed in the Report on the Movement of Non-current Assets furnished under Note No. 1 of the Appropriation Account of 2012 furnished in terms of the State Accounts Circular No. 174 of 10 October 2004.

- i. The lands and building owned by the Department had not been included.
- ii. The Value of three motor vehicles received the Ministry of Finance and Planning amounting to Rs.27,500,000 and the value of 15 motor vehicles amounting to Rs.17,514,326 disposed of during the year under review had not been included in the Report.

(b) Non-compliance with Tax Requirements

(i) Non-submission of the Returns on Value Added Tax

According to paragraph 5 of the Public Finance Circular No. 364(3) of 30 September 2002, in the payment of the Value Added Tax to a Bidder / Supplier, the particulars of such tax paid should be furnished to the Commissioner General of Inland Revenue. Nevertheless, proper action had not been taken to call for the reports on the Value Added Tax paid and retained.

- (ii) In terms of Section 7 of the Value Added Tax (Amendment) Act, No. 14 of 2007, out of the Value Added Tax paid to contractors  $33 \frac{1}{3}$  per cent should be retained and remitted to the Commissioner General of Inland Revenue. A test checks of 08 institutions carried out, it was observed that the  $66 \frac{2}{3}$  per cent of the tax that should be remitted by the tax payers in connection with the  $33 \frac{1}{3}$  per cent retained money amounting to Rs.13,796,542 relating to the years 2007 to 2010 remitted to the Department had not been recovered. A letter dated 24 March 2014 forwarded indicated that certain tax payers had vacated their places

of residence and that they had not presented themselves for the interviews in response to the notices sent.

- (iii) As the active tax payers of the Department of Inland Revenue had not furnished the Monthly / Quarterly Returns, there was no evidence in support of the said Value Added Tax had been received by the Department.

#### 11.7 Examination of Tax Files

The following matters were observed at a test checks of tax files.

- (a) TIN No. 124006139
- Even though tax payer had been allowed to claim capital allowance of 6.67 per cent and 12.5 per cent in the years of Assessment 2007/08 and 2008/09 respectively out of the expenditure on the improvements to the buildings taken on lease, the taxpayer had been allowed to deduct in one lump sum the expenditure of Rs.108,690,000 spent in the year of Assessment 2009/10 for carrying out improvements to buildings obtained on lease, thus resulting in the loss of tax revenue amounting to Rs.33,286,312.
- (b) TIN. 114020265
- (i) In the computation of taxes, sums of Rs.36,154,345 and Rs.68,946,968 had been deducted in the years of Assessment 2008/09 and 2009/10 respectively under the Sports Associations sponsorship expenditure. According to Section 26(u) of the Inland Revenue Act, No. 10 of 2006 one half of publicity expenses is not allowed. Nevertheless, adequate evidence to establish that did not fall under publicity expenses had not been furnished to audit.



- (ii) Even though arrears of tax amounting to Rs.686,307,414 including Defence Levy amounting to Rs.55,175,099 existing from the year 2002 remained due as at 24 April 2013 from this tax payer action had not been taken for the recovery of those taxes.
- (c) TIN No. 114117854 The Value Added Tax amounting to Rs.11,091,584 recoverable from this tax payer up to the year 2009 had not been recovered.
- (d) TIN No. 114226815 This taxpayer who had obtained tax exemption for 20 years is a company registered under the Board of Investments which had commenced production in the year 2003. An examination of the files of the tax payer revealed the following matters.
- (i) As tax should be recovered on the income earned from other sources of income of the company, tax had been computed on the income from the sale of scrap in the year of assessment 2006/07. Nevertheless, action had not been taken for the recovery of tax on the sum of Rs.4,645,088 earned from the sale of scrap in the year of assessed 2007/08.

- (ii) Value Added Tax amounting to Rs.947,981,622 and income tax amounting to Rs.1,318,909 remained recoverable from this tax payer by 15 November 2013.
- (e) TIN No. 104024025
- (i) Even though capital allowances for motor vehicles are not restified in terms of Section 26(2)(a) of the Inland Revenue Act, No. 10 of 2006 capital allowances totalling Rs.1,880,000 for two motor cars had been allowed in the computation of capital allowances tax in the year of assessment 2009/10. As such income tax amounting to Rs.658,000 had been under collected.
- (ii) In the year of assessment 2008/09, a sum of Rs.1,080,000 had been identified from the payments amounting to Rs.10,741,650 as employees wages and the balance had been added to the amended assessment as Rs.7,246,240 as money that cannot be allowed and tax had been recovered thereon. Nevertheless, the wage allowances not allowable had not been determined on the sum of Rs.3,149,305 paid in the assessment year 2009/10 and tax had not been recovered.
- (iii) Even though a loss of Rs.6,054,823 from the sale of leased motor vehicles had been deducted in the computation of tax for the year of assessment 2009/2010,

depreciation/capital allowances relating to the leased motor vehicles had not been taken into consideration in the computation of the loss.

- (iv) Even though the sale of buildings valued at Rs.14,009,371 in the year of assessment 2009/10 had been stated in Note No. 15 of the accounts, the proceeds from the sale of those buildings had not been shown in the cash flow statement. An explanation on those proceeds had also not been obtained.

(f) TIN No. 114333506

The business had incurred a loss of Rs.26,379,293 in the year of assessment 2008/09, and the following matters were observed at an examination of the transactions of that year of assessment.

- (i) According to the financial statements presented by the company, the turnover amounted to Rs.577,285,154 whereas according to an examination of the Bank Account maintained for transactions the net turnover amounted to Rs.2,085,390,250. At a subsequent examination, the net turnover had been computed as Rs.1,533,845,911 and an assessment notice had been issued for the recovery of tax amounting to Rs.23,525,249 for the year of Assessment

2008/09 on a profit of Rs.82,471,769.

- (ii) This company had delayed the furnished of tax returns for years of assessment from 2003/04 to 2009/10 for 04 months to 13 months.

### **11.8 Implementation of the Betting and Gaming Act and Recovery of Tax**

- (i) The estimated revenue from the Betting and Gaming Tax for the year under review amounted to Rs.312,000,000 and revenue amounting to Rs.289,175,098 or 93 per cent only had been collected.
- (ii) Even though a large number of Betting and Gaming Businesses are run in Colombo and the surrounding areas in addition to the tax payers who pay the Betting and Gaming Tax, there was no evidence that the Department had carried out an examination of those businesses.  
In addition, according to a newspaper report dated 13 July 2013, two institutions not paying tax had been revealed and one of those institutions is not paying tax from the year 2009.
- (iii) A cheque for Rs.5,000,000 received for payment of tax had been dishonored on 02 November 2010 and that cheque had been sent to the Betting and Gaming Tax Division only on 02 January 2012, that is after a delay of 14 months. It had not been possible to establish whether that casino is in operation.
- (iv) The information on the Betting and Gaming tax payers had not been entered in to the computer system of the Department up to date.

### **11.9 Delays / Weaknesses in the Implementation of Projects**

The contract for the modernization of the Inland Revenue Building at an estimate of Rs.1,584,898,000 had been awarded to the State Engineering Corporation in the year 2009. The modernization work had not been carried out properly. The following matters were observed in that connection.

- (a) Deficiencies in carrying out office work had arisen due to rain water flowing into certain floors of the building.
- (b) The construction work of the motor vehicle park building of 9 floors included in the estimate at Rs.190,000,000 had not been completed even up to 30 June 2013.
- (c) The fixtures, the office equipment supplied under the contract and machinery had not been formally handed over after the completion of the modernization.
- (d) Certain constructions, fixtures and the equipment supplied of the modernized building had broken down.

#### **11.10 Deficiencies in the Operation of Bank Accounts**

Even though fresh cheques had been issued on 08 November 2013 for the cheque valued at Rs.480,556 in the Bank Account No. 4224 lapsed for more than 06 months as at 31 December 2012, that cheque as well had been lapsed. Action in terms of Financial Regulation 396(d) had not been taken on that cheque even up to 25 March 2014.

#### **11.11 Irregular Transactions**

The following matters were observed.

- (a) Modernization of the Badulla Regional Office of the Department of Inland Revenue  
This contract for the modernization of the Regional Office had been awarded for Rs.1,499,378 on 16 October 2012 and the contract work should have been completed and handed over before 23 January 2013. But the contractor had not executed the contract work.
- (b) Procurement of Buildings for Rent for maintaining Regional Offices  
The Department had procured buildings on rent basis for maintaining the Regional Offices at Ratnapura, Kalutara, Jaffna, Dambulla, Maharagama and Gampaha. The matters observed at the audit carried out in that connection are given below.
  - (i) In the procurement of buildings bids had not been invited by giving the specification of the accommodation needed for the maintenance of the Offices.

As such, additional buildings had to be procured over and over against on the payment of rent. Dambulla and Maharagama Regional Offices can be cited as examples.

- (ii) The rent agreements signed at the outset for the buildings procured for the Gampaha and Dambulla Regional Offices had not been renewed after the expiry of the agreement periods.
- (iii) Bills were not available for the payments made for water and electricity for the building rented for the Maharagama Regional Office. The portion out of the total charges in the bills for water and electricity for the entire building specified by the landlord had been paid by the Department. As such whether payment water and electricity had been made only for the actual consumption by the Department had not been established.

(c) Settlement of the Advance Paid for Readyware Building Procured on Rent

The Department had procured office accommodation of 64,500 square feet from Readyware building situated at No. 33, Park Street, Colombo 02 for the maintenance of Offices from March 2000. The following matters were observed in connection with the payment of rent for that building.

- (i) According to the valuation of the Provincial Valuer, the payment of a maximum of Rs.75 per square feet on the basis of supply of central air-conditioning, motor vehicle parking facilities and all other basic facilities. The Cabinet of Ministers had granted approval under Cabinet Memorandum No. 021/306/0364/09 for taking on rent 64,500 square feet from the said building at Rs.75 per square foot plus other taxes. Contrary to that, a sum of Rs.2,752,747 had been paid from March 2009 to June 2010 for electricity, water, lifts and air-conditioning.
- (ii) Even though the buildings had been vacated after June 2010, the advance of Rs.14,512,500 paid for the above building in the year 2009 had been retained by the landlord for 2 ½ years and refunded only on 31 December 2012. In addition, out of the advance of Rs.18,900,000 paid for another building in the year 2009, sums of Rs.10,489,500 and Rs.8,410,500 had been refunded after retaining with

the landlords for 2 ½ years and 3 ½ years respectively. Such position is observed the audit as misuse of public funds.

#### 11.12 Transactions of Fraudulent Nature

The Commissioner General of Inland Revenue had reported to the Inspector General of Police in the year under review that financial irregularities amounting to Rs.184,665,975 relating to 07 tax files and Rs.19,242,377 relating to one tax file had been committed by fraudulent alteration of entries in the computer system of the Department.

The Department had conducted a preliminary inquiring in this connection and an interim report had been furnished to the Commissioner General on 09 January 2013. The operating deficiencies in the computer system of the Department had made it possible to commit such irregularities.

#### 11.13 Human Resources Management

##### Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2012 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
-----	-----	-----	-----
(i) Senior Level	894	755	139
(ii) Tertiary Level	1,024	548	476
(iii) Secondary Level	664	531	133
(iv) Primary Level	397	366	31
	-----	-----	-----
Total	2,979	2,200	779
	=====	=====	=====

- (i) The existence of vacancies in 615 posts in the Senior and the Secondary Levels or 32 per cent had been the reason for the poor tax management of the Department.

- (ii) Even though a new Service Minute is in operation for the Department of Inland Revenue from 01 October 2012, the non-finalization of that had also been a reason for the existence of the vacancies.

## **12. Head 247 – Sri Lanka Customs**

### **12.1 Scope of Audit**

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 2012 was carried out in pursuance of provisions in Article 154 (1) of the Constitution in the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 21 February 2014. 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 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, Revenue Accounts and the Reconciliation Statements in accordance with the provisions in 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 Observation**

According to the Financial Records and the Books for the year ended 31 December 2012, it was observed that except for the effects of the general observations appearing at (a) to (j) and other major audit findings appearing in paragraphs 12.4 and 12.14 herein, the Appropriation Account,



Revenue Accounts and the Reconciliation Statement of the Sri Lanka Customs had been prepared satisfactorily.

(a) Presentation of Accounts

Sri Lanka Customs had not presented the following accounts to audit even by 31 March 2013.

<u>Head / Revenue Code / Item Number</u> -----	<u>Name of Account</u> -----
24701	Reconciliation Statement of the Advances to Public Officers Account
7000-0-0-24702	Advance Account on the Expenditure on Seized and Confiscated Goods
6000/0000/00/00/0015/0127	Sundry Deposit Account
6000/0000/00/0006/0062	Customs Officers' Reward Fund Account

(b) Non-maintenance of Registers and Books

- (i) One hundred and seven payment vouchers totalling Rs.647,363,760 had not been furnished to audit.
- (ii) Performance Report for the year 2012, Registers of Losses and Damage, Files on Accidents to Motor Vehicles before the year 2012, Subject Files on the Advance Account on the Seized and Confiscated Goods, information on the Assets and Human Resources given to other Institutions, Information on the use of Assets and Human Resources belonging to other Institutions representing evidence had not been furnished to audit by Sri Lanka Customs and as such those could not be satisfactorily vouched in audit.
- (iii) Replies to 26 audit queries issued to Sri Lanka Customs in the year under review and 34 audit queries issued in the preceding years had not been furnished even by 30 April 2014.

(c) Budgetary Variance

- (i) Even though provisions totalling Rs.106,550,000 had been made for 05 Objects, it was observed that savings after the utilization of Rs.40,393,044 out of that

amounted to Rs.66,156,956. Such savings ranged from 50 per cent to 75 per cent of the net provisions made for each such Object. It was observed that the savings resulted due to making excess provisions for the Objects.

- (ii) The Report on the Movement of Non-current Assets had not been presented in terms of the State Accounts Circular No. 227/2012 of 26 December 2012 and as such the cost of the fixed assets belonging to Sri Lanka Customs had not been disclosed in the Accounts.

(d) Management of Expenditure on Fuel and Electricity

- (i) Contrary to the instructions on the expenditure on fuel and electricity given in the Treasury Circular No. 156 of 16 February 2012 provisions amounting to Rs.42,033,000 had been transferred in the year under review to the Object on Electricity by Financial Regulation 66.
- (ii) According to paragraph 03 of the Circular, expenditure should be managed within the limits of provisions. Nevertheless, in addition to the provision made, a sum of Rs.18,577,015 out of the Fuel Fund under the Reward Fund had been spent for fuel.

(e) Expenditure on Deyata Kirula Development Exhibition

- (i) According to paragraph 07 of the National Budget Circular No. 153 of 29 July 2011, a separate Object for the Programmes of the Deyata Kirula Exhibition should have been specially included in the Estimate for the year 2012. But it had not been so done and expenditure amounting to Rs.2,195,898 had been spent under the Object No. 247-1-1-2001 (Construction of Buildings).
- (ii) Even though the sum of Rs.1,097,949 spent on the Deyata Kirula Exhibition Building should be recovered from 02 institutions, that money had not been recovered even by 31 December 2013.

(f) Imprest Accounts

The unsettled balance of imprest as at 30 April 2014 amounted to Rs.4,751,600.

(g) Sundry Deposit Account

The balance of the Sundry Deposit Account as at 31 December 2012 amounted to Rs.6,384,478,190. In that connection the provisions in Financial Regulation 571(1), (3), (4) and (5) relating to the preparation of half yearly lists of all deposits older than two years in the Deposit Ledgers, maintenance of balancing accounts, carrying forward balances, preparation of monthly summaries of deposits, etc. had not been followed. Material differences amounting to Rs.1,350,464,983 and Rs.344,636,927 respectively were observed between the totals of individual balances in the subsidiary ledgers relating to the receipts and payments of sundry deposits in the General Deposit Account and the totals of individual balances shown in the Accounts.

The following observations are made.

- (i) The fine of Rs.715,050 had been erroneously shown as a deduction from the total of payments in the Fines Deposit Account while a sum of Rs.1,700,000 to be credited to the Colombo Fines Account had not been credited.
- (ii) Even though the fines received in March 2012 amounted to Rs.42,736,101 , that had been overstated in the ledger by a sum of Rs.60,000 and understated by a sum of Rs.100,000 in the Account.
- (iii) In debiting the Deposit Ledger the crediting of deposits older than 02 years to State Revenue, instances of incorrect debits made to the Deposit Ledgers were observed. The balance of two such instances totalling Rs.1,057,112.
- (iv) As payments in excess of the balance available in the Out Panel Examination – Bulk Cargo Handling Charges Deposit Account had been made in the current year, the balance of that account as at the end of the year had been converted to a debit balance of Rs.269,450. It was observed as an abnormal situation. \

(h) Revenue Accounts

According to an accounts presented revenue amounting to Rs.11,455,193,303 had been in arrears. Out of the revenue in arrears, Rs.5,563,026,761 had been older than three years while Rs.4,315,649,690 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. The

Statement of Arrears of Revenue that should have been furnished by 31 January 2013 in terms of Financial Regulation 128(2) had been furnished only on 12 August 2013. A difference of Rs.8,970 between the Statement of Arrears of Revenue and the Account was observed and reason for that had not been explained. The arrears of revenue for the year 2012 as compared with the year 2011 had increased by a sum of Rs.1,526,850,254 or 15.38 per cent. Out of the arrears of revenue, 87.25 per cent or Rs.9,995 million represented Import Duty, Ports and Airports Development Levy and Import Cess Levy relating to the Revenue Codes 10.01.01.00 , 10.01.04.00 and 10.01.05.01 respectively. It was reported to audit that these are arrears of revenue receivable from Government Institutions and that the institutions and the Treasury had been informed to obtain provisions and settle the arrears, Nevertheless, it was observed that these arrears included balances existing from the year 2008.

The following observations are made.

- (i) The arrears of Excise Duty on Petroleum Products amounting to Rs.891,205,213 relating to the Revenue Code 10.02.05.03 related to the years 2008 and 2009. Even though it was stated that the Ceylon Petroleum Corporation had been informed to pay the arrears those had not been settled up to 31 December 2013.
- (ii) The arrears of tax on liquor amounting to Rs.172,781,322 relating to the Revenue Code 10.02.05.02 had been in arrears due to the default of payment by the relevant institutions. No tax whatsoever from these arrears of revenue had been received during the year under review.
- (iii) The arrears of tax on motor vehicle amounting to Rs.343,691,886 relating to the Revenue Code 10.02.05.04 was observed as in arrears due to the release of motor vehicles to the Government institutions with the approval of the General Treasury on the basis of deferring the payment of tax on motor vehicles.
- (iv) According to the records of the Excise Duty Division, the arrears of excise duty amounting to Rs.31,554,740 and the penalty thereon had been deprived of to the State Revenue as action in accordance with the orders made on 228 cases filed against 228 institutions had not been taken.

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

According to the Reconciliation Statement as at 31 December 2012 of the Advances to Public Officers Account Item No. 24701, the balances that remained outstanding as at that date totalled Rs.8,304,943 and the follow up action on the recovery of those outstanding balances had been at a weak level. The following observations are made.

- (i) The loan balances totalling Rs.1,054,001 of 12 officers transferred out had not been settled in terms of Financial Regulation 485(4) and Paragraphs 1.1.6 and 1.1.7 of the National Budget Circular No. 118 of 11 October 2004.
- (ii) The follow up action on the recovery of the arrears of loans due from the officers retired, deceased, interdicted and vacated post and brought forward over a long period had been at a weak level. There was no evidence of action taken in this connection in terms of Section 4 of Chapter XXIV of the Establishments Code.
- (iii) It was observed that, contrary to the instructions in paragraph 04 of the National Budget Circular No. 155 of 30 December 2011, distress loans exceeding Rs.250,000 totalling Rs.5,605,515 had been paid to 16 Officers.
- (iv) Action had not been taken for the recovery of an overpayment of Rs.114,345 resulting from two distress loans obtained by an officer from two stations.
- (v) A Summary Report on the total debits during the year and the total credit during the year had not been presented with the account.
- (vi) The reasons for the difference of Rs.28,867 between the total of the Summary of Individual Balances Classification and the balance of the Control Account had not been explained to audit.

(j) Other Advance Accounts

Out of the receipts amounting to Rs.2,517,016 of the Advance Account on the Expenditure on Seized and Confiscated Goods, additional receipts relating to 156 balances amounting to Rs.645,894 or 25.66 per cent included therein had been reported. It was observed that a sum of Rs.2,100,219 out of that related to the additional receipts for the years from 2009 to 2011. The following observations are made.

- (i) A methodology had not been introduced for covering losses from the advances obtained in instances where Customs investigations on an incident for which advances had been obtained are stopped due to lack of any Customs Offences.
- (ii) The unsettled advances balances amounting to Rs.13,136,701 could not be satisfactorily vouched in audit as certain files on investigations had not been furnished to audit.

#### **12.4 Good Governance and Accountability**

##### **Corporate Plan**

Even though the Sri Lanka Customs should prepare a Corporate Plan at least for a period of 03 years at the beginning of the year from the year 2010 onwards in terms of the letter No. PF/R/2/2/3/5(4) dated 10 March 2010 of the Director General of Public Finance that Plan had not been prepared even by 31 December 2012.

##### **12.4.2 Annual Action Plan**

Sri Lanka Customs had not prepared an Annual Action Plan for the year 2010 and onwards according to the Corporate Plan prepared in terms of the letter of the Director General of Public Finance referred to in paragraph 12.4.1 above. Even though a nominal Action Plan had been prepared in the year under review, any action taken according to that plan was not observed.

##### **12.4.3 Annual Performance Reports**

Even though the Annual Performance Report that should be prepared by the Sri Lanka Customs in terms of the Public Finance Circulars No. 402 of 12 September 2002 and No.402(1) of 20 February 2004 referred to in the letter of the Director General of Public Finance referred to in paragraph 12.4.1 above should have been tabled in Parliament within 150 days after the close of the financial year with copy to the Auditor General, the Performance Report for the year under review had not been tabled in Parliament even by 31 December 2013.

#### **12.4.4 Implementation of the Audit and Management Committee**

Three meetings only had been held in the year 2012.

#### **12.5 Assets Management**

##### **12.5.1 Idle and Underutilized Assets**

It was observed at audit test checks that certain assets had been either idle and underutilized as analyzed below.

(a) Four scanners purchased for US\$ 15,600,000 obtained from the Bank of Ceylon as a loan at an annual interest rate of 7.03 per cent for the examination of containers had been underutilized.

(b) Seven finger print machines purchased by Sri Lanka Customs for Rs.859,500 had not been used. Even though annual service charge of Rs.153,380 had been spent on those finger print machines, those had not been used.

##### **12.5.2 Conduct of Annual Boards of Survey**

In terms of the Public Finance Circular No. 441 of 09 December 2009 as amended by the letter No. PF/Boards of Survey/01 of 17 December 2010 of the Director General of Public Finance, the Boards of Survey for the year 2012 should be completed and the reports thereon should be furnished to the Auditor General before 31 March 2013. Nevertheless, Sri Lanka Customs had not furnished the Boards of Survey Reports in respect of 35 Divisions.

##### **12.5.3 Assets released to External Parties**

Sri Lanka Customs had irregularly released three parcels of lands to the Department of Coast Conservation and 02 private parties.

##### **12.5.4 Unsettled Liabilities**

The unsettled liabilities of the Sri Lanka Customs less than one year old as at 31 December 2012 amounted to Rs.76,817,356.

## 12.6 Non-compliances

### (a) Non-compliance with Laws, Rules and Regulations

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

Reference to Laws, Rules and Regulations -----	Non-compliance -----
(i) <u>Statutory Provisions</u> -----	
i Inland Revenue Act, No.10 of 2006 as amended by the Inland Revenue (Amendment) Act No. 22 of 2011	The external container examination fees and rewards paid to certain officers had not been taken into consideration in the computation of the Pay As You Earn Tax payable by them.
ii Notification Published in the Gazette Extraordinary No. 1530/13 of 01 January 2008 of the Democratic Socialist Republic of Sri Lanka.	Fifty one instances of non-recovery of stamp duty at Rs.25 per payments over Rs.25,000 were observed.
(ii) <u>Establishments Code</u> -----	
Section 1 of Chapter XII, Section 2.1, 4.1, 28.6.1 of Chapter XIV and Section 13.2 and 13.3 of Chapter XLVIII	Action in terms of the provisions had not been taken in connection with Leave Registers, Travelling Expenses, Combined Allowance, Disciplinary Inquiries, etc.,
(iii) <u>Financial Regulations</u>	
Financial Regulation, 136, 137, 137(6), 156(5), 206(1), 206(1)(a), 225(4), 232(2), 237(b), 257 and 262(2)	Action in terms of the provisions had not been taken in connection with the preparation of payment vouchers, changes in the pattern of monthly electricity bills, alteration made in payment vouchers, refunds from deposits, stores recording, etc.,



(iv) Public Administration Circulars

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Public Administration Circular  
No. 19/2009 of 16 April 2009 and  
No. 09/2009(1) of 17 June 2009.

Finger print machines had not been used while the Attendance Register as well had not been signed.

(v) Treasury Circulars

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Treasury Circular No. IAI/2002/02 of  
28 November 2002

A Register of Computers and Accessories had not been maintained as specified.

(vi) Public Finance Circulars

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Public Finance Circular No. 431

Five instances of failure to purchase air travel tickets from the relevant companies and 02 instances of failure to organize air travel through the relevant companies were observed.

(vii) Departmental Orders

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i DOPL8L375 of 20 July 2001

The times of departure and return had not been entered and certified in the Register of Visits. There were instances of non-use of the Register of Visits.

ii Paragraph 3.02 of the Department  
Circular No. 01/2010 of 19  
January 2010

The maximum relief time allowed for late arrival in office, had not been covered after office hours on the same day in certain instances.

(b) Non-compliance with Tax Requirements

The Commissioner General of Inland Revenue had issued an Income Tax Table and Instructions on the use of the Table on 01 April 2011 in terms of Sections 114 and 116 of the Inland Revenue Act, No. 10 of 2006. Nevertheless, in certain instances, the Sri Lanka Customs had not taken into consideration the Income Tax Table and these instructions in the payment of rewards to the officers. Even though the rewards had been treated as one off payment in instances where payments are made in several installments, those had not been accumulated for the computation of the total tax recoverable. A substantial amount of revenue had been deprived of to the Government due to the computation of the tax separately on payments made on several occasions. A formal procedure had not been introduced for the accurate computation of the taxes recoverable from the offices of the Customs who receive several different allowances. According to the computation on the payments of rewards made by the audit, the under recovery of Pay As You Earn Tax from only 234 offices in the year of assessment 2012/2013 amounted to Rs.4,823,846.

**12.7 Performance**

The observations on the progress of Sri Lanka Customs according to the Annual Budget Estimates for the year 2012 are given below.

Class of Tax	Year 2012			Year 2011		
	Tax Revenue according to Revised Estimates	Actual Tax Revenue	Actual Revenue as a Percentage of the Estimated Revenue	Tax Revenue according to Revised estimates	Actual Tax Revenue	Actual Revenue as a percentage of the Estimated Revenue
	Rs. Millions	Rs. Millions		Rs. Millions	Rs. Millions	
Import Tax	76,830	73,489	95.65	80,252	76,010	94.71
Export Tax	20	21	105.00	30	17	56.67
Ports and Airports Levy	75,211	70,111	93.22	65,032	66,028	101.53
Cess Levy (Imports)	29,287	29,604	101.08	26,366	26,876	101.94
Motor Vehicle Concessionary Levy	-	-	-	-	1	
Regional	-	-	-	-	6	

Infrastructure Development Levy						
Cess Levy (Exports)	3,120	3,136	100.54	3,000	2,785	92.83
Special Commodity Levy	36,608	33,666	91.96	14,711	15,622	106.19
Cigarettes	54,924	53,529	97.46	49,804	49,589	99.57
Liquor	-	39	-	-	-	
Petroleum Products	23,000	28,466	123.77	26,449	22,470	84.96
Motor Vehicles	57,510	46,496	80.85	49,362	52,835	107.04
Other	5,132	3,336	65.00	2,973	5,797	194.99
Fees on Local Sale of Garments	100	104	105.00	70	94	134.29
Total	361,742	341,997	94.54	618,049	318,130	100.03

The following observations are made.

- (a) The actual performance from the expected tax revenue from the revised estimate for the year 2012 had decreased by 5.46 per cent whereas it had increased by 0.03 per cent in the preceding year.
- (b) Out of the 7 Revenue Code with tax revenue collections exceeding Rs.20,000 million, only the duty on petroleum products had been able to exceed the estimated target and a Minorexcess was recorded under the import cess levy. The actual performance of those tax revenue had been 123.77 per cent and 101.08 per cent respectively. The other 05 Tax Revenue Codes had not achieved the expected targets.
- (c) Even though 15 Revenue Accounts had been presented under 15 Revenue Codes, Revenue Estimates had been furnished only for 11 Revenue Codes. Out of the balance 4 Revenue Codes, there was no actual tax revenue for 03 Revenue Codes while the actual revenue under the Revenue Code for Liquor amounted to Rs.39 million. Out of such increase in revenue, a sum of Rs.18,044 million or 76 per cent represented revenue collected from the taxes imposed from time to time on special commodities under the essential foodstuffs.
- (d) On the overall as compared with the year 2011, the revenue collected in the year 2012 had increased by a sum of Rs.23,869 million or 7.5 per cent. The highest revenue contribution in the revenue structure for the year 2012 had been from Import Levy, Ports and Airports Levy and the Excise Duty on Cigarettes and Motor Vehicles. That represented 21.49 per cent, 20.59 per cent, 15.65 per cent and 13.59 per cent respectively

of the total revenue. Similarly the decrease of Excise Duty on Motor Vehicle and the Import Levy as compared with the preceding year is a noticeable feature in the revenue structure and those decreases amounted to Rs.6,339 million and Rs.2,521 million respectively. That decrease as a percentage of the revenue for the preceding year had been 12 per cent and 3.32 per cent. Except the Special Commodity Levy, despite the unavailability of the data for a statistic analysis of the effect on the following reason for this improvement, it was observed in audit that the revenue generated from those reason as well could materially affect the improvement.

- (i) Improvement in the quantity of goods and services imported
  - (ii) Fluctuations in the exchange rates
  - (iii) Fluctuations in the prices of the goods and services imported
  - (iv) Tax revisions made from time to time.
- (e) The overall Value Added Tax revenue of the Government of Sri Lanka in the year 2012 amounted to Rs.204,656 million and that Value Added Tax revenue included a sum of Rs.99,469 million collected by the Sri Lanka Customs on imports. Even though the Sri Lanka Customs had collected nearly 48.6 per cent of the Value Added Tax revenue of the Government, the Commissioner General of Inland Revenue is the Accounting Officer for the Value Added Tax. As such the information on the Value Added Tax had not been disclosed in the Revenue Accounts of the Sri Lanka Customs. In addition, the Commissioner General of Inland Revenue is responsible for accounting of the Nation Building Tax amounting to Rs.15,660 million collected by the Sri Lanka Customs on foreign trade. As such the information on that revenue had not been disclosed in the Revenue Accounts of the Sri Lanka Customs.

#### 12.8 Transactions of Contentious Nature

Certain transactions executed by the Sri Lanka Customs had been of contentious nature. Several such transactions revealed at test checks are given below.

- (a) It was pointed out in the audit reports for the preceding years that the officers are given large amounts of money from the Reward Fund for certain work performed as their normal duties. A sum of Rs.3,964,847 had been paid to the officers in such manner only from 02 files subjected to audit in the year under review. Such rewards had been paid on the basis of the valuation of 02 motor vehicles imported without duty with the intention

of re-export, consequent on a request made by the parties concerned, seeking permission for registration in the Department of Motor Traffic.

- (b) It was pointed out in the previous audit reports that the contribution of the existing Reward Fund for the protection of the State Revenue is a contentious matter. In addition to the penalties imposed on the Customs offences in terms of the prevailing laws, rules etc., a large portion of tax revenue lost to the Government as well had been paid to the officers as rewards. Nevertheless, any substantial control of the Customs Duty frauds is not evident. Out of the sum of Rs.183,970,904 collected from 46 investigations finalized by the Central Investigation Unit of the Sri Lanka Customs in the years 2011 and 2012 the payments made to the officers as rewards amounted to Rs.91,985,452.
- (c) Sri Lanka Customs had planned for the construction of the New Customs Building at an estimated cost of Rs.7,149 million and quotations for the construction of the building had been invited under 10 sub-contracts. The estimated cost of a public address system for the building amounted to Rs.22 million and the following observations were made at an audit examinations carried out in that connection.
  - (i) Seven institutions had submitted quotations for the contract and the Cabinet Appointed Procurement Appeals Committee had decided to award the contract to an institution which had not received the certificate of the Institute of Construction Training and Development (ICTAD) on the specified date.
  - (ii) The Cabinet Appointed Procurement Committee had taken this decision after rejecting the contractor selected after considering a large number of matters and after rectification of arithmetical inaccuracies, the value of the contract amounted to Rs.18,852,551.
  - (iii) According to the Instructions to Bidders, quotations inclusive of maintenance costs for 05 years should be submitted. Nevertheless, the quotations of the contractor selected by the Cabinet Appointed Procurement Appeals Committee did not include the maintenance costs. This contractor had separately quoted the maintenance costs on an annually increasing scale of 5 per cent to 12 per cent. It was observed that such costs had not been taken into consideration in the selection of the contractor.

- (iv) The total cost of the contractor originally selected by the Cabinet Appointed Procurement Committee included the maintenance cost as well and his total cost amounted to Rs.22,488,687.
- (v) The total cost of the contractor selected by the Cabinet Appointed Procurement Appeals Committee inclusive of the maintenance costs amounted to Rs.25,356,681 and as such the loss caused to the Government due to the rejection of the originally selected contractor amounted to Rs.2,867,994. Further it was observed that a sum of Rs.6,504,130 exceeding the quotation submitted by the selected contractor would become payable.
- (d) It was observed that a Customs investigation commenced due to furnishing of contradictory information by a company registered under the Board of Investments of Sri Lanka to the Sri Lanka Customs and the Board of Investments had been abandoned with effect from 08 October 2009 without adducing any reasons. It had been established that this company had committed Customs Duty frauds prior to this instance. According to the file that the sum of US\$ 382,122 declared to the Board of Investments of Sri Lanka declared as US\$ 64,933 to the Sri Lanka Customs is an offence. Nevertheless, abandoning the investigation despite the establishment of the contradictory nature of the information relating to the difference furnished by the local company and its parent company in India is a matter of contentious nature. It had been stated that if the Value of the imported goods amounted to US\$ 382,122 the Customs Duty recoverable amounted to Rs.2,500,000.

### **12.9 Transactions without Authority**

Contrary to the policy followed at present by the Sri Lanka Customs on motor vehicles imported under the Carnet Scheme, a motor vehicle had been released to the importer and the recovery of the assessed value of the motor vehicle amounting to Rs.834,028 had been waived. A formal approval for that had not been received and it is observed as a loss caused to the Government. The local agents of the motor vehicle as well had submitted two quotations for the price of the motor vehicle in two instances and if the higher value is taken into consideration, the lost revenue would amount to Rs.1,033,920.

### **12.10 Transactions of Fraudulent Nature**

Large scale frauds are committed by the transfer of fraudulently altered data on motor vehicles sold by the Central Disposal Division to the Department of Motor Traffic. Adequate security measures had not been taken for the prevention of such practices. Two electric cars imported in this manner without payment of duty for the purposes of an exhibition, had been taken into Customs custody due to the company becoming bankrupt and had sold one for Rs.91,376 and the other for Rs.105,958. The party which purchased the motor vehicle for Rs.105,958 had reported to the Sri Lanka Customs that the chassis number of the motor vehicle was not correct and another chassis number had been erroneously entered in to the computer network of the Customs linked to the Department of Motor Traffic and committed customs duty fraud by fraudulently registering a Hummer motor vehicle valued over Rs.36 million. In this connection, in addition to the change of the chassis number, motor vehicle classification number as well had been changed in the data transmitted to the Department of Motor Traffic.

### **12.11 Losses and Damage**

Action in terms of Financial Regulations 104 to 109 had not been taken on the loss of Rs.6,455,000 resulting from the destruction of a boat.

### **12.12 Uneconomic Transactions**

The following observations are made.

- (a) A large amount of money had been paid to Sri Lanka Ports Authority for the supply of food and tea for the Customs Officers and the payment so made in the year 2012 had been Rs.4,982,805. None of the Divisions of the Sri Lanka Customs had carried out a proper supervision on these payments. Weaknesses observed are given below.
  - (i) The number of meals and tea required per day had not been determined and payment had been based on 3,000 meals and 3400 teas supplied per month.
  - (ii) Payment had been made based on bills and invoices furnished by Sri Lanka Ports Authority without ascertaining the number of officers on duty at the specified times.

- (b) Expenditure amounting to Rs.32,999,958 had been incurred on local travel in the year 2012 and the Sri Lanka Customs had not paid attention to economy in incurring expenditure on travelling. Instances of non-compliance with the existing rules and regulations and the implementation of the routine 06 month transfer system to enable every officer to receive combined allowance for one full month were observed.
- (c) Training expenditure amounting to Rs.279,000 had been incurred in January 2012 for an officer due for retire on 01 March 2012.
- (d) Interest amounting to Rs.787,907 had been paid due to the failure to settle the electricity bills on the specified dates according to the Notification published in the Gazette Extraordinary No. 1572/25 of the Democratic Socialist Republic of Sri Lanka dated 24 October 2008.

### **12.13 Management Weaknesses**

The following weaknesses were observed.

- (a) A sum of Rs.246,317,867 had been spent in the year 2012 as incentives to the staff and there was no evidence of performance evaluation carried out for the payment of incentives. According to the letter No. HF1/04/CUS/115-27 dated 13 December 2011 of the Deputy Secretary to the Treasury, payment of incentives based on performance evaluation had been approved. But payments had been made only on the basis of the attendance of the officers instead of being based on the performance and instances of incorrect computation of leave were also observed. Even though the incentive payments were limited to 50 per cent of the basic salary, instead of deductivity salary for a day for each day of leave obtained, 50 per cent of the day's pay had been deducted.
- (b) A sum of Rs.22,588,659 comprising Rs.672,971 from the Treasury provisions and a sum of Rs.21,915,688 from the Management and Compensation Fund had been spent on foreign travel during the year under review. An audit examination of foreign travel expenses revealed instances of failure of the officers to submit progress reports on training, failure to carry out an evaluation of such reports, the contents of reports being limited to handouts and agenda distributed at training sessions and the failure to follow the approved procedure for the purchases of air travel tickets.



- (c) It was observed that most of the motor vehicles imported to Sri Lanka using the Carnet international documents without payment of customs duty with the intention of re-export are being used locally without being re-exported. A sluggishness was observed in the methodology implemented by the Sri Lanka Customs to minimize the duty losses caused from these motor vehicles to the Government. Even though the Central Investigation Division of the Sri Lanka Customs had commenced investigations on 254 such motor vehicles in the years 2011 and 2012, the investigations on 144 motor vehicles had not been finalized even by 31 December 2012. Even though the fines and dispossession revenue on 46 motor vehicles of which the investigations had been finalized amounted to Rs.183,970,904 the fines and dispossession revenue on 144 motor vehicles of which investigations had not been finalized had not been determined.
- (d) It was observed that the performance of customs investigations by the Central Inspection Bureau with direct links to the Sri Lanka Customs Investigation Process is not at an adequate level. Out of the 111 investigations commenced by this Division in the years 2011 and 2012, work on 84 had not been finalized even by 31 December 2012. A staff of 40 including a Director of Customs, two Deputy Directors of Customs and 09 Superintendents of Customs are attached to this Division and the money collected from the activities of the Division in the years 2011 and 2012 amounted to Rs.587,464,063. Out of that only a sum of Rs.176,239,219 had been credited to the State Revenue.
- (e) Instances of huge losses caused to the Government due to the destruction of confiscated goods resulting from the delays in the customs investigation were pointed out in the Audit Reports for the preceding years. The Customs Investigations on 04 containers of garments abandoned in the Port of Colombo in the year 2008 had progressed at a very slow pace from the year 2008 to the year 2012 and as such the textile had been subjected to natural decay. Even though the stock of textile had been valued at Rs.3,951,595 in November 2009, that had to be sold for Rs.527,500 on 01 April 2012 due to natural decay resulting in a loss of Rs.3,424,095. It was reported that the Board of Investments Co-ordinating Division of the Sri Lanka Customs had conducted this investigation.
- (f) It was pointed out in the Audit Reports for the preceding years that the Central Disposal Division of the Sri Lanka Customs is implementing the sales process without transparency. The following further matters were observed at an examination of the sales during the first half of the year 2012.

- (i) Failure to confiscate the deposits amounting to Rs.2,205,000 of the buyers who failed to clear 38 categories of goods on the specified dates.
  - (ii) Allowing the deposits of three buyers which should be confiscated for use in application for 06 items of goods valued at Rs.6,138,888.
  - (iii) Allowing three buyers to submit quotations for 06 items of goods valued at Rs.13,985,366 without adequate and valid deposits.
  - (iv) In 04 instances where deposit of Rs.175,000 had to be made before submitting quotations, allowing deposits to be made after submitting quotations.
  - (v) Even though 29 items of goods put up for sale had been withdrawn from sale in 05 instances, the formal approval for that had not been furnished to audit.
  - (vi) Even though buyers should pay money and clear the goods within 10 days, 26 to 88 days had been allowed in 21 instances.
- (g) Out of the 16 containers with imported goods abandoned in the first half of the year 2012 by importers, goods of 04 containers had been destroyed and one container had been re-exported. The charges due to the Sri Lanka Customs from the goods of 11 containers sold by auction amounted to Rs.9,447,919. The following observations indicate that the Sri Lanka Customs had not introduced a course of action to avoid the destruction of imported goods through an expeditious procedure.
- (i) Loss of Customs charges amounting to Rs.1,003,520 due to the spoilage of a container load of mandarins resulting from delays in the sales process and unfair price assessed by the Customs.
  - (ii) Even though the Custom duty of Rs.1,134,000 had been waived as 30 per cent of 84,000 kilogrammes stock of garlic had been unfit for human consumption, the entire stock including the damaged stock had been released to the importer. But a process for preventing the damaged stocks to the general public is not in place.

- (iii) In view of the non-recovery of customs duty on a part of the goods in containers abandoned by importers in the port premises due to being unfit for human consumption according to the recommendation of the Controller of Food and Drugs in the sale of such goods, the doubt that the importers intentionally abandon the imported goods and introduced to purchase them subsequently cannot be ruled out. The value of customs duty so waived in 10 instances amounted to Rs.1,933,640.
- (h) It was observed during audit test checks that the failure to take steps for expediting Customs investigations on Customs offences had resulted in creating economic benefits to the offenders while the revenue receivable by the Government had not been received on time. Several examples are given below.
  - (i) An audit test check of the Customs investigations initiated by the Board of Investments Supervision Unit of the Sri Lanka Customs revealed that out of investigations initiated in January 2010, two investigations had been delayed for more than 03 years without any justifiable reasons, thus creating difficulties in reaching a final decision on revenue amounting to Rs.1,950,812 receivable by the Government. This Unit had initiated 92 investigations from the year 2004 to the year 2012 and 42 investigations had not been finalized. Information on 32 investigation was not revealed and the finalization of only 03 investigations was observed as a management inefficiency.
  - (ii) The Customs investigation commenced by the ‘D’ Branch of Sri Lanka Customs stating that a private company had committed a Customs fraud by declaring a lesser value for 02 luxury motor vehicles, had not been finalized by the Customs officers despite the elapse of 04 years. The two motor vehicles had been released by retaining the documents of the two motor vehicles. It was observed that the Ministry of Transport was using the motor vehicles without registering them. The additional sum of Rs.3,643,636 due to undervaluation recoverable by the Government due to the undervaluation remaining without being collected over 04 years had resulted in benefits to the company. The non-receipt of revenue received by Government on fuel and use of unregistered motor vehicles by Government institutions due to the delay in the customs investigation is observed as an adverse situation resulting from such delays.
- (i) The non-receipt of an adequate revenue from the Postal Custom Offices and several weaknesses in the internal control procedure introduced for the examination of postal parcels were observed. A test check of the Jaffna Postal Customs Office revealed that 62

per cent and 22 per cent of the parcels received per day had been noted as used clothing and food respectively with no commercial value. Over 50 per cent of the perches are released without collecting customs charges and duty. An internal control procedure providing for audit to examine whether such parcels contain dutiable goods had not been introduced.

- (j) The contribution of the Excise Duty to the Revenue Structure of the Sri Lanka Customs is about 38 per cent and the Excise Duty collected in the year 2012 amounted to Rs.139,970 million. The Internal Control Procedure introduced by the Sri Lanka Customs for the collection of the Excise Duty is not at a satisfactory level and several weaknesses observed are given below.
- (i) The implementation of the Excise Duty (Special Provisions) Act, No. 13 of 1989 under the Department of Excise up to the year 1993 had been brought under the Director General of Customs with effect from May 1994 by the decision No. CM/93/360/0601 dated 17 March 1994 of the Cabinet of Ministers. As that decision had not been fully implemented, the legal provisions regarding the Excise Duty had not been regularized.
- (ii) In view of the non-regularization of the legal provisions, the risk of either settlement, withdrawal or the dismissal existed in relation to the cases filed for the recovery of Excise Duty on imported goods amounting Rs.6,100 million from 03 institutions and Rs.173 million receivable from 04 liquor manufacturing companies included in the arrears of revenue for the year 2012 and duties amounting to Rs.286 million relating to 03 instances, which were not included in the arrears of revenue and the arrears of duties and fines amounting to Rs.46.6 million relating to 228 institutions
- (iii) The overall staff of the Excise Duty Division had been 30 and included 18 Excise Duty Officers and 08 Excise Inspectors and the total number of duty files dealing at present by the Division had been only 27. The only work relating to certain files had been only filling the quarterly returns sent by the tax payer institutions.
- (iv) Specific plans for the inspections of institutions for the staff carrying out fields inspections of this division were not available while field inspections are carried out according to the discretion of the officers in charge of files. It was observed at a test audit carried out in this division that there were institutions which had not been subjected to inspections while the same officer had been in charge of the same file over long period.

- (v) A course of action for the identification of new institutions from which the Excise Duty should be recovered had not been introduced and there were no new registrations during the year 2012.
- (vi) The Commissioner General of Customs had been directed by the Cabinet decision dated 11 May 2011 to prepare a methodology for the computation of the duty revenue lost by the Government from the import of dismantled motor vehicles from abroad by institutions and assembling motor vehicles locally. There was no evidence of action taken in that connection. It was observed that the Excise Duty on 103 motor vehicles assembled by an institutions had not been paid.

#### 12.14 Human Resources Management

##### Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2012 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
-----	-----	-----	-----
(i) Senior Level	338	318	20
(ii) Tertiary Level	1,151	817	334
(iii) Secondary Level	968	718	250
(iv) Primary Level	488	270	218
Total	2,945	2,123	822
	=====	=====	=====

Sri Lanka Customs had not taken action to obtain confirmation of certificates produced by newly recruited officers from the relevant institutions.

**13. Head 248 – Department of Excise**

**13.1 Scope of Audit**

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 2012 was carried out in pursuance of provisions in Article 154 (1) of the Constitution in the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 21 February 2014. 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 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, Revenue Accounts and the Reconciliation Statements in accordance with the provisions in 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 Observation**

According to the Financial Records and the Books for the year ended 31 December 2012, it was observed that except for the effects of the general observations appearing at (a) to (f) and other major audit findings appearing in paragraphs 13.4 and 13.8 herein, the Appropriation Account, Revenue Accounts and the Reconciliation Statement of the Department of Excise had been prepared satisfactorily.

**(a) Non-submission of Registers and Information**

- (i) Replies to 07 audit queries issued in the year under review had not been furnished by the Department even by 30 June 2013.
- (ii) The following documents had not been furnished to audit and as such it was not possible to established in audit whether a legal transfer of ownership of the Excise Licence No. 07/079/0269 had been effected during the period from the year 1985 to the year 1988.
  - i Documentary evidence in support that the ownership had been effected legally.
  - ii The file maintained for the above licence for the period prior to the year 2002.
  - iii Documents relating to the change in the registration of the business and the Business Registration Certificate.

**(b) Budgetary Variance**

**Deficiencies in the Preparation of Estimates**

According to Financial Regulation 50 the estimates should be prepared by identifying the requirements of the Department under a specific plan. Nevertheless, the following deficiencies were observed in the preparation of the Annual Budget Estimates of the Department of Excise for the year 2012.

- (i) Due to the failure to prepare the estimates adequately Supplementary Estimate provision of 156 per cent had been obtained for the Object No. 1402.
- (ii) The entire provision made for Object No. 1102 had been transferred under Financial Regulation 66.

(c) Management of Expenditure on Fuel and Electricity

Contrary to the instructions in the Treasury Circular No. 156 of 16 February 2012, relating to fuel and electricity expenditure, provision amounting to Rs.4,790,000 had been transferred under Financial Regulation 66 during the year under review.

(d) General Deposit Account

Action in terms of Financial Regulation 571 had not been taken on the balance of Rs.2,8101,120 older than 02 years.

(e) Revenue accounts

(i) Revenue Code 10.02.04.01

The following observations are made.

- i According to the Excise Ordinance and the subsequent amendments thereto, the revenue from the Excise Duty means any tax, charge or fine (excluding any fine imposed by a Court) and revenue collected from a confiscation, or order made under this Ordinance or any other existing law relating to liquor. Nevertheless, the Department of Excise had recognized only the revenue from liquor in the preparation of the annual estimates of revenue and accounting thereof.
- ii The original estimate for revenue under Excise Duty prepared for the year 2012 amounted to Rs.65,200 million. The actual revenue amounted to Rs.60,047 million and as such the Department had failed to achieve the original estimate of revenue. The difference between the original estimate of revenue and the actual revenue amounted to Rs.4,229 million and represented 6.49 per cent. According to the Excise Ordinance, in addition to the arrears of Excise Duty on liquor, the penalty for delays in the payment of the Excise Duty on liquor should be included in the presentation of the Statement of Arrears of Revenue. But the Department had not prepared such Statements of Arrears of Revenue.
- iii The arrears of revenue amounting to Rs.9,742,102 receivable as at 31 December 2012 from one institution had not been included in the Statement of Arrears of Revenue.



- iv According to the accounts presented, the arrears of revenue totalled Rs.1,683,970,524 and that represented the arrears of Excise Duty receivable from 05 institutions over periods ranging from 4 to 15 years. Recovery of those arrears of revenue had been at a weak level.

(ii) Revenue Code 10.02.06.00

The following observations are made.

- i Even though the revenue from the Tobacco Tax for the year 2012 had exceeded the original estimate by 36 per cent, action had not been taken to revise the estimate.
- ii According to Financial Regulation 128(2)(c) the Revenue Accounting Officers are responsible to furnish to the Auditor General the half yearly returns on arrears of revenue as at 30 June and 31 December of each financial year under the various Heads, Sub-heads, Items and Sub-items of revenue and in the event of there being no arrears a NIL Return should be furnished. But it had not been so done.

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

The following observations are made.

- (i) According to the Reconciliation Statement as at 31 December 2012 of the Advances to Public Officers Account Item No. 24801, the balances that remained outstanding as at that date totalled Rs.2,001,384 and the follow up action on the recovery of those outstanding balances had been at a weak level.
- (iii) In recording of the Register of Loans and Advances on 01 January 2012 the loan balances as at 31 December 2011 had not been checked. As such differences in the loan balances of 49 officers were observed.
- (iii) The differences in the opening balances of the Advances to Public Officers Account for the year 2012 had been rectified in September 2012. But a correct methodology had not been followed in making those rectifications while formal approval for that had not been obtained. In the circumstances it was not possible to be satisfied in audit with regard to those rectifications.

### **13.4 Good Governance and Accountability**

#### **13.4.1 Corporate Plan**

Even though the Department should prepare a Corporate Plan at least for a period of 03 years at the beginning of the year from the year 2010 onwards in terms of the letter No. PF/R/2/2/3/5(4) dated 10 March 2010 of the Director General of Public Finance that Plan had not been prepared even by 30 June 2013.

#### **13.4.2 Annual Action Plan**

Even though the Department should have prepared an Annual Action Plan for the year 2010 and onwards according to the Corporate Plan prepared in terms of the letter of the Director General of Public Finance referred to in paragraph 13.4.1 above, an Action Plan not conforming to the letter of the Director General of Public Finance referred to above had been prepared at the beginning of the year.

#### **13.4.3 Annual Performance Reports**

Even though the Annual Performance Report that should be prepared by the Department in terms of the Public Finance Circulars No. 402 of 12 September 2002 and No.402(1) of 20 February 2004 referred to in paragraph 13.4.1 above should have been tabled in Parliament within 150 days after the close of the financial year with a copy to the Auditor General, the Performance Report for the year under review had not been tabled in Parliament.

### **13.5 Assets Management**

#### **(a) Conduct of Annual Board of Survey**

According to the Public Finance Circular N0.441 of 09 December 2009 as amended by the letter No. PF/Board of Survey/01 dated 17 December 2010 of the Director General of Public Finance the Board of Survey for the year 2012 should be conducted and the reports thereon should be furnished to the Auditor General before 31 March 2013. But the Department had not taken action accordingly. The last Board of Survey conducted had been for the year 2011.

**(b) Functions not Performed Adequately**

The following instances were observed.

**(i) Instances of failure of the Department to act adequately in the implementation of provisions in the Tobacco Tax Act**

- i The Department had not taken action since the enactment of the Tobacco Act, No. 8 of 1999 by Parliament up to July 2009, that is 10 years, to implement any Excise Notifications by publication in the Gazette. Similarly the Department failed to implement various other important provisions in the Act.
- ii According to item 5 of the Tobacco Tax Order No. 1 of 2009 published in the Gazette dated 26 October 2009, the registration of all applications submitted for obtaining a Certificate or Registration should be either registered or rejected within 30 days. It was observed in audit that in 05 instances where the registration certificates had been issued after the elapse or over one year. The Department had not taken action to ascertain the reason for delay and prevent such delays.
- iii There were instances where the licence holders had not renewed the licences after the expiry of the validity period. In such instances the manufactures could continue their productions without a valid licence. But the Department had not carried out inspections of those institutions. Eight instances which had failed to renew the registration were observed at an audit test check.
- iv According to Section 17 of the Tobacco Tax Act, No. 8 of 1999 from the money recovered or goods confiscated under this Act,  $\frac{3}{4}$  should be paid to the Deputy Secretary to the Treasury for crediting to the Consolidated Fund. The balance amount should be credited an Excise Rewards Fund functioning under the Commissioner General of Excise established under this Act for distribution among the Excise Officers, Customs Officers , Police Officers, Informants and others according to a scheme approved by the Ministry of Finance. Nevertheless, a Reward Fund under this Act had not been established even by the year 2012.

v No person shall engage in the production, storage, import or export of either the raw materials or finished goods relating to cigarettes, cigars, beedles or pipe tobacco without a licence issued by the Commissioner General under the Order No. 1625/1 published in the Gazette No. 1610/28 dated 17 July 2009 under the Orders made by the Minister of Finance in terms of Section 21 of the Tobacco Act No. 8 of 1999. Neverthelss, a Cigarette production company had maintained a store without obtaining a licence.

(ii) Long delays were observed in taking disciplinary action in terms of the provisions in the Establishments Code against officer who commit acts of indiscipline.

### **13.6 Deficiencies in the Operation of Bank Accounts**

The following observations are made.

- (a) Action had not been taken for the identification of the direct credits to the Bank Accounts and for accounting under the respective Revenue Codes. As such it was observed in audit that a balance of Rs.43,234,868 remained as unidentified deposits as at 31 December 2012.
- (b) A sum of Rs.3,502,874 which remained up to 31 December 2012 had been credited to the State Revenue due to the inability to identify the relevant Revenue Codes. A procedure for the identification of direct credits to the Bank had not been implemented.

### **13.7 Management Inefficiencies**

According to paragraph 10 of Schedule 1 of the Excise Notification No. 859 of 22 September 2003 and the Amended Notification No. 1309/19 of 10 October 2003, the transfer of a licence to a new applicant, a sum of Rs.150,000 should be paid to the Government for each licence. Nevertheless, a sum of Rs.2,250,000 had not been paid in connection with the transfer of 15 Excise Duty Licences.

### 13.8 Human Resources Management

#### (a) Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2012 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
-----	-----	-----	-----
(i) Senior Level	57	38	19
(ii) Tertiary Level	380	284	96
(iii) Secondary Level	855	592	263
(iv) Primary Level	129	124	05
	-----	-----	-----
Total	1421	1038	383
	=====	=====	=====

(b) The following observations are made.

The vacancies as at 31 December 2012 had been 383 and the following observations are made in that connection.

- (i) Even though there were 19 vacancies in the Senior Level which included two posts of Commissioner of Excise and 16 Superintendent of Excise, the Department had not taken action to fill the vacancies.
- (ii) The vacancies in the overall cadre had been 383. But action had not been taken by the Department to fill the vacancies and achieve the targets of the Department.

### 14. Head 249 – Department of Treasury Operations

#### 14.1 Scope of Audit

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 2012 was carried out in pursuance of provisions in 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 28 April 2014. 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 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 in 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 Observation**

According to the Financial Records and the Books for the year ended 31 December 2012, it was observed that except for the effects of the general observations appearing at (a) to (c) and other major audit findings appearing in paragraph 14.4 and 14.5 herein, the Appropriation Account, Revenue Account and the Reconciliation Statement of the Department of Treasury Operations had been prepared satisfactorily.

**(a) Budgetary Variance**

The entire capital provisions amounting to Rs.1,200,000,000 made for 03 Objects had been transferred under Financial Regulation 66 to 03 other Capital Objects.

**(b) Revenue Accounts**

A sum of Rs.7,205,394,066 had been in arrears over a number of years as at 31 December 2012 as shown below.

Revenue Code	<u>Age Analysis</u>			Arrears of Revenue as at 31 December 2012
	Less than 01 year	Over 01 year less than 03 years	Over 03 years	
			<b>Rs.</b>	
20.02.01.01	44,702,086	35,498,682	334,303,489	382,908,172
20.02.02.01	1,842,565,787	1,526,104,246	1,388,698,592	3,364,458,223
20.02.02.99	47,805	24,382	0	72,187
20.03.02.99	951,263	3,580,884	4,153,640	4,392,242
20.03.99.00	13,000	4,699,150	393,368	13,000
20.06.04.00	1,200,747,816	1,065,526,757	1,287,275,669	3,453,550,242
<b>Total</b>	<b>3,089,027,757</b>	<b>2,635,434,101</b>	<b>3,014,824,758</b>	<b>7,205,394,066</b>

The following observations are made.

- (i) The revision of the original estimates of revenue under 04 Revenue Accounts, namely Interest on Lending, Sale Proceeds and Charges, Fines and Forfeits, Sales and Charges, Administrative Fees and Charges and Other Rentals had not been reported to the Director General of Public Finance in terms of paragraph 3 of the Circular No. 01/2002 of 17 July 2002.
- (ii) **Sales and Charges other Receipts : Revenue Code No. 20.03.99.00**  
According to the Fiscal Policy and Economic Affairs Circular No. 01/2002 revenue estimates should be revised after carrying out a study of the revenue collected up to the time in year under review and the revenue receivable. Nevertheless, it had not been done in the revision of the original estimate of Rs.6,000,000,000 for the year 2012 to Rs.9,042,000,000.

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

The following limits of the Advance Account authorized by Parliament had been complied with.

	<b>Expenditure</b>	<b>Receipts</b>	<b>Debit Balance</b>
	-----	-----	-----
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
Approved Limit	5,500,000	2,800,000	30,000,000
Actual Balance	3,352,868	3,204,052	17,874,645

The following observations are made.

(i) **Outstanding Loan Balances**

The non-moving loan balance less than one year old as at 31 December 2012 receivable from deceased or retired officers amounted to Rs.104,148.

(ii) **Other Observations**

Contiary to the Provisions in the National Budget Circular No. 118 of 11 October 2004, the recovery of loan balances amounting to Rs.1,099,173 receivable from 05 officers transeferred out had been delayed from 04 to 11 months.

**14.4 Good Governance and Accountability**

**14.4.1 Corporate Plan**

Even though the Department should prepare a Corporate Plan at least for a period of 03 years at the beginning of the year from the year 2010 onwards in terms of the letter No. PF/R/2/2/3/5(4) dated 10 March 2010 of the Director General of Public Finance, that plan had not been prepared even by 31 December 2012.

**14.4.2 Annual Action Plan**

Even though the Department should have prepared an Annual Action Plan in terms of the letter of the Director General of Public Finance referred to in paragraph 14.4.1 above, an Action Plan for the year under review had not been prepared even by 31 December 2012.



## 14.5 Human Resources Management

### Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2012 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	20	16	04
(ii) Tertiary Level	01	01	-
(iii) Secondary Level	82	60	22
(iv) Primary Level	18	18	-
Total	121	95	26

The Department had failed to fill 04 approved posts in the Senior Level and 22 approved posts in the Secondary Level as at 31 December 2012.

## 15. Head 250 – Department of State Accounts

### 15.1 Scope of Audit

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 2012 was carried out in pursuance of provisions in 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 28 November 2013. 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 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 in 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 Observation**

According to the Financial Records and the Books for the year ended 31 December 2012, it was observed that except for the effects of the general observations appearing at (a) to (c) and other major audit findings appearing in paragraph 15.4 to 15.6 herein, the Appropriation Account and the Reconciliation Statement of the Department of State Accounts had been prepared satisfactorily.

(a) **Underutilization of Provisions**

The entire recurrent provisions totalling Rs.1,115,038 made under 02 Objects and capital provisions of Rs.4,000,000 made under one Object had been saved.

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

According to the Reconciliation Statement as at 31 December 2012 of the Advances to Public Officers Account Item No. 25001, the balances that remained outstanding as at that date amounted to Rs.164,953 and the Department had failed to recover that balance.

(c) **Sundry Advance Accounts**

(i) **Advances granted for Purchase of Paddy**

The following observations are made.

- (i) Out of the advances granted in 18 instances from the year 2001 to 2008 to 14 District Secretariats, a Ministry and a Department for the purchase of

paddy, the unsettled advance balance by 31 December 2012 amounted to Rs.481,376,824 as shown below.

The outstanding balances totalling Rs.481,376,824 comprising the advances balance of Rs.466,235,683 granted in the year 2002 to 13 District Secretariats and a Ministry and outstanding for more than 10 years as at 31 December 2012, the advance balance of Rs.12,560,031 granted to the Department of Agrarian Development in the year 2006 older than 06 years and the balances amounting to Rs.2,581,110 due for over 04 years since the year 2008 from the District Secretariats at Ampara, Batticaloa and Trincomalee had not been settled even by 31 December 2012.

- (ii) Even though the Department of State Accounts had sent letters in January 2013 for the confirmation of the advance balances totalling Rs.234,693,030 to the institutions concerned the following institutions had not confirmed the balances even by the date of this report.

Account Number	Office	Balance as at 31 December 2012
-----	-----	-----
		Rs.
25003/418	District Secretariat, Polonnaruwa	199,759,798
25003/423	District Secretariat, Kurunegala	5,349,072
25003/425	District Secretariat, Hambanthota	19,320,629
25003/439	District Secretariat, Mullaitivu	627,225
25003/501	District Secretariat, Batticaloa	681,800
25003/455	Department of Agrarian Development	12,560,031
25003/431	Ministry of Mahaweli	(3,605,525)
		-----
		234,693,030
		=====

- (iii) Even though the Department of State Accounts had given instructions that the advances amounting to Rs.2,886,535 recoverable from the following 03 District Secretariats should be settled by obtaining provisions from the Department of National Budget in terms of Financial

Regulation 113, the respective District Secretariats had not taken action even by 31 December 2012.

<b>District Secretariat</b>	<b>Balance as at 31 December 2012</b>
-----	-----
	<b>Rs.</b>
District Secretariat Ampara	1,809,310
District Secretariat Mullativu	627,225
District Secretariat Mannar	450,000
	-----
	<u>2,886,535</u>

- (iv) Out of the advances of Rs.5,439,019 granted to the District Secretariat Kurunegala for the purchase of rice for the Department of Agrarian Development, the Hiriyala Farmers Company and the World Food Programme, the direct settlement of a sum of Rs.349,487 to the General Treasury had been brought to the notice of the Director General of State Accounts by the letter No. 1/5/5/12 dated 29 March 2012 of the District Secretariat Kurunegala, the balance had not been reconciled and settled even by 31 December 2012.
- (v) Even though the District Secretary had informed the Director General of State Accounts that the sum of Rs.1,009,449 given to the Kagama Bank Society and the sum of Rs.5,023,818 granted to the Nochchiyagama Multipurpose Co-operative Society Ltd, as at 31 December 2012 out of the advances granted to the District Secretariat Anuradhapura will be settled after the liquidation of the Bank and the Society action had not been taken accordingly. Legal action had been instituted for the recovery of the sum of Rs.480,000 recoverable from the Saruketha Farmers' Company and the sum of Rs.4,264,300 recoverable from the North Central Province Co-operative Union.
- (vi) The balance of Rs.3,605,525 credited to the Ministry of Mahaweli under the Sundry Advances Activity had not been settled.
- (vii) Even though the Director General of the Department of State Accounts had, by his letter No.SA/ACCTS/4/7000/422 dated 05 June 2012,

informed the District Secretary, Trincomalee to take action for the write off of the sum of Rs.1,652,916 due from the Sathosa to the District Secretariat, no action in that connection had been taken up to date. The Multipurpose Co-operative Societies which purchased paddy from the advances granted to the District Secretariat Trincomalee had converted the paddy to rice and sold at prices less than the prices approved by the Government resulting in a loss of Rs.8,757,384. Action had not been taken either for the recovery of the loss from the respective Societies or for the write off from the books.

- (viii) A sum of Rs.6,261,658 had been erroneously brought to account as a credit balance of the District Secretariat Ratnapura as at 31 December 2012. Even though it had been agreed as the meeting of the Paddy Purchase Programme Review Committee held at the District Secretariat Ratnapura on 27 November 2009 that the Department of State Accounts should debit that amount to the Account of District Secretary Ratnapura and credit the relevant account, action had not been taken to rectify error up to date.

**(ii) Advances granted for Lost Cash, Stamps Tickets, etc.**

- (i) Advances for the above matters amounting to Rs.10,096,624 had been granted under Financial Regulation 106 to the following Ministries, Departments and Offices. Out of the advances so granted, advances amounting to Rs.1,014,295 had been settled by 31 December 2012. Even though the unsettled advances amounting to Rs.9,082,329 should be settled by obtaining additional provision under orders obtained by taking action in terms of Financial Regulation 109, the advances had not been settled on the additional provisions so obtained.

Ministry Department	/	Reasons for Obtaining Advances	Date of Obtaining Advances	Advance Obtained	Delay in Settlement as at 31 December 2012
				<b>Rs.</b>	
Ministry of Urban Development and Sacred Areas Development		Cash fraud of Housing Project	2007.11.29	6,640,249	05 Years 01 Month
Office of Director of Health Services National Hospital		Cash fraud 2002	February 2002	2,408,460	10 Years 10 Month
District Seratariat Colombo		Cash fraud 2005	2005.04.20	33,620	07 Years 08 Month
				----- 9,082,329 =====	

- (ii) Even though the Director General of State Accounts had, by his letter No. SA/ACCTS/4/7000/2011 dated 26 January 2012, addressed to the Director General of Treasury Operations, requested the recovery of the above balances in instalments from the imprest issued to those institutions and settle the advances, it had not been so done.

#### 15.4 Assets Management

The Register of Fixed Assets presented for audit had not been updated. A difference as shown below was observed between the register and the balances in the Report on the Movement of Non-current Assets in Note (i) of the Appropriation Account.

Assets Code and Name	Balance as at 31 December 2012 according to the Register of Fixed Assets	Balance as at 31 December 2012 according to Reports on the Movements of Non-current Assets	Difference
-----	-----	-----	-----
	Rs.	Rs.	Rs.
3102 Office Equipment	1,667,350	1,980,579	313,229
4064 Computer Networks	31,736	15,826	(15,910)
3514 Telephones	-	81,835	81,835
2999 Other Constructions	-	797,312	797,312
2999 Other Constructions	-	4,965,029	4,965,029
	-----	-----	-----
	1,699,086	7,840,581	6,141,495
	=====	=====	=====

### 15.5 Losses and Damage

Action in terms of Financial Regulation 104 on the loss caused by the theft of Toshiba Laptop Computer No. 47074875 H valued at Rs.165,000 on 24 December 2012 had not been taken up to the date of this report.

## 15.6 Human Resources Management

### Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2012 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	16	12	04
(ii) Tertiary Level	04	04	-
(iii) Secondary Level	34	21	13
(iv) Primary Level	15	12	03
Total	69	49	20

The Department had not taken action to fill 20 vacancies even by the end of the year under review.



**16. Head 251 – Department of Valuation**

**16.1 Scope of Audit**

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 2012 was carried out in pursuance of provisions in 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 03 July 2013. 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 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 in 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 Observation**

According to the Financial Records and the Books for the year ended 31 December 2012, it was observed that except for the effects of the general observations appearing at (a) to (f) and other major audit findings appearing in paragraph 16.4 to 16.8 herein, the Appropriation Account, the Revenue Account and the Reconciliation Statement of the Department of Valuation had been prepared satisfactorily.

(a) **Presentation of Accounts**

The Department of Valuation had not presented the following accounts to audit by 31 March 2013.

Revenue Code -----	Name of Account -----
2003.20.09	Revenue Account

(b) **Non-utilization of Provisions allocated from Supplementary Estimates**

Despite the provisions of Rs.7,000,000 made for Compensation Tribunal expenses, a further provision of Rs.2,260,000 had been made for Object 1405 under Supplementary Estimate No. 150 of 14 December 2012. The savings as at 31 December 2012 amounted to Rs.3,061,744 and as such the entire amount of the Supplementary Estimate had been saved.

(c) **Fuel and Electricity Expenditure Management**

According to the instructions in the Treasury Circular No. 156 of 16 February 2012, the expenditure on fuel and electricity should be managed within the provisions made in the Budget Estimate, that additional money will not be given for those and that transfer of provisions under Financial Regulation 66 will not be approved by the Treasury. Despite such instructions, a sum of Rs.300,000 had been transferred under Financial Regulation 66 to those Objects in the year under review.

(d) **General Deposit Account**

The balances of the General Deposit Account as at 31 December 2012 amounted to Rs.435,149 and an age analysis thereon is given below.

Less than 01 year -----	Over 01 year Less than 02 years -----	Over 02 years less than 05 years -----	Balance as at 31 December 2012 -----
Rs.	Rs.	Rs.	Rs.
321,500	34,019	79,629	435,149

Action in terms of Financial Regulation 571 had not been taken on 07 deposits amounting to Rs.79,629 older than two years.

(e) **Revenue Account**

According to the accounts presented, revenue amounting to Rs.358,421,647 had been in arrears and the age analysis thereon is given below.

Revenue Code	Age Analysis			Arrears Balances as at 31 December 2012
	Less than 01 year	Over 01 year less than 03 years	Over 03 years	
	Rs.	Rs.	Rs.	Rs.
2003.02.09	16,432,241	334,879,149	7,110,259	358,421,647
<b>Total</b>	<b>16,432,241</b>	<b>334,879,147</b>	<b>7,110,259</b>	<b>358,421,647</b>

Even though the total Valuation Fees for the year 2012 amounted to Rs.42,438,611 a sum of Rs.26,006,370 only had been collected in the year. That represented 61.28 per cent of the total revenue from Valuation Fees. As Valuation Fees had been collected after carrying out the valuation and as the returns on the revenue on valuation by the Regional Offices had not furnished to the Head Office as specified it was observed that such position had impacted in great measure for the existence of arrears of Valuation Fees. Several examples are given below.

(i) **Valuation on Credit Basis done for Private Institutions**

- i. The Department of Valuation had carried out valuations on credit basis to Government institutions and in addition to Private institution and fees are charged after valuation. In view of the valuations done on credit basis, the arrears of valuation fees due from Private institutions from the year 2008 to 31 December 2012 amounted to Rs.40,959,942.
- ii. The total arrears of Valuation Revenue of the Department of Valuation recoverable in respect of the year 2012 from the Government and private institutions as at 31 December 2012 amounted to Rs.16,432,241 and it was observed that a sum of Rs.1,065,870 out of that represented arrears of Valuation Fees recoverable from 06 institutions in 07 instances.

(ii) Failure to send Returns of Revenue Collections by Regional Offices to Head Office

Thirteen Regional Offices had not sent the Monthly Returns to the Head Office in the year 2012. Eight Regional Offices had sent Returns for a few months. In view of this situation it had not been established whether all the revenue collected by the Regional Offices had been actually remitted to the Head Office.

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

According to the Reconciliation Statement as at 31 December 2012 of the Advances to Public Officers Account Item No. 25101, the balances that remained outstanding as at that date totalled Rs.1,116,203 and the follow up action on the recovery had been at a weak level. A note on 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.	
(i) Change of Station Transfers	-	1,435	-	11,916	13,351
(ii) Retirements and Deaths	94,839	426,650	-	74,950	596,439
(iii) Interdicted and Vacated Post	-	239,050	129,950	137,413	506,413
<b>Total</b>	<b>94,839</b>	<b>667,135</b>	<b>129,950</b>	<b>224,279</b>	<b>1,116,203</b>

The recovery of outstanding loan and advance balances amounting to Rs.224,279 relating to 15 non-moving balances had been at a weak level.

## **16.4 Good Governance and Accountability**

### **16.4.1 Annual Performance Reports**

Even though the Annual Performance Report that should be prepared by the Department in terms of the Public Finance Circulars No. 402 of 12 September 2002 and No. 402(1) of 20 February 2004 referred to in the letter No. PF/R/2/2/3/5(4) of the Director General of Public Finance should have been tabled in Parliament within 150 days after the close of the financial year with a copy to the Auditor General, the Performance Report for the year under review had not been tabled in Parliament even by 20 June 2013.

### **16.4.2 Annual Procurement Plan**

The Annual Procurement Plan in terms of the National Budget Circular No. 128 of 24 March 2006 had not been prepared even by 31 December 2012.

### **16.4.3 Internal Audit**

The Internal Audit Unit was not in operation as the posts of Internal Auditor and the Internal Audit Assistant had been vacant from 01 July 2012 to 31 December 2012.

## **16.5 Assets Management**

### **Non-current Assets**

The following observations are made in this connection with the accounting for non-current Assets.

- (a) Even though the particulars of 09 motor vehicles had been recorded in the Register of Fixed Assets, the cost of each motor vehicles had not been recorded. The cost of 06 motor vehicles totalling Rs.12,715,000 only had been recorded. The value of motor vehicles had been shown as Rs.7,605,000 in the Appropriation Account.
- (b) Even though the particulars of 21 air conditioners had been recorded in the Register of Fixed Assets, the costs thereof had not been recorded according to the Report on the Movement of Non-current Assets. The cost of purchases in the year amounted to Rs.161,649.
- (d) The value of the land on which the building of the Department of Valuation is situated had not been recorded in the Register of Fixed Assets and the Appropriation Account for the year 2012.

## 16.6 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 analysed below.

Reference to Laws, Rules and Regulations	Value	Non-compliance
-----	-----	-----
	Rs.	
(a) <u>Financial Regulations</u>		
(i) Financial Regulation 50	-	According to the Appropriation Account, one Object in which the savings exceeding 50 per cent of the estimated provisions amounting Rs.511,290 and 05 Objects in which the savings exceeding 20 per cent of estimated provisions totalling Rs.4,249,371 were observed. As such it was observed that the estimates of expenditure had not been framed with due regard to economy at efficiency.
(ii) Financial Regulation 85(1)	-	A detailed preliminary revenue estimate covering the Regional Offices had not been prepared for the year 2012.
(iii) Financial Regulation 128(2)(c)		The portions of revenue collected by other offices had not been obtained from such offices and included in the Revenue Accounts and records.

(iv)	Financial Regulation 128(2)(e)		The Department had not made special provision for the collection of revenue receivable by the Government without delay.
(v)	Financial Regulation 128(2)(g)		Revenue according to the Revenue Accounts and records had not been reconciled monthly with the Treasury records.
(vi)	Financial Regulation 371	261,205	The ad-hoc sub-impressts relating to 17 instances had not been settled immediately after the completion of the purpose.
(vii)	Financial Regulation 427(2)		The Treasury printouts on the Imprest Accounts had not been reconciled monthly with the Departmental books.
(viii)	Financial Regulation 571		The unidentified deposits of the General Deposit Account older than 02 years as at 31 December 2012 amounted to Rs.79,629.
(b)	Public Enterprises Circulars ----- Circular No. PED/12 of 02 June 2003 on Good Governance 5.1.2		The strategies to be followed to achieve the targeted goods during the year had not been included.
	5.1.3		Action had not been taken to furnish the copies of the approved Corporate Plan to the Ministry of Finance, the General Treasury, the

Department of Public Enterprises and the Auditor General 15 days before the commencement of the year and for obtaining the approval for the Corporate Plan.

(c) Treasury Circulars

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Circular No. IAI/2001/01 of 25 January 2001 on the establishment of Internal Audit

Even though an Internal Audit should be established by the maximum utilization of the resources available to strengthen the activities of the Audit and Management Committee, the Unit had not been in operation as the staff needed for the Internal Audit Unit had not been attached from 01 July 2012 to 31 December 2012.

(d) National Budget Circulars

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Public Expenditure Management 300,000  
Corcollar no. 156 of 16 February 2012

As the expenditure on electricity had not been managed within the provisions in the estimate and provision had to be transferred under Financial Regulation 66.

(e) Government Procurement Guidelines of 25 January 2006 as amended by the Procurement Guidelines Circular No. 6 of 05 October 2006

(i) Section 2.8.4 195,915

A Technical Evaluation Committee had not been appointed for 01 instance.

(ii) Section 2.8.4 (c) 1,505,521

In 02 instances the Technical Evaluation Committee did not include a subject specialist.



(iii)	Section 4.2.1 (a)	-	The Department had not prepared an Annual Procurement Plan for purchases and constructions.
(iv)	Section 4.3.1	195,915	A total cost estimate had not been prepared for 01 instance.
(v)	Section 5.4.8 (a)	875,773	A Performance Guarantee of not less than 5 per cent of the estimated contract value had not been obtained in 01 instance.
(vi)	Section 5.6	137,860	Specifications for purchases had not been prepared in 01 instance.
(vii)	Section 6.3.1 (a)	467,370	Sealed quotations had not been invited for 04 instances.
(viii)	Section 8.9.1 (a)	875,773	A formal contract agreement for contracts exceeding Rs.250,000 had not been entered in to in 01 instance.
(f)	Circular No. 434 of 31 December 2008 on Collection of Revenue	3,956,666	Even though the valuations of all institutions depending on Government financial assistance should be carried out free of charge, a sum of Rs.3,956,666 had been brought to account in the year 2012 as due from institutions depending on Government financial assistance. Even though it was stated that such arrears of revenue had been collected on the valuations from private institutions under taken by the institutions depending on Government financial assistance, adequate information in support of that position had not been furnished to audit.

(g) Department Circular No. 14/2001

The Regional Offices had not sent the Monthly Returns on Revenue to the Head Office.

## 16.7 Performance

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

### Planning

#### Non-compliance the Annual Action Plan with the Corporate Plan

The Annual Action Plan prepared did not comply with the Corporate Plan in respect of the following instances.

Particulars	Targets for 2012 according to Corporate Plan (Units)	Targets in the Action Plan for the year 2012 (Units)
(i) Status Reports on Registration of Private Lands	6,300	9,000
(ii) Valuation on Land Acquisitions	1,300	4,700
(iii) Estimating Compensation for Acquisitions for Development Activities	10,600	800
(iv) Valuation of Lands purchased and leased by Government	31,200	21,000
(v) Valuation of Rent in renting of Property by Government Institutions or taking lease of private property	5,200	3,500
(vi) Valuation for Courts purposes	-	02
(vii) Valuation for leasing out of Government Buildings	5,600	2,400
(viii) Valuation of Stamp Duty - Revaluation of Rates	373	150
(ix) I.Preliminary Investigations	63,500	470,000
II.Final Investigations	0	200,000
(x) Valuation of Rates	37,200	30,500
(xi) Valuation of Rates of Buildings	2,700	3,000
(xii) Revaluation of Objections	7,000	3,500
(xiii) Participation in Rent Board Meetings	-	300

## 16.8 Human Resources Management

### Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2012 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
(i) Senior Level	86	58	28	-
(ii) Tertiary Level	362	331	31	-
(iii) Secondary Level	101	76	3	-
(iv) Primary Level	90	85	05	-
(v) Others (Casual Basis)	-	-	-	02
<b>Total</b>	<b>639</b>	<b>552</b>	<b>89</b>	<b>02</b>

The following observations are made.

- (i) The Department had not taken action to fill 89 vacancies even by the end of the year under review.
- (ii) Two posts of bungalow keepers had not been included in the approved cadre for the year 2012 and two employees had been recruited on casual basis.

**17. Head 252 – Department of Census and Statistics**

**17.1 Scope of Audit**

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 2012 was carried out in pursuance of provisions in 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 December 2013. 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 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 in 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**

According to the Financial Records and the Books for the year ended 31 December 2012, it was observed that except for the effects of the general observations appearing at (a) to (d) and other major audit findings appearing in paragraph 17.4 to 17.10 herein, the Appropriation Account, and the Reconciliation Statement of the Department of Census and Statistics had been prepared satisfactorily.

**(a) Public Expenditure Management**

The following observations are made.

- (i) Two per cent of the recurrent provisions Voted by Parliament from the Annual Budget Estimates for the year 2012 had not been saved in terms of the National Budget Circular No.155 of 30 December 2011.
- (ii) Even though the savings totalling Rs.74,201,830 under 03 capital Objects had been explained as due to the savings in terms of the Circular referred to paragraph (a) (i) above those savings related to reasons other than savings effected with the expectation of managing expenditure economically.

**(b) Imprests Account**

Even though the ad hoc sub-imprests obtained should be settled immediately after the completion of the purpose in terms of Financial Regulation 371, in certain instances settlement had been made 01 month to 05 months after the completion of the purpose.

**(c) General Deposit Account**

The following observations are made.

- (i) Out of the sum of Rs.24,400,000 transferred to the General Deposit Account at the end of the year 2011 for the purchase of assets, assets valued at Rs.10,534,742 only had been purchased up to 31 December 2012. The balance sum of Rs.13,865,258 had been retained in the General Deposit Account.
- (ii) Even though action in terms of Financial Regulation 396(c) should be taken in connection with cheques issued but not presented for payment for more than 06 months, contrary to that requirement 30 cheques valued at Rs.117,010 had been transferred to the General Deposit Account on 31 December 2012.

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

The following observations are made.

- (i) The Registers of Debtors and Creditors which should be maintained for the grant of loans had not been maintained in the updated manner.
- (ii) The follow up action on the recovery of 20 non-moving balances of loans and advances amounting to Rs.560,877 had been at a weak level.

**17.4. Good Governace and Accountability**

**17.4.1 Annual Performance Reports**

Even though the Annual Performance Report that should be prepared by the Department in terms of the Public Finance Circulars No. 402 of 12 September 2002 and No.402(1) of 20 February 2004 referred to in the letter No. PF/R/2/2/3/5(4) dated 10 March of the Director General of Public Finance should have been tabled in Parliament within 150 days after the close of the financial year with a copy to the Auditor General, the Performance Report for the year under review had been tabled in Parliament only on 21 June 2013.

**17.4.2 Annual Procurement Plan**

The Procurement Plan, the Procurement Time Schedules and the Budget Estimates for Procurements had not been prepared in addition the proposed Procurement Plan prepared in terms of the National Budget Circular No. 128 of 24 March 2006.

**17.4.3 Internal Audit**

The following observations are made.

- (a) The preliminary report for the year had not been presented by 31 January in terms of paragraph 9 of the Management Audit Circular No. DMA/2009(1) of 09 June 2009 while the summary for the year as well had not prepared.
- (b) Internal Audit queries in support that an internal audit had been done, had not been issued while 05 special investigations internal audit queries had been furnished. An internal audit of the conduct of census which is the key function of the Department had not been carried out.

- (c) Even though the inadequacy of assignment of only two officers for the internal audit work and the lack of physical resources had been adduced for the inability to carry out the internal audit, no action had been taken to overcome those deficiencies.

## **17.5 Assets Management**

### **(a) Conduct of Annual Boards of Survey**

According to the Public Finance Circular No. 441 of 09 December 2009 as amended by the letter No. PF/Boards of Survey/01 dated 17 December 2010 of the Director General of Public Finance, the Board of Survey for the year 2012 should be conducted and the reports thereon should be furnished to the Auditor General before 31 March 2013. Nevertheless, the Department had furnished the Board of Survey Reports for the year 2012 only on 12 September 2013.

### **(b) Non-current Assets**

The following observations are made.

- (i) The value of the land on which the new building of the Department is being constructed had not been assessed and brought to account.
- (ii) Even though the expenditure of Rs.308,284,963 spent by the Department for the construction of the new building had been included in the Report on the Movement of Non-current Assets, the expenditure amounting to Rs.104,018,475 incurred by the Project for upgrading the statistical skills due to the completion of the Project had not been included in the Report on the Movement of Non-current Assets.

## **17.6 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 analysed below.

Reference to Laws, Rules and Regulations -----	Value ----- Rs.	Non-compliance -----
<p>(a) Statutory Provisions ----- Public Contract Agreements Act, No.03 of 1987</p>		
<p>(i) Sub-section 6(1)(a)</p>	<p style="text-align: center;">-</p>	<p>In instances where cost of contract agreement exceeded Rupees five million every bidder should register with the Registrar of Public Contracts. Nevertheless, the Department had not obtained confirmation that all the bidders who submitted bids for the second stage of the building constructed for the Department of Censes and Statistics had been so registered.</p> <p>Even though the contract agreement also should be registered under the Act within 60 days from the award of the Contract, it was not-observed that the company awarded the bid had taken action accordingly.</p>
<p>(ii) Section 12</p>		<p>Any Member of a public body, or a technical committee, bid board or evaluation board of such body or any officer or employee thereof or any State Officer or the Registrar except for the purpose of registration shall not have any dealing with any person referred to in Section 8 in regard to any matter arising out of or in relation to any public contract unless the person referred to in Section 8 first</p>



produce a valid certificate of registration issued under this Act. Nevertheless, the officers of the Procurement and Evaluation Committees had dealt with the bidders without ensuring whether the certificates of registration relation on this were available. In view of such action taken, those officers had committed an offence furnishable in terms of Section 12 of the Act.

(b) Establishments Code

Chapter XII

(i) Sections 1.2 and 1.7

i. Application for Leave spent in the Island should be made on Form General 125 and recorded in a Leave Register in Form General 190. Nevertheless, an officer of the National Accounts Division had not taken action accordingly in connection with 16 days of absence during the period from January to November 2012.

ii. Instances of recording leave in pencil in the Leave Register of the Head Office as well as not recording leave in the register existed.

(ii) Sections 15.4 and 15.12

421.800

Every Officer obtaining no-pay leave for a period exceeding one month should sign an agreement before going on leave to the effect that the officer will report for duty after the expiry of leave and serve the Government for a period twice the period of leave. Nevertheless, the agreement with a Statistical Officer had been signed

- after the expiry of the period of no-pay leave, that is, only on 01 November 2007.
- (iii) Section 15.16 108,720 In every instance of the extension of the period of leave approved, the period of compulsory service and the penalty should be increased correspondingly. Such revisions should be brought to the notice of the officers, obtain the officers' consent in writing and annexe such letter to the agreement. Even though the period of no-pay leave of a Statistical Officer had been extended from 01 November 2004 to 01 November 2006 recovery of the money for that period could not be made as no such consent had been obtained.
- (iv) Section 16.15 1,409,090 In obtaining no-pay leave for employment abroad, officers should serve a compulsory service period twice that of the no-pay leave obtained. But 04 officers had not reported for service after the expiry of the period of no-pay leave. The money recoverable to Government from those officers had not been recovered.
- (v) Section 23.8 - On arrival in the specified country after leaving the Island, the officers address and subsequent changes thereof should be informed to one's Head of Department. But the 04 officers

referred to above had not done so.

(vi) Sections 23.10 and 23.10.1 -

Except in an emergency situation, the extension of leave spent out of the Island should not be granted unless the consent of the approving authority had been obtained before leaving the Island and the officers who intend to obtain extensions should make applications well in advance. But two officers had not taken action accordingly.

(vii) Section 23.18

Even though Returns of Leave spent abroad by officers in Public Service should be furnished monthly to the Auditor General by the Head of Department, it had not been so done.

(viii) Section 1.7 of Chapter XXVIII

Even though the use of green colour on official documents is limited only for audit work, entries in the CC10 Register had been made in green ink.

(c) Public Administration Circulars  
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Circular No. 41/90 of 30 October 1990

Section 2.11

Even though the fuel consumption of all Government motor vehicles should be tested once in every 06 months, it had not been so done in connection with 57 motor vehicles of the Department.

- (ii) Circular No. 03/92 of 25  
January 1992 Section 02(1)
- Even though the late arrivals of officers from 0830 to 0900 hours to be covered up to 1645 hours and the late arrivals of minor employees from 0800 to 0815 hours to be covered up to 1700 hours has been allowed, the late arrivals contrary to that had been allowed to be covered beyond the specified hours.
- (iii) Circular No. 09/2006 of 30  
May 2006 Section 01
- Even though the office hours of all employees except minor employees in the Public Service is specified from 0830 to 1615 hours and the office time for minor employees is specified from 0800 to 1645 hours there were instances of arrivals and departures contrary to such specified times. But leave / short leave had not been obtained in such instances.
- (iv) Circular No. 13/2008 of 26  
June 2008 Section 7
- Even though 50 kilometres is the maximum distance allowed for group travel between residences and office, contrary to that 04 vehicles had been deployed for group transport for distance ranging from 66 to 108 kilometres. In certain instances those distances had also been exceeded.
- (v) Circular No. 09/2009 of 16  
April 2009 Sections 01 and 02
- Even though arrival at and departure from the places of work by all officers of the Government institutions should be confirmed by finger print machines,

a test check carried out at several Divisions revealed that it had not been so done.

- (d) Procurement Guidelines 2006  
Section 3.2.2 (a)

Even though the procurement notices should be advertised at least in one widely circulated national newspaper, website of the National Procurement Agency and other websites where possible, the procurement notices for the second stage of the building under construction for the Department of Census and Statistics had not been published in the websites.

### 17.7 Performance

The observations on the progress of the Department according to the Action Plan and the Performance Report presented for the year 2012 are given below.

- (a) Key Functions not Executed Adequately

The final report for the year 2011 on the Census of Population and Housing, which is one of the Key Functions of the Department had not been published up to date.

- (b) Planning

- (i) Action according to the Action Plan had not been taken in the following instances.

<u>Activity</u> -----	<u>Progress on Completion</u> -----
i. Statistics on Employment in the Semi-Government Sector – 2010	Not published in the Website

- |       |   |  |
|-------|---|--|
| ii.   | Statistics on Employment in the Semi-Government Sector – 2011                       | The collection and entering the data for the year 2011 had not been completed. |
| iii.  | Agricultural Census - 2012  | Though the questionnaire had been prepared no other work had been done.        |
| iv.   | Publications<br>Statistical Digest, Statistical Handbooks and Quarterly Data Sheets | Handbooks / Data Sheets for the year 2011 had not been published.              |
| v.    | Library<br>Purchases (Rs.1,000,000)<br>Book Binding (Rs.300,000)                    | Purchases of books and foreign periodicals and book binding had not been done. |
| vi.   | Annual Census of Industries 2011  | Report had not been published.   |
| vii.  | Paddy Statistics<br>2011-2012 Maha Season<br>2012 Yala Season                       | Reports had not been prepared.   |
| viii. | Production of Big Onions - 2012   | Report had not been printed and distributed                                    |
| ix.   | Survey of Production<br>Expenses on Tea, Rubber and Coconuts 2011/2012              | Not carried out  |
| x.    | Survey Sri Lanka Labour Force 2012  | Not carried out  |

- |                                   |   |
|-----------------------------------|---|
| xi. Training Division             | Even though 180 officers, 160 officers and 20 officers should have been trained under Computer Training Programmes, Statistical Training Programmes and special Lectures respectively it had not been done. |
| xii. Research and Special Studies | Not done.   |

- (ii) The following activities not included in the Annual Action Plan had been carried out.
- i. Medical Statistics
  - ii. The conduct of another survey concurrently with the Survey on Income and Expenditure of Housing Units for the preparation of a Social Security Indicator.

#### **17.8 Transactions of Fraudulent Nature**

Even though the Value Added Tax is not taken into consideration in the evaluation of bids in terms of Section 5.3.18 (b) of the Procurement Guidelines 2006, the evaluation of the quotations of the bidders for security services of the Department of Census and Statistics for the period January 2008 to May 2009 had been evaluated by adding 15 per cent as Value Added Tax to the quotations. The Department had entered into an agreement with the relevant company by adding a further 15 per cent to the quotation inclusive of the Value Added Tax. The Department had not taken action either to recover the overpayment of Rs.1,056,402 made to the company from January 2008 to May 2009 or to take action against the officers responsible.

#### **17.9 Management Inefficiencies**

The following weaknesses were observed.

- (a) The Register of Motor Vehicles, Motor Vehicle Log Books, Fuel Order Books and the Daily Running Charts had not been maintained in the updated manner.
- (b) Thirty one officers of the Combined Services remain in the Department for periods ranging from 05 to 34 years without being transferred under annual transfers. Out of those 18 officers remain in the Department since the date of their first appointment.

- (a) A Statistical Clerk of the Department of Census and Statistics attached to the Department of Registrar General who had not reported for duty with effect from 13 July 2011 had been paid Rs.13,153 as the full salary for July 2011. Even though the vacation of post notice had been issued to the officer on 10 January 2012 that amount had not been recovered from the officer.

### 17.10 Human Resources Management

- (a) Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2012 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
(i) Senior Level	259	137	122	-
(ii) Tertiary Level	06	04	02	-
(iii) Secondary Level	1,333	972	361	-
(iv) Primary Level	201	170	31	-
(v) Others (Casual / Temporary / Contract Basis)	20	23	-	03
<b>Total</b>	<b>1,819</b>	<b>1,306</b>	<b>516</b>	<b>03</b>

- (b) The following observations are made.

- (i) Even though the above information on the cadre had been furnished to audit by the letter No. HR/11/CARDER/2013 of 27 July 2013 the particulars of the cadre as at 31 December 2012 had been shown as follows in the Performance Report.

Approved Cadre	Actual Cadre	Number of Vacancies
1,835	1,336	478

According to the letter No. DCS/AD/CC/AU/2012/26 of 04 December 2013 it was informed that the data in the Performance Report are correct.



- (ii) Even though the actual number of vacancies according to the Performance Report had been 499 it had been shown as 478.
- (iii) Even though 23 vacancies in the casual staff should have been shown in the Performance Report, that had not been shown.
- (iv) The above situation had arisen due to the failure to maintain correct information. Though the Mission of the Department is to maintain timely and accurate data, it had failed to maintain accurate data even on its staff.
- (v) The Department had failed to fill 516 vacancies up to the end of the year under review.
- (vi) Formal approval had not been obtained for the three persons recruited in excess.

**18. Head 280 – Department of Project Management and Monitoring**

**18.1 Scope of Audit**

The audit of the Appropriation Account including the financial records, reconciliation statements, books, registers and other records of the Department of Project Management and Monitoring for the year ended 31 December 2012 was carried out in pursuance of provisions in 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 06 November 2013. 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 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 in 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 Observation**

According to the Financial Records and the Books for the year ended 31 December 2012, it was observed that except for the effects of the general observations appearing at (a) to (c) and other major audit findings appearing in paragraph 18.4 to 18.7 herein, the Appropriation Account and the Reconciliation Statement of the Department of Project Management and Monitoring had been prepared satisfactorily.

(a) **Budgetary Variances**

Provisions totalling Rs.33,744,400 had been made for 15 Objects and it was observed that the savings after the utilization of Rs.29,719,141 out of that amounted to Rs.4,025,259. The savings ranged between 9 per cent to 53 per cent of the net provisions made for each such Object and it was observed that the savings had resulted from the excess provisions made.

(b) **Management of Expenditure on Fuel and Electricity**

According to the National Budget Circular No. 156 of 16 February 2012, instructions had been issued to manage the expenditure on fuel and electricity within the provisions made in the Budget Estimates, that additional funds will not be given for those purposes and that the Treasury will not approve transfers under Financial Regulation 66. Despite such instructions a sum of Rs.590,000 had been transferred under Financial Regulation 66 in the year under review.

(c) **Imprest Account**

Instead of procuring fuel by using the Government Fuel Orders, contrary to that fuel had been purchased by granting a fuel imprest of Rs.15,000 and reimbursing the expenditure. The sum so reimbursed from January to September 2012 amounted to Rs.324,000.

**18.4 Good Governance and Accountability**

**Annual Performance Report**

Even though the Annual Performance Report that should be prepared by the Department in terms of the Public Finance Circulars No. 402 of 12 September 2002 and No.402(1) of 20 February 2004 referred to in the letter No. PF/R/2/2/3/5(4) of 10 March 2010 of the Director General of Public Finance should have been tabled in Parliament within 150 days after the close of the financial year with a copy to the Auditor General, the Performance Report for the year under review had been tabled in Parliament only on 23 July 2013.

## 18.5 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 analysed below.

Reference to Laws, Rules and Regulations	Value	Non-compliance
-----	-----	-----
	Rs.	
(a) <u>Financial Regulations</u>		
-----		
Financial Regulation 1646	-	Even though the Monthly Performance Summaries and the Daily Running Charts of each month should be furnished to the Auditor General before the fifteenth day of the month following, the Daily Running Charts of 11 motor vehicles belonging to the Department had not been furnished to audit.
(b) <u>Public Administration Circulars</u>		
-----		
(i) Paragraph 5 of the Circular No. 06/2006 (iv) of 24 August 2007	353,402	Even though an allowance should be paid to an officer for a period out of the place of work on duty to settle the expenditure subsistence and lodging, contrary to that, unlimited expenditure on food, lodging and fuel had been incurred out of sub-imprests ranging from Rs.3,000 to Rs.40,000 granted for the supervision of projects.

(ii) Paragraph 02 of Circular  
No. 13/2008 (iii) of 21  
October 2009

Even though it is specified that the officers on leave preparatory to retirement are not entitled for the use of official motor vehicles, the fuel allowance or the services of the Driver, a Director on leave preparatory to retirement had used the official motor vehicle together with the Driver for 03 months and obtained fuel allowance totalling Rs.57,540.

(c) Stamp Duty (Special Provisions)  
Act, No. 12 of 2006

Stamp duty had not been recovered in 11 instances on payments totalling Rs.706,322.

## **18.6 Performance**

The observations on the progress of the Department according to the Annual Budget Estimates and the Action Plan for the year 2012 are given below.

### Key Functions not Executed Adequately

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

(a) The objectives of the Department included the supervision of operations of the projects implemented under foreign funds, and taking necessary steps for the acceleration of the progress of the development projects and programmes implemented with foreign funds and the prevention of the weaknesses in the utilization of foreign funds. Nevertheless, there were 8 projects costing Rs.14,799 million on which work had not been commenced despite nearing the expiry of the project periods while there were 46 projects which had spent only 0.09 per cent to 49 per cent of the estimated costs despite nearing the expiry of project periods.

- (b) Even though the organization of field visits is one of the tools of evaluation of projects, the field visits of only 09 out of 527 projects costing over Rs.50 million each in operation in the year 2012, had been undertaken.
- (c) Even though the quarterly status reports and the annual status reports of development projects should be prepared, those reports had not been prepared.

### 18.7 Human Resources Management

#### Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2012 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	34	26	08
(ii) Tertiary Level	01	01	-
(iii) Secondary Level	29	19	10
(iv) Primary Level	18	16	02
Total	82	62	20

The Department had failed to fill 20 vacancies by the end of the year under review.

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

**19.1 Scope of Audit**

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 Import and Export Control for the year ended 31 December 2012 was carried out in pursuance of provisions in 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 12 December 2013. 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 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 in 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 Observation**

According to the Financial Records and the Books for the year ended 31 December 2012, it was observed that except for the effects of the general observations appearing at (a) to (c) and other major audit findings appearing in paragraph 19.4 to 19.7 herein, the Appropriation Account, the Revenue Account and the Reconciliation Statement of the Department of Import and Export Control had been prepared satisfactorily.

(a) **Budgetary Variance**

Provisions totalling Rs.8,178,372 had been made for 11 Objects and it was observed that the savings after the utilization of provisions totalling Rs.6,783,839 amounted to Rs.1,394,533 and the savings ranged between 10 per cent to 36 per cent of the net provisions made for each of those Objects. It was observed that the savings had resulted from the excess provisions made for the Objects.

(b) **Revenue Account**

**Revenue Code 10.01.03.00 – Import and Export Licence Fees**

Even though the original estimate of revenue amounting to Rs.280,000,000 for the year under review had been revised to Rs.450,000,000, the net revenue collected during the year amounted to Rs.512,671,431. That represented 183 per cent of the original estimate of revenue and 114 per cent of the revised estimate of revenue. As such it was observed that the estimates had not been prepared after a proper study.

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

Loans amounting to Rs.275,175 had been granted to officers by the Department without following the provisions relating to the grant of loans to officers.

**19.4 Good Governance and Accountability**

**19.4.1 Corporate Plan**

Even though the Department should prepare a Corporate Plan at least for a period of 03 years at the beginning of the year from the year 2010 onwards in terms of the letter No. PF/R/2/2/3/5(4) dated 10 March 2010 of the Director General of Public Finance, that Plan had not been prepared.

**19.4.2 Internal Audit**

The internal audit is being done by the Department of Management Audit and 04 Internal Audit Reports for the 04 quarters had been issued.

**19.4.3 Implementation of Audit and Management Committee**

Even though at least one meeting of the Audit and Management Committee should be held per quarter, only 03 meetings had been held in the year 2012.



### **19.5 Performance**

The functions performed during the year 2012 according to the Performance Report issued by the Department are given below.

(a) Issue of Licences

The total number of licences issued in the year for the imports goods under 05 primary categories had been 11,598.

(b) Publication of Regulations for the Implementation of the Government Policies on Import and Export

Four Gazette Notifications on the new regulations based on the new policies of the Government on Imports and Exports had been published.

### **19.6 Irregular Transactions**

Certain transactions entered into by the Department had been devoid of regularity. In view of the irregular conditions relating to the motor vehicles imported for places of religious worship on the import licences issued under the gift scheme had resulted in the non-achievement of the objectives of the schemes as well as leaving room for the importers of motor vehicles to commit irregularities. Several such instances observed are given below.

(a) Even though the conditions “Sale or transfer cannot be done until the expiry of 05 years” had been withdrawn by the Department in 27 instances on the requests made by the licencees for mortgaging the motor vehicles to the Banks for obtaining loan facilities the motor vehicles had been transferred to other parties in 09 instances without being mortgaged to the Banks.

(b) In 34 instances, while the conditions “Sale or transfer cannot be done until the expiry of 05 years” was in operation, the motor vehicles ownership had been transferred to other parties before the expiry of 05 years.

(c) The registration of 159 motor vehicles in the first instance itself had been made in the names of parties other than the licence holder.

- (d) Out of the motor vehicles imported under the gift scheme, 115 motor vehicles had not been registered even by 19 October 2012.
- (e) The examination of the registration of 589 motor vehicles imported under the gift scheme from 01 January 2011 to 14 September 2012, revealed that the number of motor vehicles registered in the names of the Temple Societies had been only 254 motor vehicles or 43 per cent. This position had contravened the current Government Policy on discouraging import of old motor vehicles.

### 19.7 Human Resources Management

#### Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2012 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	08	07	01
(ii) Tertiary Level	02	01	01
(iii) Secondary Level	60	45	15
(iv) Primary Level	19	19	-
Total	89	72	17

The Department had not taken action for filling 17 vacancies up to the end of the year.

**20. Head 323 – Department of Legal Affairs**

**20.1 Scope of Audit**

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 2012 was carried out in pursuance of provisions in 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 06 November 2013. 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 in 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 Observation**

According to the Financial Records and the Books for the year ended 31 December 2012, it was observed that except for the effects of the general observations appearing at (a) to (c) and other major audit findings appearing in paragraph 20.4 to 20.8 herein, the Appropriation Account and the Reconciliation Statement of the Department of Legal Affairs had been prepared satisfactorily.

(a) **Budgetary Variance**

Provisions totalling Rs.1,246,600 had been made for 05 Objects and it was observed that the savings after the utilization of Rs.799,968 amounted to Rs.446,632 and ranged between 14 per cent to 75 per cent of the net provisions made for each of those Objects. It was observed that the savings had resulted from making excess provisions for the Objects.

(b) **Deficiencies in the Appropriation Account**

Even though the total of the net provision in Format D.G.S.A. 5 of the Appropriation Account amounted to Rs.11,262,000 it had been shown as Rs.11,626,000.

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

The Register of Festival Advances, Register of Special Advances, Register of Debtors, Register of Creditors and the Control Accounts that should be maintained in accordance with the provisions relating to the grant of loans had not been maintained.

**20.4 Good Governance and Accountability**

**Annual Performance Report**

Even though the Annual Performance Report which should be prepared by the Department in terms of the Public Finance Circulars No. 402 of 12 September 2002 and No. 402(1) of 20 February 2004 referred to in the letter No. PF/R/2/2/3/5(4) dated 10 March 2010 of the Director General of Public Finance addressed to all Secretaries to Ministries, the Chief Secretaries of Provincial Councils, Heads of Departments, District Secretaries and the Heads of Local Authorities should be tabled in Parliament within 150 days after the close of the financial year with a copy to the Auditor General, the Performance Report for the year under review had been tabled in Parliament only on 09 October 2013.

**20.5 Assets Management**

Even though 25 items of assets received from other Departments and Projects had been recorded in the Register of Fixed Assets, their values had not been recorded. Those assets had not been included in the Report on the Movement of Non-current Assets.

## 20.6 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 analyzed below.

Reference to Laws, Rules and Regulations	Non-compliance
-----	-----
Establishments Code	
-----	
Section 2.1 of Chapter II	The approval for a Scheme of Recruitment for the posts of Director (Legal), Senior Legal Analyst and Legal Analyst had not been obtained.

## 20.7 Performance

The observations on the progress of the Department according to the Annual Budget Estimates and the Action Plan for the year 2012 are given below.

### Functions not Performed Adequately

Several instances of failure to perform certain key functions of the Department are given below.

#### (a) Functions relating to Cases

The particulars of cases for legal action received by the Department of Legal Affairs by 31 December 2012 are given below.

	Number of Cases Received	Cases Finalized	Number of cases Remaining at Present
	-----	-----	-----
Supreme Court	46	11	35
Court of Appeal	29	04	25
High Court	03	01	02
District Court	02	-	02
Human Rights Commission	04	01	03
	-----	-----	-----
	84	17	67
	=====	=====	=====

Even though 84 cases had been received by the Department by 31 December 2012 only 17 cases had been finalized as at 31 December 2012.

(b) Supply of Legal Advice

The number of files received by the Department of Legal Affairs by 31 December 2012 (excluding Agreements) for the observations of the Department relating to obtaining advice of the Attorney General had been 10 and action on 07 files had been finalized. As such work on 03 files had not been finalized.

(c) Action Relating to Agreements

The progress as at 31 December 2012 on the agreements relating to the agreements of loans and grants received for the diverse projects and programs for the development of the country from the foreign governments and the Bilateral and Multilateral Organizations through the Departments under the Ministry of Finance and Planning is given below.

	Number of Files on Agreements Received	Number of Files on which Action is in Progress	Number of Files Finalized
	-----	-----	-----
Department of External Resources	74	53	21
Other Departments	03	02	01
	-----	-----	-----
	77	55	22
	=====	=====	=====

The following observations are made.

- (i) Out of 74 files on agreements received from the Department of External Resources, work on 21 files had been finalized and the work on 53 files or 71 per cent had not been finalized.
- (ii) The work on 01 file out of 03 files received from other Departments had not been finalized while the work on 02 files had not been finalized.

**20.8 Human Resources Management**

(a) Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2012 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
-----	-----	-----	-----	-----
(i) Senior Level	15	08	07	-
(ii) Secondary Level	05	05	-	-
(iii) Primary Level	06	02	04	-
(iv) Others (Casual / Temporary / Contract Basis)	-	01	-	01
	-----	-----	-----	-----
Total	26	16	11	01
	=====	=====	=====	=====

(b) The following observations are made.

- (i) The Department had not taken action to fill 11 vacancies by the end of the year under review.
- (ii) Action had not been taken to obtain the formal approval for the excess cadre recruited.

**21. Head 324 – Department of Management Audit**

**21.1 Scope of 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 2012 was carried out in pursuance of provisions in 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 November 2013. 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 in 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 Observation**

According to the Financial Records and the Books for the year ended 31 December 2012, it was observed that except for the effects of the general observations appearing at (a) to (c) and other major audit findings appearing in paragraph 21.4 to 21.7 herein, the Appropriation Account and the Reconciliation Statement of the Department of Management Audit had been prepared satisfactorily.



(a) **Maintenance of Registers and Books**

The Department had not maintained the following registers in the updated manner.

<u>Relevant Regulation</u> -----	<u>Type of Register</u> -----
(i) Treasury Circular No.842 of 19 December 1978	Register of Fixed Assets
(ii) Treasury Circular No. IAI/2002/02 of 28 November 2002	Register of Fixed Assets on Computers and Computer Accessories

(b) **Budgetary Variance**

The entire capital provision of Rs.50,000 made under 01 Object had been saved.

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

- (i) Even though the loan balances of officers transferred to the Department should be settled within 02 months in terms of Paragraph 1.1.7 of the Circular No. 118 of 11 October 2004, the loan balances of 02 officers amounting to Rs.188,850 had been settled after delays of 03 and 08 months.
- (ii) Even though the loan balances of officers transferred out should be settled within 03 months, the loan balance of Rs.175,088 of an officer transferred out had been settled after a delay of 05 months.

**21.4 Good Governance and Accountability**

**Annual Performance Report**

Even though the Annual Performance Report that should be prepared by the Department in terms of the Public Finance Circulars No. 402 of 12 September 2002 and No.402(1) of 20 February 2004 referred to in the letter No. PF/R/2/2/3/5(4) dated 10 March 2010 of the Director General of Public Finance should have been tabled in Parliament within 150 days after the close of the financial year with a copy to the Auditor General, the Performance Report for the year under review had been tabled in Parliament only on 18 June 2013.

## **21.5 Assets Management**

### **Conduct of Annual Board of Survey**

According to the Public Finance Circular No. 441 of 09 December 2009 as amended by the letter No. PF/Board of Survey/01 dated 17 December 2010 of the Director General of Public Finance, the Board of Survey for the year 2012 should be conducted and the reports thereon should be furnished to the Auditor General before 31 March 2013. Nevertheless, those reports had not been furnished.

## **21.6 Performance**

The observations on the progress of the Department according to the Annual Budget Estimates, the Corporate Plan and the Action Plan are given below.

### **(a) Key Functions not Performed Adequately**

Several instances of non-performance of the key functions of the Department adequately, are given below.

- (i) Even though 04 meetings of the Audit and Management Committee, at one meeting per quarter should be held annually, only 03 meetings had been held for the Ministry of Finance and Planning.
- (ii) There were 03 Ministries which had not held even one meeting of the Audit and Management Committee, 04 Ministries had held only one meeting, 10 Ministries had held only 02 meetings while 20 Ministries had held only 03 meetings.

### **(b) Planning**

#### **Action not taken according to the Annual Action Plan**

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

- (i) The number of meetings of the Audit and Management Committee expected to be held in the year and the periods in which those meetings are to be held had not been included in the Plan.
- (ii) According to the Action Plan, on the completion of the Manual of Internal Audit, training Programmes should be conducted from July to December. Nevertheless,

the number of Training Programmes to be conducted had not been indicated while no training programmes had been conducted.

- (iii) Even though training programmes had been held on 12,15, 19, 21 and 22 March 2012 at the Ministry of Finance and Planning and one residential work shop had been held from 14 to 19 September 2012 at Katharagama, those had not been included in the Action Plan.

## 21.7 Human Resources Management

### (a) Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2012 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
-----	-----	-----	-----
(i) Senior Level	07	07	-
(ii) Tertiary Level	09	03	06
(iii) Secondary Level	18	14	04
(iv) Primary Level	09	09	-
Total	43	33	10
	====	====	====

(b) The following observations are made.

- (i) Even though the number in the post of Deputy Director as at 31 December 2012 had been 01, that had been shown as 02 posts in the Annual Performance Report for the year 2012.
- (ii) The Department had not taken action to fill 10 vacancies up to the end of the year under review.

**22. Academy of Financial Studies**

**22.1 Qualified Opinion**

In my opinion, except for the effects of the matters described in paragraph 22.2 of this report, the financial statements give a true and fair view of the financial position of the Academy of Financial Studies as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

**22.2 Comments on Financial Statements**

**22.2.1 Accounts Receivable and Payable**

The same institution had been shown as debtors and creditors and 17 such institutions had been shown as debtors totalling Rs.453,800 and creditors totalling Rs.260,475. In this connection the balance that can be set off amounted to Rs.91,975 and Rs.79,200 respectively. But such set off had not been done.

**22.2.2 Non- compliance with Laws, Rules and Regulations**

Instances of non- compliance with the following laws, rules and regulations were observed.

Reference to Laws, Rules and Regulations -----	Non- compliance -----
Establishment Code of the Democratic Socialist Republic of Sri Lanka -	
(a) Chapter ix- Section 1.2	A sum of Rs.160,946 had been paid as 1/3 allowance to 02 Accountants of the Institution without the approval of the Director General of Establishment as in the preceding year.
(b) Government Financial Regulation 756	A Board of Survey for the year 2012 had not been conducted and a copy of the report had not been furnished to the Auditor General.
(c) Public Administration Circular No.13/2008 (iv) of 09 February 2011 - Paragraph 02	Fuel allowance totalling Rs.289,032 had been paid at Rs.20,000 per month to 02 officers who are not entitled to obtain fuel allowance.

## **22.3 Financial Review**

### **22.3.1 Financial Results**

According to the Financial Statements presented, the operations of the Institute for the year ended 31 December 2012 had resulted in a surplus of Rs.3,975,277 as against the deficit of Rs.1,975,354 for the preceding year, thus indicating an improve of Rs.5,950,631 in the financial results. The increase in the income from training programmers and the income from interest and the decrease of the direct expenditure as well as the decrease in the depreciation for the year due to the completion of the useful life of certain depreciated assets had been the reason for the conversion of the deficit for the preceding year to a surplus in the year under review.

### **22.3.2 Analytical Financial Review**

The net result of the direct operating activities for the year under review had been a deficit of Rs.7,133,399 and as a result of the interest income from investment amounting to Rs.11,108,676 received in the year, the financial result for the year had become a surplus of Rs.3,975,277.

## **22.4 Operating Review**

### **22.4.1 Performance**

The following observations are made.

- (a) Even though 204 training and academic workshops had been planned for the year under review, out of that 59 only had been conducted and trained 1,829 officers during the year. As such the Institute had failed to conduct 145 courses out of the number planned.
- (b) Even though the Academy of Financial Studies had been established in accordance with a decision of the Cabinet of Ministers dated 04 August 2010 as a Training Institute affiliated to the Ministry of Finance and Planning for the introduction of an appropriate administrative and good governance structure to the officers of the Ministry of Finance and Planning, the officers of the Accountants' Service and the Planning Service and the officers of the Department of Inland Revenue, Sri Lanka Customs and the Department of Excise, 1,537 officers or 84 per cent of the 1,829 officers trained had been officers attached to other Ministries, Departments, District Secretariats and Boards.
- (c) None of the courses to be designed for the specialized officers of those institution specified in the decision of the Cabinet of Ministers had been planned.

### 22.4.2 Irregular Investments

According to the Public Enterprises Circular No.30 of 13 July 2005 any temporary surplus funds of Government institutions invested in Treasury Bills or any other fixed deposits, should be deposited with effect from 01 August 2005 in the Government Institutions Temporary Surplus Trust Fund No.4670. Contrary to those instructions, a sum of Rs.93,000,000 had been invested in fixed deposits in the Peoples Bank.

### 22.4.3 Staff Administration

The position of the cadre and the vacancies as at 31 December 2012 had been as follows.

Category	Approved No	Actual No	Number of Vacancies
-----	-----	-----	-----
Staff Grades	06	02	04
Non - staff Grades	15	13	02
JuniorGrades	05	02	03
	-----	-----	-----
Total	26	17	09
	=====	=====	=====

Even though 09 posts of the Institute had been vacant action had not been taken for the recruitment to those posts.

## 22.5 Accountability and Good Governance

### 22.5.1 Corporate Plan

A Corporate Plan had not been prepared for the Institute.

### 22.5.2 Budgetary Control

The estimated income under the training and educational programmer which is the primary objective of the Institute, for the year under review amounted to Rs.36,125,000 and the actual income amounted to Rs.19,107,900. As such the planned income had decreased by a sum of Rs.17,017,100. The actual income had decreased by 47 per cent of the budgeted amount as the number of courses planned for had not been conducted, while the net surplus had decreased 24 per cent of the budgeted amount. As such the Institute had not achieved the budgeted targets in the year 2012. The budget had not been made use of as an effective instrument of management Control.

### **22.5.3 Tabling of Annual Reports**

The Annual Reports had not been tabled in Parliament.

### **22.6 Systems and Controls**

Deficiencies in the systems and controls observed during the course of audit were brought to the notice of the Executive Director of the Institute from time to time. Special attention is needed in respect of the following areas of control.

- (a) Debtors and Creditors
- (b) Budget

## **23. Democratic Socialist Republic of Sri Lanka - 2012**

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23.1 The audit of financial statements of the Democratic Socialist Republic of Sri Lanka for the year ended 31 December 2012 comprising the statement of financial position as at 31 December 2012 and the statement of financial performance and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. My comments and observations appear in this report. Management Audit Report for the year under review was furnished to the Deputy Secretary to the General Treasury on 07 October 2013.

### **23.2 Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **23.3 Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but



