

Head 102 – Ministry of Finance and Planning and the Departments under the Ministry-Year 2013

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 1

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

1. Departments under the Ministry

Head	Department
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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

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Financial Statements of the Democratic Socialist Republic of Sri Lanka

2. Accounts

2.1 Appropriation Accounts

The total net provision made for the Ministry and the 20 Departments under the Ministry amounted to Rs.1,260,827,756,685 and a sum of Rs.1,190,354,168,158 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.972,525 and Rs.66,855,352,572 or 0.08 per cent and 47.95 per cent of the total net provisions. Details appear below.

Head	As at 31 December 2013			Savings as a Percentage of Net Provision
	Net Provision	Utilization	Savings	
	Rs.	Rs.	Rs.	
102	2,620,456,538	1,381,260,819	1,239,195,719	47.29
237	162,737,000	157,357,928	5,379,072	03.31
238	99,525,000	70,211,578	29,313,422	29.45
239	1,736,424,000	1,571,249,498	165,174,502	09.51
240	2,558,955,000	2,023,730,115	535,224,885	20.92
241	54,985,000	47,451,961	7,533,039	13.70
242	50,400,000	36,268,168	14,131,832	28.04
243	2,974,225,000	1,547,978,790	1,426,246,210	47.95
244	834,450,000	751,905,041	82,544,959	09.89
245	140,750,000	139,777,475	972,525	00.69
246	1,931,180,000	1,875,888,898	55,291,102	02.86
247	2,273,401,000	2,271,469,960	1,931,040	00.08
248	668,460,000	664,757,971	3,702,029	00.55
249	1,240,555,572,018	1,173,700,219,446	66,855,352,572	05.39
250	47,785,000	43,581,211	4,203,789	08.80
251	2,298,940,000	2,294,908,211	4,031,789	00.17
252	1,650,471,129	1,628,508,165	21,962,964	01.33
280	81,245,000	68,163,107	13,081,893	16.10
296	46,120,000	42,873,288	3,246,712	07.04
323	14,365,000	13,204,907	1,160,093	08.08
324	27,310,000	23,401,621	3,908,379	14.31
Total	1,260,827,756,685	1,190,354,168,158	70,473,588,527	05.59

2.2 Revenue Accounts

----- Estimated and Actual Revenue -----

Eleven Departments under the Ministry had prepared Revenue Estimates totalling Rs.1,179,544 million under sixty (60) Revenue Codes for the year 2013 and collected revenue amounting to Rs.1,048,553 million. Accordingly, revenue ranging from 32 per cent to 1852 per cent of the estimated revenue had been collected. Details appear below.

Revenue Accounting Officer	Revenue Code	Revised Estimated Revenue	Actual Revenue	(Under-collection)/ Over-collection	Percentage
-----	-----	-----	-----	-----	-----
		Rs.	Rs.	Rs.	
Director General of Customs	10.01.01.00	82,591,000,000	74,668,082,758	(7,922,917,242)	90.41
- do -	10.01.02.00	20,000,000	21,663,617	1,663,617	108.32
Controller of Imports and Exports	10.01.03.00	520,000,000	458,372,096	(61,627,904)	88.15
Director General of Customs	10.01.04.00	61,004,000,000	61,505,872,213	501,872,213	100.82
- do -	10.01.05.01	37,362,000,000	33,004,053,398	(4,357,946,602)	88.34
- do -	10.01.05.02	3,120,000,000	3,087,148,683	(32,851,317)	98.95
- do -	10.01.07.00	--	1,346,970	1,346,970	--
- do -	10.01.08.00	50,106,000,000	46,704,765,201	(3,401,234,799)	93.21
- do -	10.02.05.01	58,222,000,000	58,534,245,572	312,245,572	100.54
- do -	10.02.05.02	--	76,847	76,847	
- do -	10.02.05.03	35,849,000,000	27,130,554,960	(8,718,445,040)	75.68
- do -	10.02.05.04	71,906,000,000	55,517,438,890	(16,388,561,110)	77.21
- do -	10.02.05.99	5,347,000,000	2,516,110,135	(2,830,889,865)	47.06
Commissioner General of Inland Revenue	10.02.01.01	24,962,000,000	21,203,506,388	(3,758,493,612)	84.94
- do -	10.02.01.02	63,504,000,000	56,174,589,163	(7,329,410,165)	88.46
- do -	10.02.01.03	42,999,000,000	43,718,740,385	719,740,385	101.67
- do -	10.02.01.04	123,888,000,000	96,590,086,435	(27,297,913,565)	77.97
- do -	10.02.02.01	12,700,000	10,654,808	(2,045,192)	83.90
- do -	10.02.02.02	2,500,000	5,321,938	2,821,938	212.88
- do -	10.02.03.01	2,435,000	2,149,612	(285,388)	88.28
Commissioner General of Excise	10.02.04.01	68,103,000,000	66,008,326,747	(2,094,673,253)	96.92
- do -	10.02.06.00	35,000,000	33,042,507	(1,957,493)	94.41
Commissioner General of Inland Revenue	10.02.08.00	--	83,401	(83,401)	
- do -	10.02.09.00	11,776,000	218,080,060	206,304,060	1851.90
Director General of Fiscal Policy	10.02.10.00	14,000,000	32,398,568	18,398,568	231.42
Director General of Treasury Operations	10.02.11.00	26,795,000,000	24,445,219,973	(2,349,780,027)	91.23
Commissioner General of Inland Revenue	10.02.12.01	18,242,750,000	13,698,077,514	(4,544,672,486)	75.09
- do -	10.02.12.02	10,818,250,000	11,544,642,412	726,392,412	106.71
- do -	10.02.12.03	19,721,000,000	15,693,950,765	(4,027,049,235)	79.58
- do -	10.03.03.00	850,000,000	591,870,451	(258,129,549)	69.63
- do -	10.03.04.00	2,000,000,000	1,197,409,071	(802,590,929)	59.87
- do -	10.03.05.00	1,250,000,000	750,907,497	(499,092,503)	60.07
- do -	10.03.09.00	82,000,000	96,741,230	14,741,230	117.97
- do -	10.04.01.01	86,312,400,000	84,090,576,856	(2,221,823,144)	97.43
- do -	10.04.01.02	9,450,000,000	9,767,479,326	317,479,326	103.36
- do -	10.04.01.03	233,600,000	195,441,368	(38,158,632)	83.66
- do -	10.04.04.00	12,763,000,000	6,595,600,863	(6,167,399,137)	51.68
- do -	10.04.02.01	22,818,000,000	18,558,406,098	(4,259,593,902)	81.33
- do -	10.04.03.01	98,519,000,000	77,679,122,230	(20,839,877,770)	78.85
- do -	10.04.03.99	432,000,000	254,908,743	(177,091,257)	59.01
- do -	10.04.02.99	8,990,000,000	8,524,096,082	(465,903,918)	94.82

Director General of National Budget	20.01.03.00	253,000,000	82,000,000	(171,000,000)	32.41
Director General of Treasury Operations	20.02.01.01	612,000,000	620,889,832	8,889,832	101.45
- do -	20.02.01.99	80,000,000	62,139,098	(17,860,902)	77.67
- do -	20.02.02.01	8,167,000,000	8,178,888,527	11,888,527	100.15
- do -	20.02.02.99	1,610,000,000	1,485,088,434	(124,911,566)	92.24
Director General of Public Enterprises	20.02.03.00	40,797,000,000	30,400,250,000	(10,396,750,000)	74.52
- do -	20.02.04.00	4,708,000,000	4,768,286,230	60,286,230	101.28
Director General of Treasury Operations	20.03.01.00	125,000,000	108,144,039	(16,855,961)	86.52
Chief Valuer	20.03.02.99	30,000,000	59,347,451	29,347,451	197.82
Director General of Public Enterprises	20.03.02.11	34,000,000	33,166,448	(833,552)	97.55
Director General of Treasury Operations	20.03.02.99	7,000,000,000	7,497,293,400	497,293,400	107.10
Director General of Customs	20.03.02.17	95,000,000	91,519,377	(3,480,623)	96.34
Director General of Treasury Operations	20.03.03.00	6,000,000,000	2,274,461,399	(3,725,538,601)	37.91
- do -	20.03.99.00	4,000,000,000	11,430,262,069	7,430,262,069	285.76
Director General of Fiscal Policy	20.05.01.00	17,350,000,000	26,350,000,000	9,000,000,000	151.87
Director General of Treasury Operations	20.05.99.00	2,200,000,000	2,172,620,652	(27,379,348)	98.76
- do -	20.06.02.00	800,000,000	280,283,429	(519,716,571)	35.04
Director General of Treasury Operations	20.06.04.00	16,825,000,000	15,968,526,609	(856,473,391)	94.91
- do -	30.01.01.00	20,000,000,000	15,858,996,167	(4,141,003,833)	79.29
		1,179,544,411,000	1,048,553,158,862	(130,991,252,138)	

2.3 Advance Accounts

2.3.1 Advances to Public Officers Accounts

Limits Authorized 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. Limit and actual values are shown below.

Item Number	Expenditure		Receipts		Debit Balance	
	Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
10201	16,000,000	12,467,028	8,000,000	9,367,156	70,000,000	47,717,912
23701	5,000,000	4,768,895	2,500,000	3,204,984	30,000,000	16,816,024
23801	3,000,000	1,222,471	1,000,000	1,169,046	10,000,000	6,270,721
23901	4,500,000	3,398,541	2,500,000	3,948,814	32,000,000	16,842,744
24001	8,000,000	5,868,359	3,800,000	4,048,563	37,000,000	20,968,250
24101	4,000,000	4,437,485	1,500,000	2,781,752	18,000,000	9,854,119
24201	4,500,000	3,228,934	2,000,000	2,262,581	23,000,000	10,761,127

24301	2,500,000	784,543	400,000	785,536	7,600,000	3,595,805
24401	3,000,000	1,490,716	1,200,000	2,010,483	12,000,000	6,568,406
24501	4,000,000	2,008,466	1,000,000	1,824,841	18,000,000	8,974,194
24601	85,000,000	83,993,642	50,000,000	56,164,415	295,000,000	254,694,571
24701	42,000,000	29,090,663	35,000,000	48,837,596	300,000,000	226,834,507
24801	40,000,000	28,157,639	22,000,000	26,403,655	198,000,000	762,039
24901	4,500,000	3,861,292	2,800,000	3,056,608	24,000,000	17,870,335
25001	4,000,000	1,911,961	1,500,000	1,727,470	18,000,000	6,716,844
25101	17,000,000	16,762,003	12,000,000	13,498,273	70,000,000	61,042,277
25201	50,000,000	23,007,040	22,000,000	30,743,047	215,000,000	131,355,351
28001	4,000,000	2,706,518	2,200,000	2,827,662	20,000,000	11,711,689
29601	4,000,000	1,530,266	2,000,000	2,202,514	18,000,000	12,783,664
32301	1,200,000	215,908	200,000	434,207	3,000,000	457,047
32401	2,000,000	1,486,994	1,200,000	1,350,714	11,000,000	7,371,542

2.3.2 Non-commercial Advance Accounts

Limits Authorized 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	4,083,973	4,062,000	4,335,756	3,500,000	909,279
250	25003	10,000,000	--	2,500,000	32,059,205	513,000,000	458,399,948

2.4 Imprest and General Deposit Accounts

(a) Imprest Accounts

The debit balances of the Imprest Accounts of six (06) Departments under the Ministry as at 31 December 2013 totalled Rs.37,774,601. Details appear below.

Department	Imprest Account Number	Balance as at 31 December 2013
Department of National Budget	7002/0000/00/0262/0013/000	83,325
Department of Inland Revenue	7002/0000/00/0069/0013/000	9,847,209
Sri Lanka Customs	7002/0000/00/0071/0013/000	4,751,600
Department of Excise	7002/0000/00/0072/0013/000	24,492,707
Department of State Accounts	7002/0000/00/0260/0013/000	7,500
Department of Census and Statistics	7002/0000/00/0037/0013/000	592,260
Total		37,774,601

(b) General Deposit Accounts

The balances of the General Deposit Accounts of the Ministry and 14 Departments under the Ministry as at 31 December 2013 totalled Rs.12,353,753,546. The details appear below.

Ministry/Department	Account Number	Balance as at 31 December 2013
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		Rs.
Ministry of Finance and Planning	6000/0000/00/0015/0016/000	119,475
Department of Fiscal Policy	6000/0000/00/0015/0018/000	33,325
Department of National Budget	6000/0000/00/0015/0120/000	550
Department of Trade, Traffic and Investment Policy	6000/0000/00/0015/0124/000	22,975
Department of Public Finance	6000/0000/00/0015/0025/000	265,995
Department of Inland Revenue	6000/0000/00/0015/0126/000	42,602,599
	6000/0000/00/0014/0003/000	1,594,368,043
Sri Lanka Customs		
- Sundry Deports Account	6000/0000/00/0015/0127/000	3,991,909,988
- Customs Overtime and Cargo Inspection Fees Fund	6000/0000/00/0006/0032/000	1,498,725,835
- Customs Officers Management and Compensation Fund	6000/0000/00/0006/0061/000	3,752,154,695
- Customs Officers Reward Fund	6000/0000/00/0006/0062/000	1,095,233,435
Department of Excise		
- General Deposit Account	6000/0000/00/0015/0128/000	80,485,775
- Depreciation Reserve Fund	6000/0000/00/0008/0051/000	19,739,453
- Rewards Fund	6000/0000/00/0006/0060/000	208,797,492
Department of Treasury Operations	6000/0000/00/0015/0129/000	(2,380)
Department of State Accounts	6000/0000/00/0015/0130/000	2,678,235
Department of Valuation	6000/0000/00/0015/0131/000	133,846
Department of Census and Statistics	6000/0000/00/0015/0132/000	66,254,054
Department of Project Management and Supervisions	6000/0000/00/0015/0135/000	25
Department of Import and Export Control	6000/0000/00/0015/0151/000	230,131

Total		12,353,753,546
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Part 2

----- Detailed Report on each Head -----

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 2013 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 09 December 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.

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 2013 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 1:4 to 1:7 herein, the Appropriation Account and the Reconciliation Statement of the Ministry of Finance and Planning had been prepared satisfactorily.

(a) **Budgetary Variance**

The following observations are made.

- (i) The total net provision of Rs.45,050,000 made for 02 Objects had been saved.
- (ii) The total net provisions made for 15 Objects amounted to Rs.1,763,451,860 and a sum of Rs.572,614,213 out of that had been utilized. As such savings amounting to Rs.1,190,837,647 out of the provisions made was revealed and

those savings ranged from 11 per cent to 98 per cent of the net provisions made for the respective Objects.

(b) General Deposit Account

The balance of the General Deposit Account of the Ministry as at 31 December 2013 amounted to Rs.119,475 and that balance comprised balances relating to the years 2011, 2012 and 2013.

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

According to the Reconciliation Statement of the Advances to Public Officers Account Item No.10201 as at 31 December 2013, the balances outstanding as at that date older than 05 years recoverable from officers who had vacated post totaled Rs.643.977.

1.4 Non-compliances

Non-compliance with Laws, Rules, Regulations etc.

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

Reference to Laws, Rules and Regulations	Non-compliance
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(a) Public Contracts Act, No.3 of 1987

- | | |
|-------------------------|---|
| (i) Sub-section 6(1)(a) | Even though contracts costing over Rs.5 million should be awarded only to the bidders registered with the Registrar of Public Contracts, a contract had been awarded to a bidder who had not been so registered. |
| (ii) Section 12 | A contractor registered under Section 8 of the Act, should not be taken for procurement activities with other contractors unless he produces a registration certificate from Registrar of Public Contracts. Nevertheless, a bid furnished by a bidder who had not produced a valid registration certificate in support of registration had been taken in for procurement and evaluation purposes. |

1.5 Weaknesses in the Implementation of Projects

Delays in the execution of Projects

Delays in the execution of the following Projects by the Ministry were observed.

- (a) Provision had been made as follows since the year 2010 for the construction of a building in the premises of the Treasury. The construction work had been delayed as the fresh approval in accordance with the New Town Development Plan of the Urban Development Authority had to be obtained. The savings out of the provision made for that work in respect of the year under review amounted to 98 per cent. The savings out of the provisions made for this construction in the Annual Budget Estimates from the year 2010 are given below.

Year	Provision made	Utilization	Savings
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	Rs.	Rs.	Rs.
2010	13,500,000	1,741,871	11,758,129
2011	500,000,000	--	500,000,000
2012	200,000,000	4,202,754	195,797,246
2013	575,000,000	9,690,551	565,309,449

- (b) Provisions totalling Rs.1,100,000,000 comprising Rs.1,000,000,000 under the Foreign Loan Financing and Rs.100,000,000 under the Domestic Cost Financing related to Foreign Financing had been made in the Head of the Ministry in the Annual Budget Estimates for the year 2013 for the Fiscal Management Efficiency Project. Out of those, sums of Rs.460,530,615 and Rs.28,271,537 comprising Rs.488,802,152 respectively had been utilized during the year under review. Accordingly, out of the provisions made, Rs.539,469,385 and Rs.71,728,463 comprising Rs.611,197,848 respectively or 54 per cent and 72 per cent had been saved. In connection with this saving it was stated in the Appropriation Account that the savings had resulted due to the payment of only the advances in connection with the award of the contract on the Integrated Treasury Management Information System in August 2013 and the inability to release completely the taxes due on those advances.

1.6 Performance

The observations on the progress of the Ministry according to the Annual Action Plan for the year 2013 are given below.

- (a) The promotions of the officers in the Special Grade of the Sri Lanka Accountants' Service Division and the annual transfers of the officers of the Sri Lanka Accountants' Service as targeted in the Action Plan for the year under review had not been made within the targeted dates appearing in the Action Plan.
- (b) The promotions to the Special Grade of the 1994 Group of the Sri Lanka Planning Service, the annual transfers of those officers and the conduct of the First and the Second Efficiency Bar Examinations of the officers of the Planning Service had not been done on the targeted dates.
- (c) The revision of the Scheme of Recruitment and Promotion of Officers of the Department of Census and Statistics, preparation of the Service Minute of the Department of Valuation and the filling of vacancies in the Department of Excise under the purview of the Ministry had not been done in accordance with the Action Plan.

1.7 Human Resources Management

Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2013 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	24	15	09
(ii) Tertiary Level	08	04	04
(iii) Secondary Level	128	93	35
(iv) Primary Level	110	85	25
Total	270	197	73

Action had not been taken to fill 73 vacancies even by in 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 2013 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 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.

2.2 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.

2.3 **Audit Observation**

According to the Financial Records and the Books for the year ended 31 December 2013 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 2.4 to 2:6 herein, the Appropriation Account, and the Reconciliation Statement of the Department of National Planning had been prepared satisfactorily.

(a) **Budgetary Variance**

The following observations are made.

- (i) The entire total net provision of Rs.810,000 made for an Object had been saved.
- (ii) Excess provisions had been made for 03 Objects and the savings, after the utilization of provisions, ranged between 11 per cent to 44 per cent of the net provisions relating to the respective Objects.

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

According to the Reconciliation Statement of the Advances to Public Officers Account Item No.23701 as at 31 December 2013, the balances older than 05 years that remained as at that date totalled Rs.213,887.

2.4 **Good Governance and Accountability**

Implementation of the Audit and Management Committee

Even though the meetings of the Audit and Management Committee should be held at least once in each quarter in terms of Paragraph 6 of the Management Audit Circular No.DMA/2009(1) of 09 June 2009, only one meeting relating to the year 2013 had been held.

2.5 **Assets Management**

According to the Public Finance Circular No.441 of 09 December 2009 as amended by the Circular No.PF/FS/Board of Survey/01 of 17 December 2010 of the Director General of Public Finance, the Annual Board of Survey for the year 2013 should have been conducted and the reports thereon should have been furnished to the Auditor General before 15 March 2014. Nevertheless, the Department had not furnished those reports to audit even by 31 March 2014. The last Board of Survey conducted had been for the year 2011.

2.6 Human Resources Management

Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2013 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	57	47	10
(ii) Tertiary Level	02	01	01
(iii) Secondary Level	27	19	08
(iv) Primary Level	31	30	01
Total	117	97	20

Action had not been taken by the Department for the filling of 20 vacancies even by 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 2013 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 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 Accounting Officers 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 2013 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 3.6 herein, the Appropriation Account, and the Reconciliation Statement of the Department of Fiscal Policy had been prepared satisfactorily.

(a) Budgetary Variance

The savings after the utilization of Rs.39,884,730 out of the total net provisions amounting to Rs.68,395,000 made for 04 Objects, amounted to Rs.28,510,270 and ranged between 26 per cent to 42 per cent of the net provisions relating to the respective Objects.

(b) Revenue Account

The following observations are made.

- (i) Revenue Code 20-05-01-00- according to the Account of the Profit Revenue of Central Bank, revenue amounting to Rs.4,005,704,841 had been outstanding. That revenue outstanding included a sum of Rs.1,005,704,841 relating to the year 2012.
- (ii) The Statement of Arrears of Revenue for the first half year in respect of the Revenue Code 10-02-10-00-Social Responsibility Levy had not been prepared in terms of Financial Regulation 128(2)(d).
- (iii) The arrears of revenue by the end of the year 2011 according to the Statement of Arrears of Revenue as at 31 December 2013, as per the letter dated 26 February 2014 of the Department of Inland Revenue amounted to Rs.225,478,525 whereas according to the Revenue Account, that amounted to Rs.82,306,007. As such the arrears of revenue had been understated by a sum of Rs.143,172,518 in the Revenue Account.
- (iv) Even though the Central Bank of Sri Lanka had incurred a net loss of Rs.24,264,529,000 for the year under review according to the financial statements of the Central Bank of Sri Lanka s at 31 December 2013, a sum of Rs.28,000,000,000 had been transferred from the profits of the year 2013 to the Consolidated Fund by the unnumbered letter dated 01 April 2014 of the Additional Chief Accountant of the Central Bank of Sri Lanka.

3.4 Assets Management

Conduct of Annual Boards of Survey

According to the Public Finance Circular No.441 of 09December 2009 as amended by the letter No.PF/FS/Board of Survey/01 of 17 December 2010, of the Director General of Public Finance, the Annual Board of Survey for the year 2013 should have been conducted and the reports thereon should have been furnished to the Auditor General before 15 March 2014. Nevertheless, the Department had not furnished those reports to audit even by 31 May 2014.

3.5 Performance

The observations on the progress of the Department according to the Annual Action Plan for the year 2013 are given below.

- (a) Even though it was expected to review the Fiscal Policies, except for holding 04 meetings for the quarterly review of the revenue sources, collection and preparation of data on revenue, and Supervision of Revenue Estimates and the Cash Flow Position, there were no reports of adequate meetings held mainly on the Fiscal Policies.
- (b) The total State Revenue for the year under review estimated at Rs.1,303 million, had been reduced by Rs.91 billion to Rs.1,212 billion by the revised estimate. The total actual revenue for the year including foreign grants amounted to Rs.1,082 billion and according to the revised estimate, arrears amounting to Rs.130 billion or 11 per cent existed.

3.6 Human Resources Management

Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2013 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	22	14	08
(ii) Tertiary Level	03	02	01
(iii) Secondary Level	25	13	12
(iv) Primary Level	15	10	05
Total	65	39	26

The following observations are made in this connection.

- (a) Twenty six vacancies in the staff existed as at 31 December 2013. Such vacancies included 08 posts in the Senior Level.

- (b) The Mission of the Department is the “Formulation and Implementation of the Fiscal Policy in the wide Development Framework of the Government” and action in that connection should be taken on the review of the Estimates of Revenue and Expenditure, analysis and evaluation thereof and making the necessary revision thereto. Nevertheless, posts of the Senior Economist, the Economist and the Statistician in the approved cadre remained vacant.

4. Head 239 – Department of External Resources

4.1 Scope of Audit

The audit of the Appropriation Account including the financial records, reconciliation statements, books, registers and other records of the Department of External Resources for the year ended 31 December 2013 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 December 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.

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

The Chief Accounting Officer and Accounting Officers 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 2013 it was observed that except for the effects of the general observations appearing at (a) and other major audit findings appearing in paragraphs 4.4 and 4.5 herein, the Appropriation Account, and the Reconciliation Statement of the Department of External Resources had been prepared satisfactorily.

(a) Budgetary Variance

Excess provisions totalling Rs.21,000,000 had been made for 03 Objects and the savings, after the utilization of provisions, amounted to Rs.17,382,393. Those savings ranged between 41 per cent to 90 per cent of the net provisions relating to the respective Objects.

4.4 Good Governance and Accountability

Even though the Audit and Management Committee should meet at least once in each quarter in terms of paragraph 6 of the Management Audit Circular No.DMA/2009(1) dated 09 June 2009, only one meeting relating to the Department had been held in the year 2013.

4.5 Human Resources Management

Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2013 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	54	41	13
(ii) Tertiary Level	03	02	01
(iii) Secondary Level	64	44	20
(iv) Primary Level	29	27	02
Total	150	114	36

The Department had failed to fill 36 vacancies even by the end of the year under review.

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 2013 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 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 Accounting Officers 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 2013 it was observed that except for the effects of the general observations appearing at (a) to (e) and other major audit findings appearing in paragraphs 5.4 to 5.6 herein, the Appropriation Account, Revenue Account and the Reconciliation Statement of the Department of National Budget had been prepared satisfactorily.

(a) **Budgetary Variance**

The following observations are made.

- (i) The entire net provisions amounting to Rs.30,020,000 made for 02 Objects had been saved.
- (ii) Out of the net provisions totalling Rs.1,721,856,000 made for 04 Objects the savings, after the utilization of Rs.1,218,342,266, amounted to Rs.503,513,734 and ranged between 15 per cent to 83 per cent of the net provision.

(b) **Imprest Account**

The balance of the Imprest Account No.7002/0000/00/0262/0013/000 of the Department as at 31 December 2013 included an imprest balance of Rs.83,325 existing from the year 2008, and that balance had not been settled even by 23 December 2014.

(c) **Non-current Assets**

Even though the value of motor vehicles disposed of during the year under review had been shown as Rs.7,600,000 in the Report on the Movement of Non-current Assets in the Appropriation Account, a double cab motor vehicle costing Rs.1,300,000 only had been disposed of during the year.

(d) **Revenue Account**

The following observations are made.

- (i) According to the Revenue Account presented, arrears of revenue amounting to Rs.39,082,168 relating to the year under review existed.
- (ii) According to Paragraph 04 of the State Accounts Circular No.187/2006 dated 27 September 2006, the Monthly Accounting Statements prepared based on the data supplied by the Departments collecting revenue should be reconciled with the departmental books of the Revenue Accounting Officers and report such position to the Director General of State Accounts. Nevertheless, such

reconciliation had not been done as this Department had not maintained such books except the computer printouts.

- (iii) Adequate evidence to establish whether the reasons for changes in the opening and closing balances of arrears of revenue had been due to the collection of revenue or for other reasons had not been furnished to audit. As such, the accuracy of the collection of the arrears of revenue relating to the preceding years amounting to Rs.279,433,627 could not be ascertained.
- (iv) According to the Revenue Accounts presented, it had been stated that there were no arrears of revenue relating to the year under review. Nevertheless, the net profits of the Sri Lanka Navy Stores Advance Account and the Industrial and Agricultural Advance Account of the Department of Prisons amounting to Rs.1,051,778 and Rs.38,030,390 respectively had not been included in the Revenue Account.

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

 According to the Reconciliation Statement of the Advances to Public Officers Account Item No.24001 as at 31 December 2013, the outstanding balances recoverable from the officers transferred, deceased, retired and those vacated posts totalled Rs.562,101.

5.4 Non-compliances

Non-compliance with Laws, Rules, Regulations etc.

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

Reference to Laws, Rules and Regulations

Non-compliance

Financial Regulation of the Democratic Socialist Republic of Sri Lanka

- | | |
|---------------------------------|---|
| (a) Financial Regulation 103(1) | Action in terms of the Financial Regulation had not been taken on an accident caused to a motor vehicle. |
| (b) Financial Regulation 104(4) | The final reports on the accidents caused to 02 motor vehicles in the year 2013 had not been prepared even by 28 November 2014. |

5.5 Performance

The following observations are made.

- (a) Holding discussion with the agencies incurring expenditure to ensure the productivity of the activities for which expenditure is incurred and carrying out analysis of expenditure for the supervision of the financial as well as the physical progress are functions of the Department. Nevertheless, as a sum of Rs.124,930 million which exceeded the additional provision amounting to Rs.73,615 million made available to the Department in the year 2013 under the Budgetary Support Services and Contingence Liabilities Project in connection with provisions not made in the Annual Budget Estimates or the inadequacy of the existing provisions, had been saved without being utilized at the end of the year, such requirement had not been complied with.
- (b) Even though it was stated in the Performance Reports for the year 2012 and 2013 that a Manual of Guidelines on the preparation of the Annual Budget had been prepared, the attention of the Department, for the preparation of that Manual of Guidelines had not been paid even up to July 2014. Consequent to the enquires made by the audit in this connection, the Guidelines on the preparation of the Budget for the year 2015 bearing No.03/2014 dated 18 August 2014 had been issued. The results of introduction of the Guidelines had not been achieved as the institutions concerned had already prepared the Budget Estimates for the year 2015 and submitted to the Department by that time.

5.6 Human Resources Management

Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2013 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	75	63	12
(iv) Primary Level	38	32	06
Total	151	117	34

The Department had not taken action to fill 34 vacancies even by the end of the year under review and that represented 23 per cent of the approved vacancies.

6. Head 241 – Department of Public Enterprises

6.1 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 Public Enterprises for the year ended 31 December 2013 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 December 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.

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

The Chief Accounting Officer and Accounting Officers 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.

6.3 Audit Observation

According to the Financial Records and the Books for the year ended 31 December 2013 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 6.6 herein, the Appropriation Account, the Revenue Accounts and the Reconciliation Statement of the Department of Public Enterprises had been prepared satisfactorily.

(a) Budgetary Variance

The following observations are made.

- (i) The entire net provisions of Rs.50,000 made for one Object had been saved.
- (ii) Out of the net provisions amounting to Rs.4,282,000 made for 08 Objects provision amounting to Rs.1,122,839 had been saved after the utilization of provisions. Those savings ranged between 16 per cent to 100 per cent of the net provisions relating to the respective Objects.

(b) Revenue Accounts

The following observations are made.

- (i) The Returns of Arrears of Revenue and the Returns of Half Yearly Arrears of Revenue in respect of 3 Revenue Codes had not been furnished to audit in terms of Financial Regulation 128(2) and Paragraph 08 of the Fiscal Policy and Economic Affairs Circular No.01/2002 of 17 July 2017.
- (ii) According to Paragraph 05 of the Fiscal Policy and Economic Affairs Circular No.01/2002 of 17 July 2002, action should be taken for the prompt identification of any decrease in the State Revenue, analysis thereof and taking remedial action. In case of the courses of action to be taken in that connection being beyond one's control, such position should be brought to the notice of the Department of Fiscal Policy and obtain advice in that connection. Even though the revenue for the year under review had decreased by Rs.11,813,858,456 as compared with the preceding year, action in terms of the circular had not been taken in that connection.
- (iii) The arrears of revenue amounting to Rs.49,117,609 relating to the years 2011 and 2012 of 03 Government Owned Private Companies had been collected during the year under review. Such revenue had been shown in the Revenue Account as revenue collected in respect of the year under review instead of being shown as revenue in respect of preceding years collected during the year under review.
- (iv) A profit of Rs.1,000,000 of the National Livestock Development Board in respect of the preceding year collected after being identified by the Committee on Public Enterprises had been brought to account as revenue for the year under review. The profit generating institutions had not been taken into account in the preparation of revenue estimates.
- (v) Accounting to the list of enterprises for which the Government had made capital contribution, the number of institutions which should generate profits had been shown as 86 and 45 institutions only had been taken into account in the preparation of revenue estimates.

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

According to the Reconciliation Statement of the Advances to Public Officers Account Item No.24101, the balances that remained outstanding as at the date totalled Rs.408,304.

6.4 Good Governance and Accountability

According to Paragraph 6 of the Management Audit Circular No. DMA/2009(1) of 09 June 2009, the Audit and Management Committee should meet at least once each quarter. Nevertheless, only one meeting in respect of the Department had been held during the year 2013.

6.5 Performance

Even though the particulars of the activities performed in accordance with the Action Plan for the year 2013 were called for, that information had not been furnished. As such the performance could not be examined.

6.6 Human Resources Management

Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2013 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	29	25	04
(ii) Tertiary Level	01	01	--
(iii) Secondary Level	38	24	14
(iv) Primary Level	14	14	--
Total	82	64	18
	==	==	==

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

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 2013 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 December 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 Accounting Officers 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.

7.3 **Audit Observation**

According to the Financial Records and the Books for the year ended 31 December 2013 it was observed that except for the effects of the general observation appearing at (a) and other major audit findings appearing in paragraphs 7.4 to 7.6 herein, the Appropriation Account, and the Reconciliation Statement of the Department of Management Services had been prepared satisfactorily.

(a) **Budgetary Variance**

The following observations are made.

- (i) The entire total net provisions amounting to Rs.16,500,000 made for 02 Objects had been saved.
- (ii) Out of the net provisions amounting to Rs.900,000 made for 02 Capital Objects, a sum of Rs.630,671 or 50 per cent to 95 per cent of the net provisions had been saved.

7.4 **Assets Management**

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 Annual Board of Survey for the year 2013 should be conducted and the report thereon should have been furnished to the Auditor General before 15 March 2014. Nevertheless, that report has not been furnished even by 30 June 2014.

7.5 **Performance**

The observations on the progress of the Department according to the Action Plan for the year 2013 are given below.

- (a) The following observations are made in connection with the review of the Staff in 02 selected areas during the year 2013.
 - (i) Even though targets had been set for carrying out reviews of staff by holding discussions with District Secretariats/ Divisional Secretariats, the reports relating to 14 Districts had been drafted and the information relating to the other 11 Districts was being called for even by 26 November 2014.
 - (ii) Even though it had been planned to carry out and complete the review of the staff of the Department of Police in the year, the new posts to be approved were being studied even by 26 November 2014.

- (b) Even though targets had been set for the formulation of criteria and standards for the creation of new posts of the Departments through conducting awareness programmes for the Heads of 5 selected Departments, the relevant information had not been finalized even by 30 November 2014.
- (c) Even though plans had been made for carrying out the revision of the Management Services Circular No.33 of 05 April 2007 during the year 2013, it had not been revised even by 26 November 2014.
- (d) Even though targets had been set for the year 2013 for the preparation of a database of information on staff in the Public Services, training of the users of the database could not be completed even by 26 November 2014 due to the prevailing weaknesses in the Treasury Computer Network.

7.6 Human Resources Management

Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2013 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess	There were
(i) Senior Level	22	11	11	--	21
(ii) Tertiary Level	02	02	--	--	
(iii) Secondary Level	42	34	09	01	
(iv) Primary Level	13	12	01	--	
Total	79	59	21	01	

vacancies in the staff as at 31 December 2013 and that included 11 posts vacant in the Senior Level.

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 2013 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 15 October 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.

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

The Chief Accounting Officer and 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.

8.3 Audit Observation

According to the Financial Records and the Books for the year ended 31 December 2013 it was observed that except for the effects of the general observation appearing at (a) and other major audit findings appearing in paragraphs 8.4 to 8.6 herein, the Appropriation Account, and the Reconciliation Statement of the Department of Development Finance had been prepared satisfactorily.

(a) Budgetary Variance

The following observations are made.

- (i) The entire net provisions totalling to Rs.21,700,000 made for 02 Objects had been saved.
- (ii) Excess provisions had been made for 09 Objects and as such the savings, after the utilization of provisions, ranged from 30 per cent to 99 per cent of the net provisions relating to the respective Objects.

8.4 Non-compliances

Non-compliance with Laws, Rules and Regulations

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

(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

- (i) Financial Regulation 1645(a) The officer in charge of the motor vehicles had not properly maintained the Log Books of the Motor Vehicles in his custody.

- (ii) Financial Regulation 1646 The officers in charge of motor vehicles had not taken action to furnish the Daily Running Charts and the Monthly Performance Reports of the motor vehicles in their charge, to the Auditor General before the fifteenth day of the month following.

(b) Public Administration Circulars

- Circular No.41/90 of 10 The fuel consumption of 06 motor vehicles
October 2010 of the Department had not been tested once
in 06 months.

8.5 Performance

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

- (a) The members of the terrorist organizations who surrendered to the Forces had been rehabilitated by the Ministry of Rehabilitation and Prison Reforms and integrated into the society. The Government pays a subsidy interest at 8 per cent for the loans granted to those members subject to a maximum of Rs.250,000 per member. The following observations are made in this connection.
- (i) The approval of the Cabinet of Ministers for the above Programmes had been received under the decision of the Cabinet of Ministers No.CM/12/0237/541/002 dated 15 March 2012. Even though the Department had been assigned with the function for entering into an agreement in that connection, an agreement had been prepared and entered into 24 July 2012, that is, after a delay of 05 months.
- (ii) Plans had been made for the grant of loans to 10,375 persons whose training has been completed. Nevertheless, the Divisional Secretaries had obtained 2,011 loan applications as an initial step for the grant of loans and out of those loans had been granted to 1,560 persons by 30 June 2013. That number represented 14 per cent of the expected total and 75 per cent of the number who submitted applications.
- (iii) According to the decision of the Cabinet of Ministers, a follow-up mechanism should have been set in place after the grant of loans. The Department had not taken any follow up action to ascertain whether the Ministry of Rehabilitation and Prison Reforms had set in place any such mechanism.

- (b) According to the Loan Agreement of the Project for the Supply of Facilities for the Upliftment of Small and Medium Scale Enterprises, the Department functioned as the Implementing Agency. Nevertheless, the fact that evaluation process of the Project had not been effectively carried out was revealed according to the following weaknesses observed.
- (i) According to clause “e” of the Agreement on the loan amounting to Rs.1,462 million released by the Asian Development Bank, Risk Distribution Action should have been taken with the Insurance Corporation of Sri Lanka to cushion the risk of recovery of the loan and interest. Nevertheless, no action whatsoever had been taken on the minimization of such risk even by 31 December 2013.
 - (ii) According to a field inspection carried out on 06 November 2013 by a Team of Officers of the International Development Association revealed that the beneficiaries of this Project require further training in the general business administration and the technological know-how. Even though the Project Operating Unit had made provision amounting to Rs.427 million for capacity development in order to achieve that objective only a sum of Rs.32 million had been utilized by the Department even up to the end of the year under review.
- (c) According to clause (b) 5.25 of the Schedule to the Small and Medium Scale Development Projects Agreement, the final report should have been prepared within 03 months after the completion of the Project. Even though the activities of the Project had been completed on 30 June 2012, the final report of the Project had not been prepared even by 31 December 2013.
- (d) The performance of the departmental activities on the evaluation of the changes in the regulations of the Gem and Jewellery Industry and the payment and evaluation of the interest subsidy claimed by the Private Lands and Industries Authority had not been included in the Performance Report for the year 2013.
- (e) Even though the Department had planned to implement in the year 2013, the evaluation of the progress of the Revolving Fund of the Ministry of Plantation Industries established in accordance with a Budget Proposal of the year 2011 and the activities relating to expenditure, those activities had not been carried out.

8.6 Human Resources Management

----- Approved Cadre and Actual Cadre -----

The position of the cadre as at 31 December 2013 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
-----	-----	-----	-----
(i) Senior Level	11	09	02
(ii) Tertiary Level	03	02	01
(iii) Secondary Level	04	04	--
(iv) Primary Level	10	10	--
Total	----	----	----
	28	25	03
	==	==	==

The Department had not taken action to fill 03 vacancies even by the end of the year under review.

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

9.1 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 Trade, Tariff and Investment Policy for the year ended 31 December 2013 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 19 December 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 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.

9.3 Audit Observation

According to the Financial Records and the Books for the year ended 31 December 2013 it was observed that except for the effects of the general observation appearing at (a) and (b) and other major audit findings appearing in paragraphs 9.4 and 9.7 herein, the Appropriation Account, the Revenue Account and the Reconciliation Statement of the Department of Trade, Tariff and Investment Policy had been prepared satisfactorily.

(a) Budgetary Variance

The following observations are made.

- (i) The entire net provision of Rs.65,000,000 made for one Object had been saved.
- (ii) Excess provisions totalling Rs.7,400,000 had been made for 08 Objects and the savings of provisions, after the utilization of Rs.3,955,110, amounted to Rs.3,444,890 and ranged from 36 per cent to 97 per cent of the net provision relating to the respective Objects.
- (iii) Even though provisions totalling Rs.1,740,000 had been transferred under Financial Regulations 66 and 69 to 03 Objects due to the inadequately of the provisions made in the Annual Budget Estimates, out of those provisions, a sum of Rs.1,023,096 or over 50 per cent had remained without being utilized by the end of the year under review.

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

According to the Reconciliation Statement as at 31 December 2012 presented, a difference of Rs.53,773 existed between the loan balances of two officers as at that date and the balance which appeared in the Register of Members Loans as at 01 January 2013.

9.4 Financial and Operating Review
-----**9.4.1 Assets Management**

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 Annual Board of Survey for the year 2013 should have been conducted and the reports thereon should have been furnished to the Auditor General before 15 March 2014. But those reports had been furnished to audit only on 09 September 2014. Nevertheless, the Department had not taken action on the shortages and excesses of assets and the recommendations of the Board of Survey appearing in those reports, even by 03 November 2014.

9.5 Non-compliances

The following deficiencies were observed due to the failure to maintain the Register of Fixed Assets in the updated manner in terms of the Treasury Circular No.842 of 19 December 1978.

- (a) The cost of the Jeep and the Van of the Department had not been recorded in the Register of Fixed Assets.
- (b) The cost of two motor vehicles and a Jeep transferred to other institutions amounting to Rs.6,190,000 and Rs.3,700,000 respectively, had not been eliminated from the Register of Fixed Assets.

9.6 Performance

The following matters were revealed at the examination of the progress of the activities included in the Action Plan of the Department for the year 2013.

- (a) Even though it was stated in the Action Plan that a progress review under the Indo-Lanka Free Trade Agreement should be carried out throughout the year, according to the files presented it was not possible to ascertain whether any activity relating to the year under review had been carried out. Nevertheless, the Performance Report indicated that Sri Lanka had decided to eliminate 10 items from its veto list with effect from 21 November 2013, with objective of further opening the market to India.
- (b) Even though the Action Plan indicated throughout the year participation at the discussions for the implementation of the CEPA Agreement, all work in connection with that agreement had been finalized in the year 2011.
- (c) Even though the Action Plan indicated throughout the year participation at the discussions for the implementation of the BIMSTEC Agreement, an examination of the files relating to that did not contain adequate evidence in support of any discussions on the agreement held during the year under review.
- (d) The Action Plan indicated that the following activities will be dealt with by the Trade and Investment Policy Division of the Department. The Department informed the audit that appeals or requests relating to those activities had not been received and that replies through the file would be made only for the requests made by any Ministry or institution. As such no progress was observed in respect of those activities.
 - (i) Settlement of various problems faced by exporters on the payment of Customs Duty rebates.
 - (ii) Taking action on the complaints and appeals received in accordance with the Trade, Tariff and Investment Policy Circular No.61/2010 of 16 December 2010.
 - (iii) Taking action in terms of the Public Administration Circular No.22/99 of 08 October 1999 and the Circular No.165 of 05 April 2000 of the Ministry External Affairs and the amendments relating thereto.
 - (iv) Taking action on the appeals made to the Minister in Charge of the subject of Finance in terms of Sections 164 and 165 of the Customs Ordinance.
- (e) Even though the Action Plan indicated that action is taken on cases relating to Departments, information relating thereto had not been furnished to audit.

9.7 Human Resources Management

Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2013 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	14	09	05
(ii) Secondary Level	25	22	03
(iii) Primary Level	13	10	03
Total	52	41	11

The approved cadre had 11 vacancies as at 31 December 2013 and those vacancies included 05 vacancies in the Senior Level.

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 2013 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 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 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.

10.3 Audit Observation

According to the Financial Records and the Books for the year ended 31 December 2013 it was observed that except for the effects of the general observation appearing at (a) to (c) and other major audit findings appearing in paragraphs 10.4 and 10.6 herein, the Appropriation Account, and the Reconciliation Statement of the Department of Public Finance had been prepared satisfactorily.

(a) Lack of Proper maintenance of Registers

The Register of Fixed Assets had not been maintained properly and in the updated manner in accordance with the Treasury Circular No.842 of 19 December 1978.

(b) Budgetary Variance

Out of the total net provisions of Rs.2,450,000 made for 02 Objects, the savings, after the utilization during the year under review, amounted to Rs.911,148 and that represented 24 per cent and 65 per cent of the net provisions.

(c) Winding-up Advance Accounts

The following observations are made.

- (i) Even though the winding-up of 04 Advance Accounts under a Department had taken periods of about 15 to 20 years, the winding-up had not been completed.
- (ii) An accumulated working loss of Rs.4,204,236 relating to the years 1972 to 1989 of the Advance Account Item No.999/406-Transport Fleet of the Department of Marketing Development had been shown in the Account and the reasons for the occurrence of the loss had not been disclosed in the Account. According to the letter No.PF/FS/Assets/AAL/2012 dated 30 April 2012 of the Director General of Public Finance addressed to the Chairman of the Committee on Public Account, it had been stated that the approval of the Cabinet of Ministers for the write off of this unauthorized working loss has been received. Similarly, according to the letter No.PF/FS/Assets/Accounts under liquidation/2008 dated 13 February 2014 of the Director General of Public Finance, request had been made for provisions for the write off of the working losses of 5 Advance Accounts including this loss. As such working loss is not depicted in the Treasury books, that working loss had been eliminated from the books during the year under review as the rectification of an error.

10.4 Assets Management

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 Annual Board of Survey for the year 2013 should have been conducted and the reports thereon should have been furnished to the Auditor General before 15 March 2014. Nevertheless, those reports had been furnished to audit on 16 May 2014. Even though this

Department had issued the above circular as the institution formulating the policies relating to the management of the assets of the Government, the Department itself had not complied with the policy. It was observed in audit that the action on the excess goods pointed out in the Board of Survey Report for the year 2012 had not been taken even by 10 May 2014 while the action on the recommendations made in the Board of Survey Report for the year 2013 had not been taken even by 06 August 2014.

10.5 Performance

The observations on the progress of the Department according to the Annual Action Plan for the year 2013 are given below.

- (a) “The Revision of the Financial Regulations” which had been shown in the Annual Action Plan of the Department for the year 2013 as a major function of the Department had not been finalized even by 15 August 2014.
- (b) The revision of the Procurement Guidelines planned from the year 2013 had not been finalized even by 14 November 2014, that date of audit.
- (c) Regularizing, review and follow-up on the Finance maintained by Ministries and Departments without obtaining provisions from the Appropriation Act” is a major function of the Department and the Public Finance Circular No.PF/423 dated 22 December 2006 giving instructions to be followed in this connection had been issued. According to that circular, the final accounts of Funds should be furnished to the Auditor General and the Department of Public Finance within two months after the close of the finance year. Nevertheless, out of 60 Funds supervised by the Department, the financial statements of 16 Funds in respect of the year 2013 had not been furnished even by 13 November 2014.
- (d) “A System of Prepaid Bank Cards for making Payments by State Institutions” which had not been included in the Action Plan for the year 2013, had been introduced in accordance with the Public Finance Circular No.02/2013 dated 31 January 2013 of the Deputy Secretary to the Treasury. A system of Bank Debit Cards connected to the official Bank Accounts of the spending Agencies had been introduced facilitating the execution of minor financial transactions up to Rs.100,000 through the electronic payment medium for the improvement of the efficiency of financial management. Even though 5,000 prepayment cards costing Rs.314,160 had been printed according to the unnumbered letter dated 03 December 2013 of the Assistant General Manager of the Bank of Ceylon, only 11 institutions had obtained cards even by the end of August 2014. Out of those only two cards were in active use. As pointed out by the institutions using those cards, the use of the cards had resulted in encountering problematic situations.

10.6 Human Resources Management

Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2013 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	27	14	13
(ii) Tertiary Level	04	02	02
(iii) Secondary Level	34	30	04
(iv) Primary Level	17	13	04
Total	82	59	23

The following observations are made in this connection.

- (i) Twenty three vacancies existed in the staff as at 31 December 2013 and those vacancies included 13 posts in the Senior Level.
- (ii) Even though the formulation of policies, procedures and practices, review, improvement, popularizing and implementation relating to the subject of procurement management, implementation of the State Procurement Strategies are the main functions of the Procurement Division of the Department of Public Finance, the post of Procurement Specialist and 4 posts of Procurement Executives in the cadre of the Department remained vacant even by 31 December 2013.

11. Head 246– Department of Inland Revenue

11.1 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 Inland Revenue for the year ended 24 October 2014 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 16 March 2015. 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 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.

11.3 Audit Observation

 According to the Financial Records and the Books for the year ended 31 December 2013 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 11.4 and 11.10 herein, the Appropriation Account, and the Reconciliation Statement of the Department of Inland Revenue had been prepared satisfactorily.

(a) Non-maintenance of Registers and Books

 The following observations are made.

- (i) Certain Appropriation (Votes) Ledgers of the Department had not been properly updated in terms of Financial Regulation 447.
- (ii) A Register of Fixed Assets containing all the fixed assets of the Department had not been properly maintained in terms of the Treasury Circular No.842 of 19 December 1978.

(b) Budgetary Variance

 Excess provisions totalling Rs.201,000,000 had been made for 03 Objects and after the utilization of provisions totalling Rs.150,411,710 out of that, the savings amounted to Rs.50,588,290. The savings ranged between 16 per cent to 67 per cent of the net provisions made.

(c) Imprest Account

 The following observations are made.

- (i) The unsettled imprest balances of the Department by 30 April 2014 totalled Rs.3,467,059.
- (ii) A sum of Rs.1,400,000 had been paid as an advance in the year 2013 for the services obtained from a University for the examination of the computer data. The advance remained without being settled as the work had not been completed on the agreed date.

(d) General Deposit Account

The following observations are made.

- (i) Even though a sum of Rs.1,047,477,214 out of the Stamp Duty collected in the year 2013 should have been paid to the Provincial Councils, that revenue had been held in the Deposit Account No.6000-0000-00-0014-0003-000 without being paid to the Provincial Council.
- (ii) The balance of the General Deposit Account No. 6000-0000-00-0015-0126-000 as at 31 December 2013 amounted to Rs.42,602,599. Action had not been taken in terms of Financial Regulation 571 to credit to revenue deposits amounting to Rs.6,173,439 out of that which are older than 02 years. In addition, a sum of Rs.85,665 recorded from contract payments and credited to the Deposit Account had neither been refunded to the parties concerned nor credited to revenue despite the elapse of the contract and the retention periods.

(e) Revenue Accounts

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

(i) Revenue Estimation

The following deficiencies were observed during the course of audit test checks of estimating for revenue relating to the Revenue Codes under the purview of the Department.

- The revised estimated revenue for the year 2013 amounted to Rs.547,864 million. Out of that a sum of Rs.467,162 million had been collected during the year under review. As such the Department had not been able to collect revenue amounting to Rs.80,702 million out of the revised estimated revenue. Out of the total net tax revenue collected amounting to Rs.467,162 million, a sum of Rs.116,783 million or 25 per cent represented revenue directly credited to the Revenue Codes of the Commissioner General of Inland Revenue by various Departments.
- Out of the gross tax revenue amounting to Rs.478,881 million a sum of Rs.11,719 million or 2.44 per cent of the gross tax revenue had been refunded.

(ii) Arrears of Tax Revenue

According to the Return of Arrears of Tax Revenue as at 31 December 2013 furnished to audit, the arrears of tax revenue amounted to Rs.172,179 million and the following observations are made in connection with those arrears of tax revenue.

- The Return of Arrears of Revenue for the first half year and the Return of Arrears of Revenue for the second half year in terms of Financial Regulation 128(2)(c) had been furnished to the Department of Fiscal Policy after delays of 67 days and 135 days respectively.
- Out of those arrears of tax revenue, age analysis had not been furnished for Rs.2,725 million.
- According to the age analysis of arrears of tax revenue furnished, the arrears of tax revenue less than 10 years old, between 10 to 20 years old, between 20 to 40 years, and between 40 to 50 years amounted to Rs.137,769 million, Rs.12,225 million, Rs.135 million and Rs.1 million respectively.
- A sum of Rs.11,699 million out of the arrears of tax as at 31 December 2013 represented arrears of tax relating to 06 repealed Tax Acts. Even though periods exceeding 10 years had elapsed after the repeal of those Tax Acts, the Department had not prepared a formal and timely course of action for the recovery of those arrears of taxes.
- According to the age analysis of the arrears of Value Added Tax, a sum of Rs.47 million had been shown as the arrears of taxes relating to the period from the year 1995 to the year 2001. Nevertheless, those arrears of taxes related to the years 2007, 2009 and 2010.

(iii) Transfer of Defaulted Taxes to the Recovery Unit

The following observations are made in this connection.

- The arrears of revenue outstanding as at 31 December 2009 amounting to Rs.91,124 million had been transferred in the year 2011 to the “Defaulted Taxes Recovery Unit” in terms of the Settlement of Defaulted Taxes (Special Provisions) Act, No.16 of 2010. According to the Return of Arrears of Taxes, a sum of Rs.50,100 million out of that remained outstanding even by the end of the year under review. No information whatsoever relating to the sum of Rs.495 million recoverable as at 31 December 2013 out of the outstanding balances as at 31 December 2009 transferred to the Defaulted Taxes Recovery Division in the years 2012 and 2013 had not been furnished to audit.
- The “Defaulted Taxes Recovery Unit” had settled taxes totalling Rs.20,977 million during the year under review as recoveries, write offs and transfers out of that, a sum of Rs.164 million or 0.78 per cent only had been recovered. Out of the taxes recovered, 46.25 per cent had been again transferred to the Divisions of the Department relating to the taxes. As such it was observed that the recoveries of arrears of taxes in cash had been at an extremely low level.

- The particulars of taxes recovered out of the arrears of taxes as at 31 December 2012, during the year under review had not been shown in the Revenue Accounts. Out of the tax revenue collected amounting to Rs.467,162 million, the tax revenue collected in respect of the year under review as well had not been indicated.
- According to the Intranet Report relating to the computerized arrears of taxes of the Department, the arrears of taxes as at 31 December 2013 totalled Rs.188,664 whereas according to the Return of Arrears of Taxes and the C-49 Return the arrears of tax revenue as at that date amounted to Rs.81,023 million and Rs.95,743 million respectively. It was not possible to establish in audit, the actual amount of arrears of revenue due to the contradictory amounts appearing in the respected Returns referred to above.

(iv) Division-wise Classified Final Monthly Returns of Revenue

The following deficiencies were observed during the course of an audit test check of the Division-wise Classified Monthly Returns of Revenue.

- Tax revenue amounting to Rs.837 million relating to 04 categories of Unit Not Assigned taxes, receipts amounting to Rs.16 million relating to 03 categories of taxes to payment to account under Error Code and tax revenue amounting to Rs.123 million received from taxpayers not registered for 03 categories of taxes had been shown as monthly revenue of the year under review.
- The audit was informed by the reply dated 01 July 2014 that out of the tax receipts referred to above, the Unit Not Assigned taxes amounting to Rs.146 million and Rs.4 million out of the tax receipts brought to account under Error Code remained as at 23 June 2014. Nevertheless, none of the source documents relating to those taxes had been furnished to audit.

(v) Differences in the Balances between Departmental Books and the Treasury Books

The following differences were observed.

- Action had not been taken to identify the reasons for and rectify the differences, non-reconciliations and discrepancies (reconciliation of accounts) appearing in every year of accounts between the revenue records of the Treasury and the revenue records of the Department.
- The reasons for the differences between the Department books and the treasury Books had not been identified and adjusted. The difference of Rs.20 million in Control Account of the Revenue Code 10.02.01.00 had been deducted from Revenue Code 10.02.01.02 as a refund. Similarly, a difference of Rs.10,933 in the Control Account of the Revenue Code 10.02.02.00 had been added to the Revenue Code 10.02.02.01, the difference

of Rs.23 million in the Control Account of the Revenue Code 10.04.02.99 had been added again to that Revenue Code itself.

(vi) **Refunds of Revenue**

Revenue totalling Rs.10,659 million relating to the following 06 Revenue Codes according to the Treasury Computer records had been refunded during the year under review.

Category of Revenue -----	Revenue Code -----	Amount refunded by the Treasury ----- Rs.
Value Added Tax(Financial Services)	10.02.01.01	771,519,182
Value Added Tax(Other Services)	10.02.01.02	221,788
Value Added Tax (Imports)	10.02.01.04	805,215
Stamp Duty	10.02.07.00	3,132,932,099
Nation Building Tax (Imports)	10.02.12.03	6,749,493,111
Income Tax (Other)	10.04.02.99	3,669,808
Total		10,658,641,203 =====

The following observations are made in this connection.

- Erroneous credits amounting to Rs.775 million had been made to the following Revenue Codes. The debits made for rectification of those errors had been shown in the accounts as refunds.

Revenue Code -----	Category of Taxes -----	Amount shown as Erroneous Credits by the Treasury ----- Rs.
10.02.01.01	Value Added Tax (Financial Services)	771,519,182
10.02.07.00	Stamp Duty	75,075
10.04.02.99	Income Tax (Others)	3,669,808
Total		775,264,065 =====

- According to the Revenue Records of the Department a difference of Rs.221,788 existed between the Control Account of the Revenue Code 10.02.00.00 Value Added Tax and the Revenue Accounts of the Treasury. The debit for the rectification of that difference, had been made as refund of taxes under the Revenue Code 10.02.01.02.
- According to a letter of the Commissioner General of Inland Revenue, the Treasury had recorded sums totalling of Rs.6,750 million to the following Revenue Codes as refunds during the year under review.

Revenue Code	Category of Taxes	Refund of Tax
-----	-----	-----
		Rs.
10.02.01.04	Value Added Tax (Imports)	805,215
10.02.12.03	Nation Building Tax (Imports)	6,749,493,111

Total		6,750,298,326
		=====

- Even though the Commissioner General of Inland Revenue is the Revenue Accounting Officer for the Value Added Tax (Imports) and the Nation Building Tax (Imports) credited to those Revenue Codes, the refund of taxes from those Revenue Codes had been made by the Director General of Customs. But the particulars of authority and the refunds had not been furnished to audit.

(vii) Revenue Collection Accounts

Revenue Collection Accounts for revenue under the Economic Service Charge, the Value Added Tax and the Nation Building Tax had been maintained in two State Banks. The following differences were observed during the course of the examination of the Bank Reconciliation Statements for the year 2013 prepared by the Revenue Accountant who was in charge of those accounts.

- A sum of Rs.65,551,224 to the Collection Account for the Economic Service Charges Account, a sum of Rs.46,120,423 to the Collection Account for the Value Added Tax and a sum of Rs.68,768,608 for the collection Account of Nation Building Tax had been credited during the period January to December 2013 without the Bank Paying in Slips. It was not possible to establish in audit whether such receipts without paying in slips had been correctly brought to account.
- The taxes paid had not been recorded in the accounts of the respective taxpayers who paid the taxes due to the unavailability of the paying-in-slips.
- The particulars of the money received without the paying-in-slips (source information) had not been furnished to audit.
- The balances of the two Collection Accounts maintained by the Department in a State Bank for the Withholding Tax (on Interest) and the Withholding Tax (on Fees and Other) as at 31 December 2013 amounting to Rs.158,556,484 and Rs.52,430,616 respectively had not been transferred to the Account of the Deputy Secretary to the Treasury. As such the revenue appearing in the accounts as at 31 December 2013 had been understated by that amount.

(viii) Problems arisen from the Tax Acts

In the cancellation of the tax registration of the taxpayers relating to the Value Added Tax and the Nation Building Tax whose turnover did not exceed Rs.3 million per quarter or Rs.12 million per year in terms of provisions in the Value Added Tax (Amendment) Act, No.17 of 2013, the registration of taxpayers with arrears of tax had not been cancelled. In view of that portion, they had been allowed the opportunity for recovery of the tax fraudulently under their TIN numbers.

(ix) Cheques received for Taxes Dishonoured

The audit test check of the dishonouring of cheques received relating to the Value Added Tax and the Nation Building Tax from the year 2012 to June 2013 revealed the following deficiencies.

- According to the Register of Dishonoured Cheques, out of 385 cheques received in the year 2012, two hundred and fifty three cheques valued at Rs.47 million and 77 cheques valued at Rs.18 million out of 116 cheques received in the year 2013 up to 30 June had been dishonoured. Out the above cheques dishonoured, a sum of Rs.46 million relating to 234 cheques further remained recoverable even as at 30 June 2014.
- A test check of 57 taxpayers in the computer system carried out relating to dishonoured cheques revealed that 102 cheques valued at Rs.103 million had been dishonoured. A sum of Rs.44 million out of those cheques had not been recovered even by 31 December 2014.
- Seventeen postdated cheques valued at Rs.5,132,109 had been obtained from 17 taxpayers and out of that 8 cheques valued at Rs.272,918 had been dishonoured. The money relating to those cheques had not been obtained even by 31 December 2014.
- According to the letter of instructions dated 20 January 2012 of the Commissioner of Collections Clearance, in cases where cheques presented for the payment of taxes are dishonoured, recovery should be made by adding 10 per cent of the value of such cheques. Nevertheless, the test check revealed that penalty amounting to Rs.2,155,062 only had been recovered on dishonoured cheques valued at Rs.81,154,160.

(x) Effective Ratio

The total expenditure of the Department in the year 2013 amounted to Rs.1,876 million and the actual tax revenue amounted to Rs.467,162 million. As such the effectation ratio had been 249:1 that is the cost of collection of Rs.100 amounted to 40 cents.

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

According to the Reconciliation Statement of the Advances to Public Officers Account Item No.24601 as at 31 December 2013, the balances that remained outstanding as at that date totalled Rs.2,395,787 and the Department had failed to recover those outstanding balances.

11.4 Good Governance and Accountability

11.4.1 Annual Performance Report

According to the Public Finance Circulars No.402 of 12 September 2002 and No.402(1) of 20 February 2004 referred to the letter No.PF/R/2/2/3/5(4) dated 10 March 2010 of the Director General of Public Finance, the Annual Performance Report which should be prepared by the Department of Inland Revenue should be tabled in Parliament, with a copy to the Auditor General, within 150 days after the close of the financial year. Nevertheless, the Performance Report for the year under review had been forwarded on 23 October 2014 to the Ministry for tabling in Parliament.

11.4.2 Annual Procurement Plan

Even though the Annual Procurement Plan had been prepared in terms of the National Budget Circular No.128 of 24 March 2006 procurement had not been done in accordance with that plan.

11.4.3 Internal Audit

Even though the Department had established an Internal Audit Unit, action had not been taken to carry out the internal audit functions by delegating the authorities required for examination of tax revenue.

11.4.4 Implementation of the Audit and Management Committee

The Audit and Management Committee functioned under the Ministry of Finance and Planning and only 02 meetings had been held for the year 2013.

11.5 Assets Management

The following deficiencies were observed during the course of the test check of the assets of the Department.

(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	Idle or Underutilized Period
-----	-----	-----
Transformers	02	Two Transformers supplied during the modernization of the Inland Revenue Building had not been used from the year 2009.
Closed Circuit Television Cameras	70	Even though Closed Circuit Television Cameras had been installed in the floors of Inland Revenue Building in the year 2010 during the modernization, those are not being used.

The above assets had not been recorded in the Register of Fixed Assets.

(b) Assets given to other Parties

An electricity generator owned by the Department had been given to a Public Corporation.

(c) Balances Receivable

A sum of Rs.50 million had been paid on 28 February 2008 to the Chairman of a Public Corporation for the acquisition of a block of land 100 perches in extent owned by that Public Corporation by the Department of Inland Revenue. Even though the acquisition of that property had been stopped subsequently, the advance had not been recovered.

(d) Unsettled Liabilities

Even though a sum of Rs.60,263,549 only had been shown in the Appropriation Account as the unsettled Liabilities less than one year as at the end of the year under review, further liabilities totalling Rs.7,715,839 existed in addition under 3 Objects.

11.6 Non-compliances

Non-compliance with Tax Requirements

Instances of action taken without complying with the tax requirements observed during the course of audit test checks are given below.

- (a) According to Section 58(3)(a) of the Value Added Tax Act, No.14 of 2002, in case of default in the payment of a tax, action should be taken to set off refundable taxes against such tax after informing the taxpayer. According to a test check of the refunds of the Value Added Tax revealed that despite the existence of sums totalling Rs.334 million according to the computerized accounts of 20 taxpayers, a sum of Rs.105 million out of that had been refunded to them in the year 2013. The Commissioner General of Inland Revenue explained that it had arisen due to the adjustments made to old arrears of tax not being recorded in the accounts of the taxpayers. But, despite those arrears of tax remaining as such even by 31 December 2014, taxes had been refunded without making adjustments.
- (b) In terms of Section 21 of the Value Added Tax (Amendment) Act, No.9 of 2011 and Section 55 of the Inland Revenue (Amendment) Act, No.22 of 2011 provision had been made to exempt the Value Added Tax defaulted on or before 31 December 2010 and the income tax defaulted on or before 31 March 2010. The Commissioner General of Inland Revenue had, by his letter dated 09 December 2013 informed the audit that applications for exemption had been made by 80 taxpayers in respect of the year 2011, by 86 taxpayers in respect of the year 2012 and by 21 taxpayers in respect of 30 September 2013. Even though a period exceeding two years had elapsed after the amendments, the Department had not taken action on 118 applications out of the above applications for tax exemptions.

- (c) The arrears of taxes as at 31 December 2013 relating to 06 repealed Tax Acts amounted to Rs.11,699 million and those taxes had been removed from the computer and the TIN Numbers with effect from April 2014 and transferred to the Defaulted Taxes Recovery Units. As the work on those taxes is maintained manually, the following deficiencies relating to the internal control thereof were observed in audit.
- (i) The possibility of omission of the arrears of tax balances prevailed due to the existence of the overall arrears of tax of a taxpayer in the report of the Arrears of Tax Recovery Unit as well as the computer system.
 - (ii) Inducement to give priority for the recovery of current taxes rather than collecting the old arrears of tax.
 - (iii) The receipts in connection with the arrears of tax transferred being recorded first in the computer system and removed and recorded in the Registers of Arrears of Tax subsequently, resulting in the same receipt being recorded twice.
 - (iv) A monthly return of the payments made for arrears of tax is provided by the Computer Division to the Defaulted Taxes Recovery Unit. As such the Registers of Arrears of Taxes maintained by the Defaulted Taxes Recovery Units are posted on a monthly basis instead of being posted daily.

11.7 Weaknesses in the Execution of Projects

 The contract for the modernization of the Inland Revenue Building on a cost estimate of Rs.1,585 million had been awarded in the year 2009 to a Public Corporation and the work on modernization had not been done properly. The following observations were made in that connection.

- (i) There were difficulties in the conduct of office work due to the rain water flowing into certain floors of the building.
- (ii) Even though a period exceeding 04 years had been taken for the modernization work, the construction of the motor vehicle yard consisting of 09 floors included in the estimate scheduled for completion by 31 December 2009, had not been completed even by 31 December 2013.
- (iii) The office equipment, fixtures and machinery supplied under the contract had not been formally handed over after the completion of modernization work.
- (iv) Certain structures of the building, fixtures and equipment supplied had broken down.
- (v) The modernization of the electrical system of the building had not been properly done by the Public Corporation concerned. Bids had not been invited for the rectification of the deficiencies and a sum of Rs.862,400 had been paid to an external contractor for that purpose.

11.8 Irregular Transactions

The following transactions of irregular nature were observed during the course of the audit test check of transactions of the Department.

(a) Purchase of 235 Computers

A sum of Rs.26,685,120 had been paid to a private company for the purchase of 210 Lenova Think Centre M72e model computers for the Department while a sum of Rs.4,125,276 had been paid to another private company for the purchase of 25 HP Compac Elite 8300 model computers. The following deficiencies were observed in the examination of those purchases.

- (i) Even though the value of the procurement exceeded Rs.30 million, provision of Rs.5 million only had been made for the purchase. As the publication of the Bid Notice, obtaining the reports of the Technical Evaluation Committee and the approval of the purchase had been made by the Procurement Committee, the liabilities incurred did not comply with Financial Regulation 94(1).
- (ii) Even though the provision for the purchase of computers should have been made under the Object 2102 in terms of the State Accounts Circular No.174 of 18 October 2004, the Department had made provisions for the purchase of computer under the Object 2103 and utilized for the purpose.
- (iii) A Performance Guarantee of not less than 10 per cent of the contract value had not been obtained in terms of the Guideline 5.4.10 of the Government Procurement Guidelines from the two private companies which supplied the computers. In addition, action had not been taken to obtain Bid Guarantee in terms of the Guideline 5.3.11 of the Government Procurement Guidelines.
- (iv) Agreements had not been entered into with the suppliers for the purchase of computers.
- (v) According to the letter of awarding the contracts dated 15 May 2013, the computers should have been supplied within two weeks. Nevertheless, the computers had been supplied on 01 and 12 August 2013 after a delay of two months. Liquidated damages could not be recovered as the Department had not entered into agreements with the companies concerned.
- (vi) The purchase of 210 Lenova Think Centre M72e model and 25 HP Compac Elite 8300 model computers as decided by the Department, had not been supplied with the relevant specifications and the Department had appointed a committee to examine the matter and the companies concerned had agreed to rectify the defects identified. As such it was established in audit that the computers supplied by the companies concerned did not conform to the specifications.

(b) Examination of Computer Data

A financial fraud of Rs.129 million had been committed by fraudulently entering data on the payment of taxes to the Department. A University had agreed to examine the Backup copies of the computer system and furnish a report for Rs.2.8 million in accordance with the order made by the Court in connection with the financial fraud. A sum of Rs.1,400,000 or 50 per cent of the contract value had been paid to the University concerned. The University had not furnished the report even by 31 December 2014. The Department had not taken action to inform the Court of the position or to finalise the investigation and recover the loss.

(c) Repairs to the Official Quarters of the Deputy Commissioner of the Regional Office, Nuwara Eliya

The Department had invited bids for carrying out repairs to the official quarters of the Deputy Commissioner, Regional Office, Nuwara Eliya and awarded the contract for Rs.11 million to bidder who had furnished the lowest quotation.

The following deficiencies were observed in this connection.

- (i) Provision in respect of the year under review had not been made for carrying out repairs.
- (ii) Even though the Guideline 2.8.1(a) of the Government Procurement Guidelines requires that the Technical Evaluation Committee should consist of one member who is a subject specialist, an officer work subject specialty (Engineering Profession) had not been appointed to the Technical Evaluation Committee concerned.
- (iii) According to Clause 14 of the agreement entered into with the contractor, the contractor cannot assign the contract work to any other person without the written approval of the Commissioner General of Inland Revenue. Nevertheless, the landscaping of the garden had been assigned to a sub-contractor for Rs.1,141,400.
- (iv) According to the Procurement Plan for the year 2013, work of this contract should have been commenced on 15 February 2013 and completed by 30 November 2013. Nevertheless, the contract had been completed only on 26 June 2014.

(d) Repairs to the Regional Office Building, Nuwara Eliya

The following deficiencies were observed at an examination of the repairs to the Regional Office Building, Nuwara Eliya.

- (i) Even though the Engineer of the Department had prepared an estimate of Rs.11,195,669, the contract had been awarded for Rs.8,467,818 to the institution which had furnished the lowest quotation. Despite the prevailing variance of 24.36 per cent as against the Departmental estimate, the Engineer

concerned had confirmed that the contract can be executed for that amount. Nevertheless, the contractor had failed to complete the contract as specified.

- (ii) Even though the contract work should have been completed within three months and twenty one days, that is, by 10 December 2013, the work had not been completed even by 31 December 2014. No action had been taken against the contractor in this connection.
- (iii) Even though a sum of Rs.3,987,216 had been paid to the contractor on 05 bills on 25 June 2014, liquidated damages had not been recovered.

11.9 Transactions of Fraudulent Nature

Fraudulent Allocation of Entries in the Computer System

Irregularity of Rs.184,665,975 relating to 07 tax files and Rs.19,242,377 relating to another tax file had been committed in the year 2012 through the fraudulent alteration of entries in the Departmental Computer System. The preliminary investigations relating to the two officers connected thereto had not been completed even by 31 December 2013.

11.10 Human Resources Management

Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2013 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	894	731	163
(ii) Tertiary Level	1,024	552	472
(iii) Secondary Level	662	542	120
(iv) Primary Level	397	365	32
Total	2,977	2,190	787

The Department had not taken action to fill 787 vacancies even by the end of the year under review.

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 2013 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 05 February 2015. 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 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.

12.3 Audit Observation

According to the Financial Records and the Books for the year ended 31 December 2013 it was observed that except for the effects of the general observation appearing at (a) to (i) and other major audit findings appearing in paragraphs 12.4 and 12.14 herein, the Appropriation Account, the 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 by 31 March 2014.

Item Number/ Number	Account	Name of Account	Date of Presentation of Accounts to Audit
24701		Reconciliation Statement of the Advances to Public Officers Account	2014.05.07
7000/0000/000/02470/002		Expenditure on Confiscated and Forfeited Goods Advance Account	2014.05.07
6000/0000/00/0015/0127/000		Sundry Deposit Account	2014.06.18
6000/0000/00/0006/0032/000		Customs Overtime and Cargo Examination Fees Fund	2014.05.07
6000/0000/00/0006/0061/000		Customs Officers Management and Compensation Fund	2014.05.07
6000/0000/00/0006/0062/000		Customs Reward Fund	2014.05.02

(b) Non-maintenance of Registers and Books

It was observed during the course of test checks that Sri Lanka Customs had not maintained the following registers while certain registers had not been maintained in the proper and updated manner.

Type of Registers	Relevant Regulation	Observation
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Register of Computers, Accessories and Software	Treasury Circular No.1A1/2002/02 of 28 November 2002	Not maintained
Register of Fixed Assets	Treasury Circular No.842 of 19 December 1976	Not updated
Appropriation (Votes) Ledger	Financial Regulation 447	Not updated

(c) Lack of Evidence for Audit

The evidence in support of the following transactions had not been furnished to audit.

- (i) Sixty one payment vouchers totalling Rs.117,195,709 had not been furnished to audit.
- (ii) Certain files on investigations, files of reward lists, information on assets and human resources given to other institutions, files on accidents to motor vehicles prior to the year 2012 and the information on the use of assets and human resources belonging to other institutions relating to the Expenditure on Confiscated and Forfeited Goods Advance Account had not been furnished to audit by the Sri Lanka Customs. As such those transactions could not be satisfactorily vouched in audit.

(d) Budgetary Variance

Even though expenditure should be managed within the limits of the provisions made in the Annual Budget Estimates in terms of the National Budget Circular No.157 of 28 December 2012, instances of action contrary to those instructions were observed in audit.

- (i) The estimated provision for the Object for fuel amounted to Rs.27,000,000 and out of that a sum of Rs.26,954,018 had been utilized. In addition to that expenditure, a sum of Rs.13,404,494 had been spent from the Rewards Fund.
- (ii) Provision amounting to Rs.3,800,000 had been made for the acquisition of furniture, office equipment and machinery and out of that a sum of Rs.3,751,156 had been utilized. In addition to that provision, a sum of Rs.84,656,355 had been spent on those activities from the Management and Compensation Fund.

- (iii) Provision amounted to Rs.31,660,000 had been made for stationery and office requisites and out of that a sum of Rs.31,642,910 had been utilized. In addition to that a sum of Rs.9,358,916 had been spent from the Management and Compensation Fund.

(e) **Imprest Accounts**

A sum of Rs.4,751,600 which should have been settled by the Sri Lanka Customs by 31 December 2013 to the Department of Treasury Operations had not been settled even by 30 September 2014. Out of that balances amounting to Rs.1,846,600, Rs.2,880,000, Rs.25,000 had been existing from the years 2007, 2008 and 2010 respectively.

(f) **Sundry Deposits Account**

The following observations are made.

- (i) The balances of the Deposit Ledgers as at 31 December 2013 had not been shown in terms of Paragraph 4.3(1) of the State Accounts Circular No.209/2010 of 12 July 2010.
- (ii) The provisions in Financial Regulations 571(1), 565(3),(4) and (5) had not been followed in relation to the preparation of half yearly statements of all deposits older than 02 years in the Deposit Ledgers, maintenance of balancing accounts, carrying forward of balances and the preparation of monthly abstract statements of deposits.
- (iii) Material differences amounting to Rs.287,000 and Rs.18,608,074 respectively existed between the totals of individual balance of sundry deposit receipts and the payments of the General Deposit Account and the totals of the individual balances shown in the accounts.
- (iv) The value of cancelled cheques amounting to Rs.336,674 had also been included in the balance of the Reconciliation Statement as at 31 December 2013.
- (v) Deposits amounting to Rs.7,663,624 had been understated and deposits amounting to Rs.2,174,624 had been overstated in the crediting of the lapsed deposits to the State Revenue in terms of Financial Regulation 571(2).
- (vi) The year end balances of the “Imports External Examination Fees Deposit Account” and the “Full Container Handling Charges Deposit Account” had been converted to debit balances of Rs.361,150 due to payments exceeding the balances available made during the year being reported.

(g) Revenue Accounts

 The following observations are made.

- (i) According to the 15 Accounts presented, revenue amounting to Rs.13,226 million had been in arrears and the revenue in arrears related to the periods from the year 2008 to the year 2012. The follow-up action on the recovery of the revenue in arrears had been at a weak level.
- (ii) The half yearly Returns of Arrears of Revenue as at 30 June 2013 relating to the 15 Revenue Codes in terms of Financial Regulation 128(2) had not been prepared.
- (iii) The following deficiencies relating to the container release process of the year 2013 were observed.
 - Out of the 175,062 Customs Entries relating to the containers for the year presented, 140,624 Entries or 80.33 per cent had been released through the Amber Channel, 18,748 Entries or 10.71 per cent had been released through the Detail Channel, 2,257 Entries or 1.29 per cent had been released through the High Risk Channel and 6,217 Entries or 3.55 per cent had been released through the Red Channel, while 7,216 Entries or 4.12 per cent had been released under the Board of Investment and other containers. As such it was observed that out of the total Customs Entries, nearly 15.55 per cent had been subjected to a proper examination process while nearly 84.45 per cent had been released without a full examination of the containers. Such methodology could have provided opportunities for the release of imports contrary to the provisions in the Customs Ordinance.
 - A Deputy Director of the Screening Division determines the nature of the Customs examination and a proper methodology for that had not been introduced. Even though it had been stated that the examination methodology is determined according to the experience of the officer concerned and the history of the importer, the examination methodology had been determined according to the discretion of the officer as the Screening Division did not have the historical information of the importers and the information relating to identification of offences.
 - The examination methodology automatically selected by the “Asikuda” computer software is altered at the discretion of the officers of the Screening Division. Even though the prevention of alteration of changes from the Amber Channel to the Detail Channel, Red Channel and High Risk Channel is appropriate, the need for the prevention of changes from those channels to the Amber Channel was observed.
 - The Wharf Clerks were observed loitering among the officers on duty in the Long Room. The cameras of the Long Room connected to the Security

camera system installed in the Head Office are focused on the exterior of the Building.

- Even though Sri Lanka Customs pays a sum of Rs.3,876,000 per quarter for servicing the 04 Scanners purchased for US\$15,600,000 under a loan scheme of the Bank of Ceylon at an annual interest rate of 7.03 per cent and had spent a large amount as primary cost of spare parts and maintenance, out of Rs.261,165 containers relating to the 175,062 Customs Entries presented in the year 2013, a very small number of 24,985 containers or 9.57 per cent only had been subjected to screening.
 - Out of the Customs Entries for the year 2013, 80.33 per cent or 140,624 Customs Entries had been released through the Amber Channel. Out of that, a large number had been referred to the Customs Examination Office of a Container Terminal situated about 4 kilometers from the Port of Colombo. But the Cargo Control Computer System had not been provided to the Customs Sub-office at that Terminal to ensure whether all the containers referred to that Terminal had actually been brought to the Terminal.
- (iv) One or two containers out of a large number of containers imported under full container loads are sent to the above Terminal and the balance containers are sent to the stores of the Importer. In that process Customs clearance is done on the basis of the standard certificate obtained on the sample referred to the Terminal. As Customs supervision is not exercised on the containers sent to the stores of the Importers, it was observed in audit that the possibility of committing irregularities through that process existed.
- (v) Very often officers are transferred from their work stations once in every six months. In view of this situation, weaknesses such as the non-preparation of progress reports properly resulting in the unavailability of adequate information for analysis and arriving at decision by other Divisions, lack of continuity in action on case files and lack of proper filing of documented information in external investigations prevailed.
- (vi) Motor Vehicles purchased for high prices from auctions held in Japan had been imported to Sri Lanka and the Customs had computed the duty by assigning very low values, thereby depriving the Government of a large amount of revenue as Customs Duty. According to an examination of a sample of 83 motor vehicles of Free on Board Value of Japan Yen 64,255,000 which included the auction price and other costs amounting to the information obtained from the Internet Web Site, revealed that the Customs had considered a lower value of Japan Yen 47,298,250 for duty purposes. As Sri Lanka Customs had computed the duty on a value less by Japan Yen 16,956,750, the Government had been deprived of a large amount of tax revenue. Out of the 33 motor vehicles, 10 motor vehicles had been imported on the basis of paying full duty and due to the understatement of value, the revenue lost to the Government amounted to about Rs.5,025,942.

- (vii) According to the Order No.DOPL 854 B dated 21 May 2013 of the Director General of Customs, instead of computation of the duty on motor vehicles based on the actual cost, the amount of duty chargeable after 21 May 2013 on a standard value had been determined. The prices relating to the respective groups of motor vehicles submitted by the Local Agents had been used as the basis for the determination of the Fixed Price Policy. According to a test checks of 11 motor vehicles revealed that as the standard prices less by Japan Yen178,500 or ven lesser, had been determined, the loss of tax income to the Government had been at a very high level.
- (viii) According to the Budget Proposals of the year 1988, facilities for import and export had been provided to the institutions which are not registered with the Board of Investments Sri Lanka manufacturing garments for export. Those activities had been supervised by the Investment Facilities Division of the Sri Lanka Customs. Deficiencies such as the lack of coordination between the Division implementing the Investment Facilities and the Government Institutions, the lack of data necessary or the confirmation of the ratios used for reconciliation of imports and exports, the lack of a methodology to ensure whether the goods produced from the imported materials are actually exported or whether they are released to the local market without the payment of customs duty and action not taken to recover arrears of the Value Added Tax amounting to Rs.3,933,662 revealed at an audit test check of 12 Customs Entries were also observed.
- (ix) Tax revenue of Rs.60 million approximately had been deprived to the Government due to the registration by the Departments of Motor Traffic, 10 motor vehicles of different makes either imported or assembled without payment of customs duty illegally by fraudulent use of Customs Entries. The above fraud had been made possible due to reasons such as the failure to communicate all the data on the motor vehicles imported, the failure of the Sri Lanka Customs to obtain all the data on the motor vehicles registered by the Department of Motor Traffic and reconcile with the data of the imported motor vehicles, the failure to investigate the manner in which the motor vehicles imported fraudulently were released to the importers without Customs examination and identify the parties who had been aiding and abetting such actions and take legal action against those parties.
- (x) According to one case file, undeclared items such as 45 LCD Monitors, 06 electronic ovens, 05 deep freezers, 05 medium size refrigerators, 06 small deep freezers, 10 rice cookers and a large number of electrical equipment had been classified as used goods, assessed at Rs.148,330 and released on the recovery of a penalty of Rs.400,000. Such mitigated penalties encourage the racketeers engaged in customs frauds. In addition a large number of instances in which undeclared items detected had been released instead of confiscating the goods were observed the audit.
- (xi) In view of the failure to follow a formal stores methodology for the secured stores, a large number of items were deteriorating in a Container Examination

Yard. In addition, the officers in charge of stores had not properly handed over the stores when they were transferred and as a result the stores records had not been maintained in the correct and updated manner. As such locating goods and items had been difficult. Certain items subjected to a test checks were not physically produced.

- (xii) Goods put up for sale by the Central Disposal Division had not been sold and as such those goods had to be put up for sale from time to time. Goods had been destroyed due to the deficiencies in the assessment process of the value of Goods, unavailability of certain parts of goods at the time of inspection by the buyers and the irregular storage methodologies. Accordingly, the revenue expected for collection from the goods put up for sale by the Central Disposal Division could not be collected by the Government.
- (xiii) The following deficiencies were observed during the course of a test check of the payment of Pay As You Earn Tax.
- The Tax Table of the Commissioner General of Inland Revenue contain the rates from ½ to 12 times for the computation of Pay As You Earn Tax on one off payment of allowances to the staff and when the rate exceeds the above times, such rate should be obtained by consulting the Commissioner General of Inland Revenue. Action had not been taken to obtain the applicable rate from the Commissioner General in respect of 121 instances in which times more than that was required.
 - Even though the permanent service income per month of an officer is less than Rs.50,000 during the year of assessment, in cases where the annual income together with one off payments exceeds Rs.600,000, the Pay As You Earn Tax should be recovered from such officers. Nevertheless, the tax had not been recovere4d in 06 such instances.
 - In certain instances, the monthly service income had been computed without taking into consideration the additional payments such as external examination fees and reserve allowances.
 - According to the Tax Table No.02 on the recovery of Pay As You Earn Tax from one off payments, wherever one off payments are made, the one off payments made previously during the year of assessment should be accumulated, rate that with the monthly permanent earnings and use the rate of tax appropriately. As it had not been so done, the under-recovery of tax from 234 officers subjected to a test check amounted to Rs.4,823,846.
- (xiv) An examination of the performance of the Central Postal Exchange Customs Office revealed that nearly 50,000 parcels are received monthly by the Foreign Postal Division. Out of that, about 1 per cent of the parcels selected at the discretion of the Customs Officers are examined. As such the

possibility of the exemption of dutiable goods from the payment of duty existed.

- (xv) According to the information in the computer system of the Sri Lanka Customs, it had not been confirmed that the Chassis number of 41 high value motor vehicles registered by the Department of Motor Traffic, had been imported by the payment of Customs Duty legally.
- (xvi) Two Assistant Preventive Officers, a Customs Inspector and a Customs Examiner had been assigned to the Customs Preventive Division of the Ruhuna Magampura Mahinda Rajapaksa Port. Nevertheless, any documentary information on customs activities and investigations other than the normal customs work relating to the nautical vessels, had been maintained. Case files had also not been opened.
- (xvii) Subsequent to the sale of obsolete iron of the vessel "Fara -3" surrendered to the Army Custody in the year 2009, to an external party by the Army, the proceeds of the sale amounting to Rs.80,300,000 had been credited to the Army Officers Welfare Fund. The customs duty on those obsolete iron had not been recovered in terms of Section 129 of the Customs Ordinance by considering those as obsolete iron imported to the country in terms of Section 238 of the Merchant Shipping Art, No.52 of 1971.
- (xviii) One hundred and twenty one birds valued at Rs.4,590,000 imported without the formal approval confiscated and handed over to the Zoological Gardens, Dehiwala had been released subsequently to the importer. As such tax revenue amounting to Rs.2.46 million had been deprived of to the Government.
- (xix) There were instances in which prices offered by the buyers for the motor vehicles and equipment abandoned by the importers and offered for sale by auction by the Customs had been higher than the prices recommended by the Customs. As such whether the prices recommended by the Customs for motor vehicles and equipment reflected the actual market price is a contentious issue.

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

The following observations are made.

- (i) According to the Reconciliation Statement of the Advance to Public Officers Account Item No.24701 as at 31 December 2013, the balances that remained outstanding as at that date totalled Rs.6,947,978. The follow-up action on the recovery of those outstanding balances had been at a weak level.
- (ii) The reasons for the further remaining difference of Rs.56,557 between the total of the Individual Balances Classification Summary and the balance of the Control Account had not been explained.

- (iii) The loan balances totalling Rs.1,766,620 of 16 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.
- (iv) The follow-up action on the recovery of loan balances totalling Rs.3,935,067 relating to officers retired, deceased, interdicted or vacated post brought forward over a long period had been at a weak level. Action in this connection had not been taken in terms of Section 4 of Chapter XXIV of the Establishments Code.
- (v) Contrary to the instructions in the Public Administration Circular No.30/2008 of 31 December 2008, distress loans exceeding the maximum of Rs.250,000 thereof by a sum of Rs.976,387 had been granted up to 31 December 2013 to 13 officers. The loans, exceeding the maximum of distress loans, granted had not been recovered in terms of the instructions in paragraph 02 of the National Budget Circular No.157(1) of 31 January 2013.
- (vi) Six officers who had obtained property loans in 06 instances, had not produced the deeds of the lands within 06 weeks. Action in that connection had not been taken in terms of Sections 3.1.3 and 11.9.1 of Chapter XXIV of the Establishments Code to double the monthly installment of the loan and increase the interest by 5 per cent until the total amount of the loan is repaid.

(i) **Other Advance Accounts**

Expenses on Goods Seized and Confiscated Advance Account

The following observations are made.

- (i) The difference of Rs.35,765 in the balance of advances paid as at 31 December 2013 between in Treasury printouts and the financial statements had not been reconciled.
- (ii) A sum of Rs.2,764,113 brought forward from the year 2007 as surplus receipts arisen due to the non-settlement of the full advance when rewards are paid, settlement of a part of the advances or deficiencies in the maintenance of registers, or errors in the settlement had not been settled either by Crediting the State Revenue or otherwise.
- (iii) Action had not been taken to identify the balances remaining without being settled or doubtful of settlement over a long period due to reasons such as the non-existence of a Customs Offence after the conclusion of investigations or the inadequacy of the revenue received for the settlement of the advances, and write off in terms of provisions in the Financial Regulations.

- (iv) Records and registers had not been properly maintained. An adequate supervision had not been carried out and the balances had not been confirmed from time to time.

12.4 Good Governance and Accountability

12.4.1 Annual Procurement Plan

The Procurement Plan for the year under review in terms of the National Budget Circular No.128 of 24 March 2006, had not been prepared even by 31 December 2013.

12.4.2 Implementation of the Audit and Management Committee

Even though the Audit and Management Committee should meet at least once per quarter, only one meeting had been held for the year 2013.

12.5 Assets Management

The following deficiencies were observed during the course of test checks of the assets of the Sri Lanka Customs.

(a) Idle and Underutilized Assets

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

- (i) Seven finger printing machines purchased by the Sri Lanka Customs in the year 2007 at a cost of Rs.859,500 had not been used even by 31 December 2013. The service agreement charges on those machines amounting to Rs.153,380 had been paid annually and the Customs Officers had refused to use the finger printing machines.
- (ii) Four container examination scanners purchased in the year 2005 financed from a loan of US\$15,600,000 obtained from the Bank of Ceylon at 7.03 per cent annual interest remained underutilized.

(b) Conduct of Annual Boards of Survey

The following observations are made.

- (i) 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 2013 should have been conducted and the reports thereon should have been furnished to the Auditor General before 15 March 2014. Nevertheless, the Sri Lanka Customs had not furnished the Reports of the Board of Survey relating to eighty seven (87) Divisions.

(c) Assets given to External Parties

The Sri Lanka Customs had given a land of 36'x15' extent to the Department of Coast Conservation.

(d) Non-current Assets

The following deficiencies were observed during the course of the audit test checks of recording and security of non-current assets.

- (i) Even though Financial Regulation 802(3) and Paragraph 4.2 of the Management Audit Circular No.DMA/2009(2) dated 08 June 2009 require that all information relating to motor vehicles should be recorded in the Register of Fixed Assets on Motor Vehicles, it had not been so done.
- (ii) None of the files containing the particulars of the goods conveyed from the Old Customs Building to the new Customs Building had been furnished to audit.

(e) Unsettled Liabilities

The unsettled liabilities of the Sri Lanka Customs less than one year old as at 31 December 2013 amounted to Rs.167,338,727.

The following observations are made in this connection.

- (i) Even though a sum of Rs.167,338,727 had been shown in accordance with Paragraph 3.11 of the State Accounts Circular No.231/2013 of 04 November 2013 as the liabilities for settlement as at 31 December 2013, in addition to those liabilities, further liabilities of the year 2013 amounting to Rs.193,430,043 had been settled in the year 2014.
- (ii) In entering into liabilities on supplies and services, liabilities amounting to Rs.9,562,102 exceeding the limit had been entered into under the Object 247-1-1-1403 contrary to Financial Regulation 94(2).

12.6 Non-compliances
-----**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 Non-compliance Regulations	-----
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(a) Statutory Provisions

Notification published in the Gazette Extra ordinary No.1530/13 of the Democratic	Stamp duty at Rs.25 had not been recovered on payments exceeding
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Socialist Republic of Sri Lanka dated 01 January 2008. Rs.25,000 made in 23 instances.

(b) Establishments Code of the Democratic Socialist Republic of Sri Lanka

- | | |
|---|--|
| (i) Section 6.1 of Chapter XIX | Even though a Tobacco Tax Reward Fund should be established, it had not been so done.
An officer had been provided an official quarter for a period exceeding 05 years without the formal approval. |
| (ii) Sections 6.3 and 6.14 of Chapter XIX | An officer who had retired in March 2011 had not handed over the quarters and that officer's sister had been in unauthorized occupation of the quarters. Another officer who had retired in January 2013 had been occupying the official quarter up to May 2013 without paying rent. |
| (iii) Section 6.10 of Chapter XIX | The official quarters occupied by an officer who had died in September 2012, had been occupied under his name up to April 2013 and handed over. But rent had not been recovered for that period. |
| (iv) Section 7.2 of Chapter XIX | Arrears of rent in respect of 02 official quarters amounting to Rs.153,110 and the penalty rent of Rs.27,802 in respect of one of those official quarters had not been recovered. |
| (v) Section 9.1 of Chapter XIX | Action in terms of the Section had not been taken in respect of two officers who had been in unauthorized occupation of official quarters. |
| (vi) Section 13.2 of Chapter XLVIII | Even though the period for finalizing the investigations should be specified at the time the orders are made, it had not been done in 08 instances. |
| (vii) Sections 13.12 and 22.1 of Chapter XLVIII | Action in terms of the provisions had not been taken in 11 instances. |

(c) Public Administration Circulars

- | | |
|--|--|
| Circular No.06/2004(1) of 30 December 2011 | Even though the Disciplinary Officer should take action to finalize the inquiry within one year from the issue of a charge sheet to an accused officer, it had not been so done in 02 instances. |
|--|--|

(d) Government Procurement Guidelines-----
Guideline 5.6

In one instance, specification on procurements had not been issued.

12.7 Deficiencies in the Operation of Bank Accounts**(a) Balances for Adjustments**-----
The information revealed at an analysis of the adjustments made in the Bank Reconciliation Statements for December 2013 by the Sri Lanka Customs is given below.

Particulars of Adjustments	Age Analysis			Total
	Over 06 Months less than 01 year	Over 01 year less than 03 years	Over 03 years	
	Rs.	Rs.	Rs.	Rs.
Deposits not realized	--	4,166,667	--	4,166,667
Cheques issued but not presented for payment	18,303	--	--	18,303
Unidentified Credit Balances	--	--	4,166,667	4,166,667

- (i). Action in terms of Financial Regulation 396(d) had not been taken on cheques valued at Rs.18,303 issued but not presented for payment for more than 06 months.
- (ii). Cheques valued at Rs.4,166,667 older than two years had been identified as unrealized receipts as well as unidentified receipts. The correct accounting procedure had not been followed in that connection.
- (iii). According to Financial Regulation 396(d), in the case of cheques of which the validity period has expired, action should be taken to inform the payee to return the cheque for revalidation. But such action had not been taken on validity expired cheques.
- (iv). The Register of Cheques Handed Over had not been maintained in the order of cheque numbers. As such it was not possible to obtain the correct information on the cheques not taken over by the payees out of those remaining unrepresented.
- (v). Cheques for the payment of rewards to the Customs Officers had not been recorded in the Register of Cheques Handed Over.

- (vi) Even though cheques should be issued in the serial order of cheque number and that they should be recorded accordingly in the cash book, there were instances in which cheques had not been recorded in the order of their numbers.
- (vii) The number of the voucher had not been written on the counterfoil of each cheque drawn in terms of Financial Regulation 386(3).

12.8 Transactions of Fraudulent Nature

The particulars of transactions of fraudulent nature observed during the course of audit test checks are given below.

- (a) An officer who had been preparing the salary abstracts in the Accounts Division had committed a fraud of Government money amounting to Rs.76,150,604 approximately during the years 2009 to 2013. The investigation of that had been handed over to the Criminal Investigation Department. An examination of this matter revealed deficiencies such as the lack of a proper system of internal control in operation, lack of vouching of the accuracy of payment of salaries and the deployment of a particular officer over a period of about 05 years for the computerizing the data relating to the payment of salaries. The reports on the above fraud in terms of Financial Regulation 104(3) and 104(4) called for by audit had not been furnished to audit. The courses of action taken for the recovery of the money defrauded had also not been furnished.
- (b) Two Customs Officers had obtained overtime amounting to Rs.15,558 in March and April 2013 during which they had been abroad.

12.9 Losses and Damages

Action had not been taken to identify the officers who were responsible for the loss of Rs.25,736 caused by accidents to 02 motor vehicles and recover the loss.

12.10 Uneconomic Transactions

The particulars of transactions entered into devoid of economy revealed during the course of audit test checks are given below.

- (a) Penalty amounting to Rs.999,323 had been paid due to the failure to pay the electricity bills on the due dates.
- (b) An applicant who had been selected and had been trained before the handover of the letter of appointment, had refused to accept the appointment and as such the expenditure of Rs.43,684 incurred for the recruitment and training of the officer had become fruitless expenditure.

12.11 Management Weaknesses

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

- (a) The stores computer system and the stock books of the stores had not been maintained in the updated manner.

- (b) Attention had not been paid to stock levels in placing orders for goods and the computer software had been in working order.
- (c) Expenditure totalling Rs.23,661,267 had been incurred from provisions made in the Annual Budget Estimates and from the Management and Compensation Fund during the first 06 months of the year under review for 34 foreign tours undertaken by 70 officers. An evaluation of the expenditure incurred on the foreign tours and the benefits accrued therefor had not been carried out. Certain officers who had participated in the foreign training had not submitted the progress reports thereon. Copies of the relevant pages of the Passports had not been included in the file in certain instances to ascertain the date and time of departure from the country and the date and time of arrival.
- (d) According to the valuation made by the Department of Valuation, the monthly rent of the building obtained for rent from Jaffna for the use of the Customs Officers, amounted to Rs.20,000. Nevertheless, according to the agreement entered into on 01 February 2011 with the owner of the building, it had been agreed to pay a monthly rent of Rs.25,000 with provision for an annual increase of 5 per cent. Accordingly, a monthly rent of Rs.27,560 had been paid during the year 2013.
- (e) Even though a sum of Rs.111,542 had been paid on 30 August 2013 to the Superintendent of Survey, Jaffna to survey the land on which the Customs Office, Jaffna, of the Sri Lanka Customs is situated and for the preparation of the plans, it could not be established in audit that the survey and preparation of plans had been done.
- (f) The following deficiencies were observed during the course of the examination of the contract for the supply of furniture for the New Customs Headquarters.
 - (i) Even though the last day for inviting bids had been 09 May 2011, contrary to the Guidelines 4.2.2 and 4.2.3 of the Government Procurement Guidelines, a bidder had been selected only on 12 September 2012, that is, after a delay of 15 months. The Chairman of the Procurement Committee and the Technical Evaluation Committee had not taken action to regulate the progress of the procurement process and for avoiding delays.
 - (ii) Even though the bid validity period had been 120 days the period of validity had been extend in 05 instances due to the delay in the selection of a supplier. Four institutions had withdrawn from the contract without extending the validity period. In view of that situation, the contract had been awarded without a fair competition for each item of furniture.
 - (iii) A private company which had submitted bid documents for the Storage Facilities Compact Storage and Lockers Contract had been rejected by the Technical Evaluation Committee at the outset itself due to the specifications furnished not being in conformity with the approved specifications. Nevertheless, action had been taken to award the contract to that institution.

- (iv) According to a report of a Public Corporation, the bid validity period of the bids of a private company which had satisfied both technical and financial eligibility had been extended in 3 instances after the initial validity period of 120 days. But due to the withdrawal of that company from the procurement, an additional expenditure of Rs.44,462,794 had to be incurred in the award of the contract to the next eligible institution.
- (v) The post qualification criteria that should be in possession of the suppliers for submission of bids for the contract for the supply of furniture had been given publicity through newspaper notices. Even though the bid documents submitted by the institution which did not satisfy the post qualification criteria adequately should have been rejected, action had been taken to evaluate them and award contracts.
- (vi) According to the final evaluation of the procurement process, the furniture for the Executive Staff should have been those manufactured locally. But the furniture supplied had not been manufactured locally.
- (g) The following deficiencies were observed during the course of the examination of the procurement process for the selected of a suitable supplier to the Customs canteen.
- (i) Action in terms of Section 2.8.4 of the Procurement Manual had not been taken for the appointment of a subject specialist officer to the Technical Evaluation Committee.
- (ii) The Technical Evaluation Committee had been carried out and evaluation of the facilities such as the canteen premises, furniture, kitchen equipment, cutlery, electricity and water supply supplied to the contractor free of charge, prepare the estimated prices of the main meals and for the evaluation of the bids submitted on the basis of such prices.

12.12 Human Resources Management

Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2013 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	343	304	39
(ii) Tertiary Level	1,876	1,218	658
(iii) Secondary Level	237	237	-
(iv) Primary Level	488	311	177
Total	2,944	2,070	874

There were 874 vacancies in the cadre of the Sri Lanka Customs as at the end of the year under review.

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 2013 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 March 2015. 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 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.

13.3 Audit Observation

According to the Financial Records and the Books for the year ended 31 December 2013 it was observed that except for the effects of the general observations appearing at (a) to (h) and other major audit findings appearing in paragraphs 13.4 and 13.12 herein, the Appropriation Account, the Revenue Accounts and the Reconciliation Statement of the Department of Excise had been prepared satisfactorily.

(a) Non-maintenance of Registers and Books

It was observed during the course of audit test checks that the Department had not maintained the following registers in the proper and updated manner.

Type of Registers	Relevant Regulation
Register of Fixed Assets	Treasury Circular No.842 of 19 December 1978
List of Motor Vehicles	Financial Regulation 1647(e)

Register of Fixed Assets on Treasury Circular No.1A1/2002/02 of 28
Computers, Computer November 2002
Accessories and Software

Revenue Register/ Revenue Financial Regulation 175(1)(b)
Reports

(b) Lack of Evidence for Audit

The following observations are made.

- (i) Four payment vouchers totalling Rs.176,710 had not been furnished to audit in terms of Financial Regulation 272(2).
- (ii) Liabilities amounting to Rs.18,129,743 shown in the Appropriation Account could not be established in audit due to the non-submission of the Registers of Charges to audit.

(c) Replies to Audit Queries

Reply to an audit query issued to the Department of Excise during the year under review had not been furnished even by 31 January 2015.

(d) Imprest Account

According to the Departmental books, imprest amounting to Rs.109,669,060 remained for settlement to the Treasury as at 31 December 2013.

The following observations are made in this connection.

- (i) A sum of Rs.85,176,353 remitted to the Treasury on 31 December 2013 had been adjusted in the Treasury books only in September 2014, that is, after the elapse of 09 months.
- (ii) Petty Cash imprests exceeding the limit of Rs.7,500 amounting to Rs.50,000 and Rs.60,000 had been granted without the formal approval.

(e) General Deposit Account

The balance of the General Deposit Account No. 6000/0000/000/0015/0128/000 as at 31 December 2013 amounted to Rs.80,485,775 and the Register of Individual Balances and the age analysis in connection with those deposit balances had not been furnished to audit.

(f) Revenue Accounts

The following observations are made.

- (i) According to the Revenue Account for the Revenue Code 10.02.04.01, revenue amounting to Rs.1,527 million had been in arrears. Even though that

arrears of revenue related to periods ranging from 06 months to 15 years, the follow-up action on the recovery of those arrears of revenue had been at a weak level.

- (ii) The Withholding Tax collected at the local purchase or import of spirits had been allowed for set off at the time of payment of taxes on the liquor manufactured from such spirits. The Withholding Tax amounting to Rs.762,458,068 related to the stock of spirits not utilized for manufacture as at 31 December 2013 which is allowed for set off on the payment of Excise Duty in the ensuing year, had been treated as revenue for the year under review and brought to account under the Revenue Code 10.02.04.01, instead of being set off.
- (iii) Excise Duty under the Tobacco Tax amounting to Rs.2,007,948 which should have been brought to account under the Tobacco Tax (10.02.06.00) had been brought to account under the Excise Duty (10.02.04.01).

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

According to the Reconciliation Statement of the Advance Account Item No.24801 as at 31 December 2013, the balances that remained outstanding as at that date totalled Rs.2,933,571 and the follow-up action on the recovery of those outstanding balances had been at a weak level.

13.4 Good Governance and Accountability

Annual Procurement Plan

The Annual Action Plan for the year 2013 had not been prepared covering all Divisions in terms of the National Budget Circular No.128 of 24 March 2006.

13.5 Assets Management

13.5.1 Idle Assets

Fifteen executive chairs, 50 arm chairs, 02 cupboards and 02 tables costing Rs.331,272 purchased in December 2010, remained idle in the office of the Assistant Commissioner of Excise, Kalutara until the opening of that officer in the year 2013.

13.5.2 Conduct of Annual Boards of Survey

The following observations are made.

- (a) 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 Annual Board of Survey for the year 2013 should have been conducted and the reports thereon should have been furnished to the Auditor General before 15 March 2014. Nevertheless, the Department had not conducted the full Board of Survey covering all goods and furnished those reports to audit even by 31 December 2014.

- (b) The Department had not taken action in terms of Financial Regulation even by 31 December 2014 on the excesses and shortages pointed out and other recommendations made in the Reports of the Board of Survey in respect of the preceding year.

13.6 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 Non-compliance Regulations

(i) Statutory Provisions

- Excise Ordinance No.8 of 1912 Even though the late fees charged for the non-payment of Excise Duty on the due dates should be brought to account as Excise Revenue, late fees totalling Rs.14,018,503 had been brought to account under the Revenue Code 20.03.02.99 (Sundries) of the Department of Treasury Operations.
- Tobacco Tax Act, No.8 of 1999 - Section 17 Even though a Tobacco Tax Reward Fund should be established, it had not been so done.

(ii) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

- Financial Regulation 85(2)(b) Whenever it is necessary to vary the Revenue Estimates, it should be reported to the Director General of Fiscal Policy by the Chief Accounting Officer with the reasons therefor. But it had not been so done.
- Financial Regulation 110(2) Even though the Accounting Officer should prepare a statement of losses during the financial year, two accidents to 02 motor vehicles during the year under review had not been disclosed. The loss as well had not been assessed.
- Financial Regulation 272(1) The vouchers relating to the payments made from the Reward Fund had not been filed separately.
- Financial Regulation 316 Even though the License Books, Receipt Books, Counterfoil Books, and other Forms of monetary value should be kept in safes or strong boxes, etc. those documents had been kept in the Record Room without security.

- Financial Regulation 342 Even though Departments obtaining Counterfoil Books are responsible for their safe custody and proper use, the counterfoil Books had not been used with such responsibility.
- Financial Regulation 371(2) Ad hoc sub-impressts totalling Rs.56,980 had been granted in 06 instances to a Non-staff Grade Officer.

Ad hoc impressts obtained in 4 instances had been settled after delays ranging from 02 weeks to 2 ½ months from the completion of the purposes.
- Financial Regulation 371(2)(b) Even though the maximum ad hoc sub-impresst that can be granted in an instance amounts to Rs.20,000, sub-impressts totalling Rs.111,298 had been granted contrary to that in 04 instances.
- Financial Regulation 447(7) Even though the accounts of the Departmental Appropriation (Votes) Ledger should be balanced at the end of each month, it had not been so done in connection with 04 Objects.
- Financial Regulation 756 Even though the Boards of Survey should be appointed on or about 15 December, it had not been so done.
- Financial Regulation 1646 Even though the Daily Running Charts of each month should be furnished to audit before the fifteenth day of the month following, it had not been so done.

(b) Non-compliance with Tax Requirements

Instances of action taken without complying with the tax requirements observed during the course of audit test checks are given below.

- (i) According to Section 11 of the Value Added Tax Act, No.14 of 2002 and the subsequent amendments thereto, when the value of supplies and services of an institution exceeds Rs.3 million per quarter or amounts to Rs.12 million or more per year, the institution should invariably be registered for Value Added Tax. But the Department had not registered for Value Added Tax.
- (ii) According to the Excise Notification No.912 of 12 February 2010, a license holder who does not pay the tax on the prescribed date should pay a surcharge of 3 per cent on the tax per month as a fee in addition to the tax. Nevertheless the surcharge had been recovered based on the number of days. As such a contradiction between the computation of the surcharge according to the Excise Notification and the method of recovery of the surcharge by the Department existed.

13.7 Performance

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

(a) Lack of Proper Maintenance of Excise License Files

 Even though all information of every Excise License from the date of its issue onwards should be maintained in the relevant file, an audit check revealed that the following information had not been included in certain files.

- (i) Change of Location
- (ii) Change of License Holder
- (iii) Documents relating to the Security Deposit
- (iv) Information on the Industrial Offences committed

(b) Lack of an Adequate Information System on Excise Licenses

 The following information could not be accessed from the Information System on Excise Licenses.

- (i) Date of Commencement of the Licensed Premises
- (ii) Security Deposits paid
- (iii) Information on the Change of the Licensed Premises
- (iv) Information on the Change of the License Holder
- (v) Amount paid on the Change the License Holder or the Licensed Premises

13.8 Deficiencies in the Operation of Bank Accounts

 Action had not been to identify the money directly credited to in Bank Accounts and as such a sum of Rs.43,989,776 had been shown in the Bank Reconciliation Statement as at 31 December 2013 as unidentified deposits.

13.9 Transactions of Fraudulent Nature

 The examination of the petty cash of the Excise Office, Kalutara on 06 February 2014 revealed a cash shortage of Rs.10,572.

13.10 Losses and Damage

 The observations on the losses and damage observed during the course of audit test checks are given below.

- (a) The damage caused to two motor vehicles by accidents during the year under review had not been assessed and disclosed in the Appropriation Account.
- (b) Damage caused to two motor vehicles had been understated by a sum of Rs.93,843 in the Appropriation Account.

13.11 Management Weaknesses

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

- (a) According to the Excise Notification No.937, duty concessions can be granted to exporters of liquor on the production of the relevant documents within 30 days of the export. Nevertheless, it was revealed during the course of audit test checks that action had been taken to grant duty concessions totalling Rs.11,728,950 to 03 manufacturing institutions even after the elapse of 30 days.
- (b) According to the Register of Industrial Offences of the Excise Station, Kalutara, there were 54 unresolved industrial offences relating to the years 2009, 2010, 2011 and 2012.

13.12 Human Resources Management

Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2013 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	57	37	20
(ii) Tertiary Level	379	308	71
(iii) Secondary Level	856	575	281
(iv) Primary Level	129	126	03
Total	1,421	1,046	375

The Department had not taken action to fill 375 vacancies even by the end of the year under review.

(b) Leave Registers

The following observations are made.

- (i) Submission of the Attendance Registers of the Officers serving in the Regional Offices and the submission of the Monthly Statements of leave had been at a very weak level. The Department had not carried out a proper supervision in this connection.
- (ii) When officers are transferred from one Department to another Department, the Head of Department which made the transfers had furnished the information of leave of the officers transferred in terms of Section 1.9 of Chapter XII of the Establishments Code to the Head of Department to which the officers were transferred. Nevertheless, the Department had not taken action to record such information of the officers reported on transfer, in the Leave Register.

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 2013 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 23 December 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 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.

14.3 Audit Observation

According to the Financial Records and the Books for the year ended 31 December 2013 it was observed that except for the effects of the general observation appearing at (a) to (c) and other major audit findings appearing in paragraphs 14.4 to 14.6 herein, the Appropriation Account, the Revenue Accounts and the Reconciliation Statement of the Department of Treasury Operations had been prepared satisfactorily.

(a) Budgetary Variance

Out of the net provisions totalling Rs.198,464,300,000 made for 06 Objects, the savings, after the utilization of Rs.158,086,618,997, amounted to Rs.40,377,681,003, ranged from 16 per cent to 92 per cent of the net provisions.

(b) Revenue Accounts

The following observations are made.

- (i) The changes between the revised estimated revenue and the actual revenue relating to the 13 Revenue Codes under the Department ranged from 1 per cent to 186 per cent.

- (ii) According to 06 Revenue Accounts presented, revenue totalling Rs.7,785,283,388 had been in arrears and the revenue in arrears related to periods ranging from 1 year to 3 years.
- (iii) Even though a sum of Rs.1,492,058 had been shown as the revenue collected during the year under review relating to the Revenue Code 20-02-01-99 Other Rents, action for the rectification of error had not been taken even by 03 September 2014.
- (iv) Audit was informed that the arrears of interest on lending amounting to Rs.1,987,890 recoverable from the Public Corporation as at the end of the year under review relating to Revenue Code 20-02-02-01- Interest on Lending is irrecoverable.
- (v) An uncertainty in the recovery of the arrears of interest amounting to Rs.2,814,034 recoverable from an Association as at the end of the year under review relating to Revenue Code 20-02-02-01 Interest on Lending, was observed in audit.
- (vi) It had been reported that the arrears balance of loans amounting to Rs.773,340,000 relating to Revenue Code 20-06-04-00 Recovery of Loans receivable from a Public Corporation is irrecoverable.
- (vii) The existence of an uncertainty in the recovery of arrears of loan balances totalling Rs.147,714,479 recoverable from an Association, a Corporation and a Company of the Government had been reported to the Audit.

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

 According to the Reconciliation Statement of the Advance Account Item No.24901 as at 31 December 2013, the outstanding loan balances as at that date totaled Rs.149,251.

14.4 Assets Management

 The following observations are made.

- (a) 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 Annual Board of Survey for the year 2013 should have been conducted and the reports thereon should have been furnished to the Auditor General before 15 March 2014. Nevertheless, the Department had not furnished those reports even by 31 May 2014.
- (b) The following observations were made in connection with the investments in Share Capital made by the Government.
 - (i) Appropriate courses of action had not been taken to ensure the safety and existence of share certificates of companies older than 50 years and for the certification of their present value.

- (ii) Out of 218 share certificates kept in the vault, 21 certificates had not been included in the Financial Statements of the Republic.
- (iii) The number of shares in the share certificates of companies, and their nominal value revealed during the course of physical verification included non-reconciliations with the number of shares and the nominal value appearing in the Schedule to the Financial Statements of the Republic.
- (iv) The particulars of the shares of 53 companies purchased and included in the Financial Statements of the Republic had not been physically examined and included in the Report of the Board of Survey.

14.5 Performance

Even though the grant of authority for opening of Imprest Accounts and their supervision is a major function of the Department, the settlement of the balances of 10 imprests amounting to Rs.1,945,933,340 granted from the year 1997 to the year 2012 to a Department, 2 Ministries and a Commission had been delayed over periods ranging from 01 year to 16 years.

14.6 Human Resources Management

Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2013 had been as follows.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i)	Senior Level	21	15	06
(ii)	Tertiary Level	01	01	--
(iii)	Secondary Level	82	70	12
(iv)	Primary Level	18	18	--
	Total	122	104	18

The following observations are made.

- (a) Eighteen vacancies existed in the staff as at 31 December 2013 and those vacancies included 06 posts in the Senior Level.
- (b) According to the Performance Report of the Department for the year 2013, the approved staff as at the end of the year had been given as 123 and as such a difference of 01 post existed.
- (c) According to the Performance Report referred to, an excess of 09 officers in the following posts existed as against the number approved for the posts. The Department had not taken action to examine the staff requirements and for the revision of the approved staff.

Post	Number Approved	Actual Number	Excess
-----	-----	-----	-----
Sri Lanka Accountants' Service I	05	08	03
Public Management Assistants' Service I	05	09	04
Office Aides	01	03	02
	----	----	----
Total	11	20	09
	==	==	==

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 2013 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 18 September 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.

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

The Chief Accounting Officer and 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.

15.3 Audit Observation

According to the Financial Records and the Books for the year ended 31 December 2013 it was observed that except for the effects of the general observation appearing at (a) and (b) and other major audit findings appearing in paragraph 15.4 herein, the Appropriation Account, and the Reconciliation Statement of the Department of State Accounts had been prepared satisfactorily.

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

According to the Reconciliation Statement of the Advance Account Item No.25001 as at 31 December 2013, the balances that remained outstanding as at that date from the officers deceased and vacated posts totalled Rs.301,936 and the Department had failed to recover that outstanding balance.

(b) Reconciliation Statement of the Non-commercial Advance Account

The following observations are made in connection with the Reconciliation Statement of the Sundry Advance Account Item No.25003 as at 31 December 2013.

- (i) Out of the advances granted in 15 instances from the year 2001 to the year 2008 to 13 District Secretariats for the purchase of paddy, an office of the Director of Health Services and a Department, the unsettled advances as at 31 December 2013 amounted to Rs.468,267,162 and that balance included a sum of Rs.454,991,711 which had remained without being settled over a period exceeding 10 years.
- (ii) Even though the District Secretary, Anuradhapura had informed that the sum of Rs.5,023,818 given to a Multipurpose Co-operative Society as at 31 December 2013 out of the advances granted to the District Secretariat for the purchase of paddy will be settled after the liquidation of that Society, it had not been so done. Even though legal action had been taken for the recovery of an advance of Rs.480,000 recoverable from a Farmers' Company as well as advances amounting to Rs.4,264,300 receivable from a Co-operative Union, those advances had not been recovered even by 31 December 2013.
- (iii) Even though the District Secretary, Trincomalee, had been informed by letter No.SA/ACCTS/04/7000/422 dated 27 December 2013 to write off the sum of Rs.1,652,916 due from the Sathosa to the District Secretariat, no action whatsoever had been taken in that connection even by 31 December 2013, A Co-operative Society which had 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 responsible parties or for the write off from the books.
- (iv) Even though the Director General of State Accounts had, by his letter No.SA/ACCTS/047000/431 dated 25 May 2012, informed the Chief Accountant of the Ministry of Irrigation and Water Resources Management, that the advance of Rs.3,605,525 obtained by the Ministry of Mahaweli for the purchase of paddy had been paid, the Ministry had not confirmed whether that balance is correct even by 31 December 2013. The amount Rs.3,605,525 to be settled to the Ministry of Mahaweli under this Advance Account actually had not been settled.
- (v) Out of the advances amounting to R.10,096,624 granted to Government Ministries, Departments and Offices in terms of Financial Regulation 106 for

losses of cash, stamps and tickets, unsettled advances amounting to Rs.2,442,080 remained without being settled as at 31 December 2013. Even though authority had been obtained and provisions made in terms of Financial Regulation 109 write off of that amount, action to settle the Advance Account had not been taken up to 31 December 2013.

15.4 Human Resources Management

Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2013 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	16	08	08
(ii) Tertiary Level	04	02	02
(iii) Secondary Level	14	29	05
(iv) Primary Level	15	08	02
Total	69	47	22

The Department had not taken action to fill 22 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 Accounts including the financial records, reconciliation statements, books, registers and other records of the Department of Valuation for the year ended 31 December 2013 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 05 September 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.

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

The Chief Accounting Officer and Accounting Officers 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.

16.3 Audit Observation

According to the Financial Records and the Books for the year ended 31 December 2013 it was observed that except for the effects of the general observation appearing at (a) to (c) and other major audit findings appearing in paragraphs 16.4 and 16.10 herein, the Appropriation Account, the Revenue Account and the Reconciliation Statement of the Department of Valuation had been prepared satisfactorily.

(a) General Deposit Account

Action in terms of Financial Regulation 571 had not been taken on a deposit of Rs.14,283 older than two years as at 31 December 2013.

(b) Revenue Account

The following observations are made.

- (i) According to the Revenue Account presented, revenue amounting to Rs.391,348,397 had been in arrears and those arrears of revenue related to periods ranging from 01 year to 6 years.
- (ii) According to Financial Regulation 128(2)(d), in cases where the Revenue Accounting Officer, collects any portion of revenue collected through other offices, returns should be obtained from those offices and incorporated in the Revenue Accounts and Returns. Nevertheless, returns in respect of several months from several Provincial Offices only had been collected. Even though Returns from all Provincial Offices should be collected and reconciled with the accounts of the Treasury, in terms of Financial Regulation 128(2)(g) it had not been so done.

(c) Advances to Public Officers Account

The following observations are made.

- (i) According to the Reconciliation Statement of the Advance Account Item No.25101 as at 31 December 2013, the balances that remained outstanding as at that date totalled Rs.706,378 and the follow-up action on the recovery of those outstanding balances had been at a weak level.
- (ii) Out of the total loan balances that remained outstanding as at 31 December 2013, balances amounting to Rs.639,852 or 91 per cent had been older than one year and 30 per cent of the total outstanding loan balances, that is, Rs.214,669 had been loan balances older than three years.
- (iii) The CC10 Register and the Register of Loan Balances relating to the officers transferred in or out, interdicted, vacated posts and retired, which should be

maintained in terms of provisions relating to the grant of loans had not been maintained in the updated manner.

- (iv) Department books had not been reconciled with the Treasury books in terms of Financial Regulation 427.

16.4 Good Governance and Accountability

16.4.1 Annual Performance Reports

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 should be tabled in Parliament with a copy to the Auditor General within 150 days after the close of the finance year, the Performance Report relating to the year under review had not been tabled in Parliament even by 30 July 2014.

16.4.2 Annual Procurement Plan

The Annual Procurement Plan for the year under review which should have been prepared in terms of the National Budget Circular No.128 of 24 March 2006 had not been prepared.

16.5 Assets Management

Conduct of Annual Boards of Survey

The following observations are made.

- (a) 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 Annual Board of Survey for the year 2013 should have been conducted and the report thereon should have been furnished to the Auditor General before 15 March 2014. Nevertheless, the Department had furnished the Report of the Annual Board of Survey to the Auditor General only on 29 September 2014.
- (b) Even though the value of furniture and office equipment, machinery and the buildings and structures had been shown as Rs.27,255,402, Rs.16,711,508 and Rs.24,557,244 respectively in the Report on the Movement of Non-current Assets in the Appropriation Account for the year 2013, those values had not been included in the Register of Fixed Assets.
- (c) According to the Appropriation Account of the Department, the value of furniture and office equipment purchased in the year under review amounted to Rs.5,972,347 and the value of machinery had been Rs.475,002. Nevertheless, according to the Register of Fixed Assets the purchase of air-conditioners for Rs.306,242 and the photocopier purchased for Rs.189,280 only had been recorded as the purchases in the year.
- (d) Even though the value of the land on which the Departmental premises as situated had been shown as Rs.115,000,000 in the Register of Fixed Assets, that had not been

noted in the Report on the Movement of Non-current Assets (Note No.1) of the Appropriation Account. The Circuit Bungalows of the Department at Katharagama and Kandy situated on lands in extents of 0.071 hectares and 70 perches respectively had been recorded in the Register of Fixed Assets, the cost thereof had not been recorded therein. Those assets had not been included in the Appropriation Account.

- (e) The lands and building of assessed value of Rs.245,200,000 in the year 2013 had not been included in the Register of Fixed Assets as it had not been maintained in the proper manner.

16.6 Non-compliances

----- 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 analysed below.

Reference to Laws, Rules, and Non-compliance Regulations

----- (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka -----

Financial Regulation 110

A Register of Losses had not been maintained.

(b) Departmental Circulars -----

Circular No.434 dated 31 December
2008 on Revenue Collection

Even though Valuation Fees should not be recovered from institutions depending on Government financial aid, contrary to that a sum of Rs.4,452,558 had been collected as Valuation Fees from such institutions.

16.7 Performance

The observations on the Progress of the Department of Valuation according to the Annual Action Plan for the year 2013 are given below.

Planning -----

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

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

Particulars	Targets of the Action Plan for the year 2013	Actual Performance 2013	Percentage of Achievement of Targets
-----	-----	-----	-----
	Units	Units	
(a) Status Reports on Acquisition of Lands	13,818	5,772	42
(b) Lands-Sundry	58,653	26,269	45
(c) Valuation of Rates of Private Properties	6,851	6,247	91
(d) Valuation of Rates of Buildings	1,676	1,317	79
(e) Revaluation of Objections	10,665	7,646	72

16.8 Deficiencies in the Operation of Bank Accounts

Balances for Adjustment

The information revealed at an analysis of the adjustments shown in the Bank Reconciliation Statement of the Bank Account of the Department prepared as at 31 December 2013 is given below.

Particulars of Adjustments	Age Analysis			Total
	Over 06 months less than 01 year	Over 01 year less than 03 years	Over 03 years	
-----	-----	-----	-----	-----
	Rs.	Rs.	Rs.	Rs.
(a) Unrealized Deposits	12,075	262,900	15,415	290,390
(b) Cheques issued but not presented for Payment	81,694	-	-	81,694
(c) Unidentified Debits	199,334	12,120	-	211,454
(d) Dishonoured Cheques on which adequate Action had not been taken	12,075	-	-	12,075

16.9 Uneconomic Transactions

Human Resources Development – Foreign Postgraduate Course(RICS)

The following observations are made in this connection.

- (a) Ten candidates had participated for following the above degree course. Even though an agreement should be entered at the commencement of the course in terms of the Public Administration Circular No.05/1998 of 21 February 1998, nine officers had entered into agreements after a delay while one officer had not entered into an agreement.
- (b) An officer selected for following the course in the year 2011 had informed that he would not participate in the course any further. The sum of 4,170 Sterling Pounds already paid on behalf of the officer by the Department had been rendered fruitless.
- (c) It had been decided at the meeting of the Heads of Divisions held on 13 September 2013 that provision will be made again for the course only in cases of failure in two subjects and in the case of failure in more than two subjects, the course fee should be borne privately by the officer concerned. Contrary to that 1,735 Sterling Pounds had been paid again for 3 officers who had failed in more than two subjects.

16.10 Human Resources Management

Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2013 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	86	53	33
(ii) Tertiary Level	362	353	09
(iii) Secondary Level	144	106	38
(iv) Primary Level	90	80	10
(v) Others (Casual Basis)	--	02	--
Total	682	594	90

The total vacancies of staff as at the end of the year under review had been 90 and included 33 vacancies in the Senior Level.

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 2013 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 21 October 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.

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 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.

17.3 Audit Observation

According to the Financial Records and the Books for the year ended 31 December 2013 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 17.4 and 17:10 herein, the Appropriation Account, and the Reconciliation Statement of the Department of Census and Statistics had been prepared satisfactorily.

(a) Non-maintenance of Registers and Books

It was observed during the course of test checks that the Department had not maintained the following registers in the proper and updated manner.

Type of Register	Relevant Regulations
-----	-----
(a) Register of Fixed Assets	Treasury Circular No.842 of 19 December 1978.
(b) Register of Fixed Assets on Computers, Accessories and Software	Treasury Circular No.1A1/2002/02 of 28 November 2002.

(b) Budgetary Variance

Net provisions totalling Rs.91,300,000 had been made for 7 Objects and, out of that, a sum of Rs.80,818,379 had been utilized, thus resulting in savings amounting to Rs.10,481,621. Such savings ranged between 6 per cent to 96 per cent of the net provisions made.

(c) General Deposit Account

The balance of the General Deposit Account No.6000/0000/00/0015/0132/000 of the Department as at 31 December 2013 amounted to Rs.66,254,054. The following observations are made in that balance.

- (i) According to the Statement of General Deposit Account furnished by the Department on 05 May 2014, the balance of the account as at 01 January 2013 amounted to Rs.23,018,245 whereas the Appropriation Account that amounted to Rs.39,803,307 resulting in a difference of Rs.16,785,061 between the two balances. The reason for the difference had not been explained.
- (ii) Action in terms of Financial Regulation 571(3) had not been taken deposits amounting to Rs.6,264,164 older than two years.

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

According to the Reconciliation Statement of the Advance Account Item No.25201 as at 31 December 2013, the balances that remained outstanding as at that date totalled Rs.1,309,500.

17.4 Good Governance and Accountability

17.4.1 Internal Audit

The Internal Audit Division of the Department had issued only three Internal Audit Reports during the year 2013.

17.4.2 Implementation of the Audit and Management Committee

According to paragraph 06 of the Management Audit Circular No.DMA/2009(1) of 09 June 2009, every Audit and Management Committee should hold at least one meeting per quarter. Nevertheless, the Department had held only 03 meetings during the year 2013.

17.5 Non-compliance with Laws, Rules and Regulations

Even though Financial Regulation 715(2) and (3) has separately specified the duties of Storekeepers and Stores Officers, the duties as specified in the Financial Regulation referred above had not been properly performed by the Storekeepers and the Stores Officers of the Main Stores of the Department.

17.6 Assets Management

The following deficiencies were observed during the course of the audit test checks of the assets of the Department.

(a) Idle and Underutilized Assets

It was observed during the course of the audit test checks that the following machinery had been either idle or underutilized.

Machinery	Number Units	of Idle or Underutilized Period
-----	-----	-----
Central Air-conditioning System	01	From the year 2012 to the end of the year 2013

Statistical Data Copiers	02	Ten years
Telegram Processing Machines	01	Twenty years
Bookbinding Machines	01	Ten 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 Annual Board of Survey for the year 2013 should have been conducted and the reports thereon should have been furnished to the Auditor General before 15 March 2014. Nevertheless, the Department had not furnished those reports even by 31 May 2014.

17.7 Performance

The observations on the progress of the Department in accordance with the Annual Action Plan for the year 2013 are given below.

- (a) Even though the Report on District Level Population and Housing Census – 2011 should have been finalized, it had not been so done even by 31 December 2013.
- (b) Even though the Publication of the Reports on the Maha Season 2012/13 and the Yala Season 2013 of the Survey on the Estimation of Paddy Harvest had been a function related to this year, the District Reports on the Maha Season 2012/13 had been prepared and published in the Web Site of the Department, while the Report on the Yala Season 2013 had not been prepared even by the 31 December 2013.
- (c) Even though the computation of the unit production cost of tea, rubber and coconut should have been completed, the collection of information through field surveys and collection of information through questionnaires only had been done by 31 December 2013.
- (d) Even though plans had been made for finalizing the Annual Industrial Survey 2012 and release the Industrial Statistics in the year 2013, editing, coding and computerizing the data relating to the Survey of the year 2012 only had been done. Even though the completion of the field inspections of the Industrial Survey of the year 2013 had been planned according to the Action Plan, the posting of the questionnaire and the other records to the respective institutions only had been done in the year 2013.
- (e) Even though plans had been made for the computation of the rate of improvement of the products of the Industrial Sector in respect of the First, Second and Third Quarters of the year 2013, that activity had not been carried out even up to 31 December 2013.
- (f) The Department conducts the Industrial Survey on quarterly basis since the year 1990 and despite the plans made for the release of reports on the quarterly basis in this

year, the surveys of the last 3 quarters of the year had not been conducted. The reports of the last 3 quarters of the year 2012 had also not been published.

- (g) Even though plans had been made in the Action Plan for the publication of the Statistical Reports on the 2012/13 Maha Season and 2013 Yala Season, the reports on the 2012/13 Maha Season only had been prepared and published. The forecast of data relating to the 2013 Yala Season only had been done.
- (h) The official responsibility for the preparation of the National Accounts of Sri Lanka is devolved on the Department. The National Accounts Division of the Department carries out the collection of data required for the collection of data for the preparation of the National Accounts immediately after the close of a year or quarter and for the publication of the Accounts within 75 days after the close of the year. Nevertheless, the preparation of the Annual Accounts had not been done as planned.
- (i) The normal measure of changes in the prices of products is done through the Products Price Index and setting weights for the institutions of economic affairs only had been done during the year under review. As such the targets had not been achieved.
- (j) The maintenance of a database relating to the retail and manufacturing prices at domestic level had been planned. Nevertheless, the Bulletin of Weekly Retail Prices of the Colombo District in respect of the years 2013 and 2012 only had been printed and published.
- (k) Training of 80 officers and 120 offices in computer and statistical programmes respectively and 40 officers of the outside districts by the Training Division of the Department had been expected. Even though the conduct of Training Programmes had been indicated in the Performance Report, the number of officers trained had not been indicated.

17.8 Transactions of Contentious Nature

 An audit test checks of the repairs carried out to motor vehicles of the Department revealed that, the expenditure of Rs.616,443 incurred in carrying out repairs to motor vehicles in 37 instances during the year under review had not been carried out in a transparent manner to achieve the objectives of the Department due to the following matters.

- (a) A significant difference was observed in the area of the garage which carried out the repair and the area in which motor vehicle had been run on the date of repair.
- (b) Unavailability of proper approvals for repairs.
- (c) The fact that repairs were carried out had not been confirmed by the Daily Running Charts of the motor vehicles.
- (d) Vouchers with proper approvals had not been submitted.
- (e) There were discrepancies between the repairs carried out and dates of payment.

17.9 Irregular Transactions

The following transactions of irregular nature were observed during the course of audit test checks of transactions of the Department.

- (a) The following deficiencies were revealed during the examination of the procurement process for the procurement of 18,000 census bags costing Rs.6,027,840 for the purpose of the Economic Census of the year 2012.
- (i) The bags procured had not conformed to the due specification.
- (ii) Statement in writing had not been obtained from the supplier to the effect that bags conforming to the due standards will be supplied in terms of the Guideline 7.6.1(v) of the Government Procurement Manual.
- (iii) The name of the Bank and the amount of bid security had not been shown under the financial information section of the Bid Opening Minutes, in support of the availability of bid security, in terms of Guideline 6.3.6 of the Government Procurement Guidelines and the Procurement Manual.
- (b) According to Paragraph 1 of the Circular No.CA/1/17/ dated 14 May 2010 of the Secretary to the President, Offices of all Ministries and the institutions thereunder, should as far as possible, be maintained in buildings belonging to the Government or Public Corporations. It was also pointed out that permission for obtaining private buildings on rent or lease would be granted only in very special circumstances and in accordance with the Government Valuation. Contrary to such instructions, the Department had obtained two floors of a private building from 01 January 2011 to 30 November 2013 and had paid rent exceeding the Government Valuation by a sum of Rs.2,347,480.

17.10 Human Resources Management

Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2013 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
(i) Senior Level	259	131	128	--
(ii) Tertiary Level	494	347	147	--
(iii) Secondary Level	920	694	226	--
(iv) Primary Level	202	176	26	--
(v) Others (Graduate Trainees)	--	05	--	05
Total	1,875	1,353	527	05

Action had not been taken even by the end of the year under review to fill 527 vacancies and confirm the appointment of Graduate Trainees.

18. Head 280– Department of Project Management and Supervision

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 Supervision for the year ended 31 December 2013 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 27 October 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.

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 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.

18.3 Audit Observation

According to the Financial Records and the Books for the year ended 31 December 2013 it was observed that except for the effects of the general observations appearing at (a) and other major audit findings appearing in paragraphs 18.4 and 18.6 herein, the Appropriation Account, and the Reconciliation Statement of the Department of Project Management and Supervision had been prepared satisfactorily.

(a) Budgetary Variance

The following observations are made.

- (i) The entire net provision of Rs.100,000 made for one Capital Object had been saved.
- (ii) Excess provision had been made for 16 Objects and as such the savings, after the utilization of provisions, ranged between 10 per cent to 91 per cent of the net provisions relating to the respective Objects.

- (iii) Even though provisions totalling Rs.3,930,000 had been obtained for 03 Objects through the Supplementary Estimate Allocation, a sum of Rs.614,268 out of that only had been utilized, thus resulting in savings totalling Rs.3,315,732.

18.4 Non-compliances

----- 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 analysed below.

Reference to Laws, Rules, and Non-compliance Regulations

----- (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka -----

Financial Regulation 371

Even though the maximum ad hoc sub-imprest that can be granted to a Staff Officer in one instance is Rs.20,000, contrary to that regulation an advance of Rs.25,000 had been granted to an officer of the Department in one instance.

(b) Public Finance Circulars -----

Circular No.428 of 28 May 2008

Even though the maximum value of a payment that can be made from the petty cash imprest is Rs.1,000, payments contrary to that had been made in three instances.

(c) State Accounts Circulars -----

State Accounts Circular No.174 of
14 October 2004

Assets had not been code numbered in terms of the circular.

18.5 Performance

The observations on the progress of the Department according to the Annual Action Plan for the year under review are given below.

- (a) Even though the Government had made provisions amounting to Rs.481 billion in the year 2013 for the implementation of 1,967 Small, Medium and Large Scale Development Programmes and Projects under the main development themes, out of those 125 Projects only had been subjected to supervision during the year 2013 by the Integrated Development Information System. Similarly, none of the 1,751 local Projects had been subjected to supervision by the Integrated Development Information System.

- (b) The Department had maintained a Web Site data system linked to the line Ministries for the quarterly review of the progress of the Projects implemented from the local and foreign funds. The information on 195 out of 216 foreign funded Projects and 400 out of 1,751 local funded Projects only had been fed into the system by the end of the year 2013.
- (c) Thirty one field inspection only had been undertaken to understand the actual situation in relation to the implementation of the Development Projects. According to the Action Plan for the year 2013, plans had been made to undertake field observations of 65 Projects and out of those Projects, the field observations of 18 Projects only had been carried out. Even though field inspections perform an important function for the supervision of Projects, supervision of Projects through field inspections had been at a very low level.
- (d) One of the objectives of the Department is to accelerate the progress of the Development Projects and Programmes implemented with foreign funds. The following differences were observed at an audit test check carried out in this connection.
- (i) The work of 37 Projects which should have been commenced in the year 2013 had not been commenced even as at 31 December 2013.
- (ii) Even though the project completion period was close at hand, there were 80 Projects on which less than 50 per cent of the total estimated cost had been spent.
- (iii) Those were 3 Projects in respect of which the utilization had exceeded the total estimated amounts in the ranges of 101 per cent to 136 per cent.

18.6 Human Resources Management

----- Approved Cadre and Actual Cadre -----

The position of the cadre as at 31 December 2013 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
-----	-----	-----	-----
(i) Senior Level	34	22	12
(ii) Tertiary Level	35	17	18
(iii) Secondary Level	01	01	--
(iv) Primary Level	18	16	02
	----	----	----
Total	88	56	32
	==	==	==

The Department had not taken action to fill 32 vacancies even 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 Accounts including the financial records, reconciliation statements, books, registers and other records of the Department of Import and Export Control for the year ended 31 December 2013 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 25 November 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.

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 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.

19.3 Audit Observation

According to the Financial Records and the Books for the year ended 31 December 2013 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 19.4 and 19.7 herein, the Appropriation Account, and the Reconciliation Statement of the Department of Import and Export Control had been prepared satisfactorily.

(a) Budgetary Variance

Excess provisions had been made for 06 Objects and as such the savings, after the utilization of provisions, ranged between 13 per cent to 93 per cent of the net provisions relating to the respective Objects.

(b) Revenue Account

The original estimate of revenue for the year under review amounting to Rs.545,000,000 had been revised to Rs.520,000,000. The net revenue collected during the year amounted to Rs.458,372,096. As such the revenue collected

represented 84 per cent of the original estimate of revenue and 88 per cent of the revised estimate of revenue.

19.4 Good Governance and Accountability

Implementation of the Audit and Management Committee

According to paragraph 6 of the Management Audit Circular No.DMA/2009(1) dated 09 June 2009, at least one meeting of the Audit and Management Committee should be held per quarter. Nevertheless, only one meeting had been held for the Department in the year 2013.

19.5 Non-compliances

Even though a Register of Fixed Assets had been maintained in terms of the Treasury Circular No.842 of 19 December 1978, furniture valued at Rs.473,750 purchased during the year 2013 had not been recorded in the register. Even though a Register of Fixed Assets on Computers, Accessories and Software had been maintained in terms of the Treasury Circular No.1A1/2002/02 of 28 November 2002, the computer accessories and software valued at Rs.839,927 purchased in the year 2013 had not been recorded in the register.

19.6 Performance

The observations on the progress of the Department according to the Annual Budget Estimates and the Annual Action Plan for the year 2013 are given below.

- (a) Even though the Department had indicated the revenue targets under 5 Units, in the Action Plan prepared for the year 2013, the activities to be undertaken and the officers responsible for the achievement of those targets had not been named. Even though the original estimated revenue for the year 2013 amounted to Rs.545 million, the Action Plan had been prepared for targeted revenue of Rs.320 million.
- (b) According to the Performance Report for the year 2013 prepared by the Department, the progress on the issue of Permits is given below.

Unit	Number of Permits	Revenue
----	-----	-----
		Rs.
(i) Drugs(1)	2,104	83,036,455
(ii) Motor Vehicles (2)	1,288	125,202,590
(iii) Chemicals (3)	4,301	190,727,940
(iv) Telecommunication Equipment and Others	3,406	46,973,837
(v) Other Imports and Exports	1,427	1,205,917
	-----	-----
Total	12,526	447,146,739
	=====	=====

19.7 Human Resources Management

Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2013 had been as follows.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i)	Senior Level	08	06	02
(ii)	Tertiary Level	02	01	01
(iii)	Secondary Level	60	57	03
(iv)	Primary Level	19	15	04
	Total	89	79	10
		==	==	==

The Department had not taken action to fill 10 vacancies even by the end of the year under review.

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 2013 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 14 October 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.

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 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.

20.3 Audit Observation

According to the Financial Records and the Books for the year ended 31 December 2013 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 20.4 and 20.6 herein, the

Appropriation Account, and the Reconciliation Statement of the Department of Legal Affairs had been prepared satisfactorily.

(a) Non-maintenance of Registers and Books

An updated Register of Fixed Assets on Computers, Accessories and Software had not been maintained in terms of the Treasury Circular No.1A1/2002/02 dated 28 November 2002.

(b) Budgetary Variance

The following observations are made.

- (i) The entire total net provisions amounting to Rs.450,000 made for 02 Capital Objects had been saved.
- (ii) Excess provisions had been made for 08 Objects and as such the savings, after the utilization of provisions, ranged between 15 per cent to 48 per cent of the net provisions relating to the respective Objects.

20.4 Good Governance and Accountability

Annual Action Plan

The Action Plan relating to the year 2013 had been furnished to audit only on 27 July 2014.

20.5 Performance

The progress of the Department according to the Action Plan for the year 2013 is given below.

- (a) Co-ordination of Cases filed against the Secretary to the Ministry of Finance and Planning, the Secretary to the General Treasury and other officers.

Particulars of legal activities received by the Department of Legal Affairs by 31 December 2012 are shown below.

Particulars	Cases brought forward from the year 2012	Number of Cases received for the year 2013	Number of Cases finalized in the year 2013	Number of Cases remaining as at 31 December 2013
-----	-----	-----	-----	-----
Supreme Court	35	40	22	53
Court of Appeal	25	11	06	30
High Court	02	-	02	-
District Court	02	03	-	05
Human Rights Commission	03	06	01	08
	---	---	---	---
Total	67	60	31	96
	==	==	==	==

Even though 127 cases had been received by the Department by 31 December 2013 only 31 cases had been finalized during that year. Four cases filed in the year 2009 and 08 cases filed in the year 2010 had not been finalized even by 31 July 2014.

(b) Progress of the Co-ordination of Agreements and Draft Bills between the Department of Attorney General and the Department of Legal Draftsman

The particulars of progress of co-ordination relating to Agreements and Draft Bills between the Department of Attorney General and the Department of Legal Draftsman as at 31 December 2013 are given below.

Department	Number of Agreements brought forward from the year 2012	Number of Files relating to Agreements referred in the year 2013	Number of Files not finalized	Number of finalized Files
----- Department of External Resources	23	96	19	100
Other Departments	01	01	01	01
	---	---	---	---
Total	24	97	20	101
	==	==	==	==

The following observations are made in this connection.

- (i) Even though Co-ordination work of 100 files out of 119 files referred for co-ordination by the Department of External Resources had been finalized, the co-ordination work of 19 files had not been finalized.
- (ii) Out of 02 files received from other Departments for co-ordination, the co-ordination work of one file had been finalized and the co-ordination work of the other file had not been finalized.

(c) Co-ordination Process of Drafts relating to Laws and Regulations

The Department had carried out co-ordination work relating to 21 Amendment Acts during the year 2013 for tabling in Parliament for approval.

20.6 Human Resources Management

Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2013 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
(i) Senior Level	23	08	15	-
(ii) Secondary Level	06	03	03	-
(iii) Primary Level	07	04	03	-
(iv) Others (Casual/ Temporary/ Contract Basis)	-	01	-	01
Total	36	16	21	01
	==	==	==	==

The following observations are made.

- (i) The Department had not taken action to fill 21 vacancies even by the end of the year under review.
- (ii) According to Section 2.1 of Chapter II of the Establishments Code, a Scheme of Recruitment specifically containing every post, the salary scale of the post, necessary qualifications, age limits and other relevant information of every post in the Public Service should be prepared and obtain approval thereto. Nevertheless, a Scheme of Recruitment for the post of Legal Officer of the Department had not been prepared and approval obtained.
- (iii) The Department had obtained the services of an Accountant on acting basis and an Office Aid on temporary basis from the Department of Public Enterprises.

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 2013 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 24 October 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.

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 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.

21.3 Audit Observation

According to the Financial Records and the Books for the year ended 31 December 2013 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 21.4 and 20.5 herein, the Appropriation Account, and the Reconciliation Statement of the Department of Management Audit had been prepared satisfactorily.

(a) Non-maintenance of Registers and Books

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

(b) Budgetary Variance

The following observations are made.

- (i) The entire total net provisions of Rs.100,000 made for a Capital Object had been saved.
- (ii) Excess provisions had been made for 08 Objects and as such the savings, after the utilization of provisions, ranged between 11 per cent to 44 per cent of the net provisions relating to the respective Objects.

21.4 Performance

The observations on the progress of the Department according to the Action Plan for the year 2013 are given below.

- (a) The function of the Department of Management Audit is providing guidance for the strengthening of the Internal Audit through the process of Audit and Management Committee and forge direct connection with the process by giving the Treasury representation. Accordingly, the Audit and Management Committee should hold at least 04 meetings per year at one meeting per quarter. Nevertheless, the Ministry of Finance and Planning had held only one meeting during the year 2013.
- (b) In addition, there were 02 Ministries which had not held even one meeting of the Audit and Management Committee, 05 Ministries which had held only one meeting, 09 Ministries which had held two meetings and 13 Ministries which had held three meetings during the year 2013.

- (c) According to the Action Plan, the Guidelines on Performance Audit and the Guidelines on Special Investigations should have been done. But such Guidelines had not been prepared and issued.
- (d) Even though the review of the Internal Audit Progress Meeting of other Internal Audit Units is a function of the Department, the number of such programmes required to be reviewed had not been included in the Action Plan. Even though introduction of Performance Audit is a function of the Department, the number of such Internal Audit Units which should be provided with awareness had also not been included in the Action Plan.

21.5 Human Resources Management

----- Approved Cadre and Actual Cadre -----

The position of the cadre as at 31 December 2013 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
-----	-----	-----	-----
(i) Senior Level	17	11	06
(ii) Secondary Level	20	13	07
(iii) Primary Level	11	09	02
	----	----	----
Total	48	33	15
	==	==	==

The Department had not taken action to fill 15 vacancies even by the end of the year under review.

22. Report of the Auditor General on the Financial Statements of the Miloda Institute for the period ended 31 May 2013

----- 22.1.1 Scope of Audit -----

The audit of financial statements of the Miloda Institute for the period of 05 months ended 31 May 2013 comprising the balance sheet as at 31 May 2013 and the statement of income and expenditure and the cash flow statement for the period of 05 months then ended and a summary of significant accounting policies and other explanatory notes, 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.

22.1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Sri Lanka Accounting Standards 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.

22.1.3 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 consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). 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 judgments, 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 Institute's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

22.1.4 Incorporation of Miloda Institute as a Company Limited by Guarantee

This Institute had been incorporated as a company limited by guarantee under Companies Act, No. 07 of 2007 with effect from 17 May 2013 in accordance with the Cabinet Memorandum No. CM /12/1129/504/100 dated 23 August 2014 by utilizing net financial assets amounting to Rs.99,409,488 comprising financial assets namely, the fixed deposits that belonged to Miloda Institute amounting to Rs.96,500,000, receivable interest amounting to Rs.1,617,384, cash in hand amounting to Rs.1,364,393, petty cash advances and fuel advances amounting to Rs.10,000, total assets amounting to Rs.99,491,777 and the liabilities amounting to Rs.82,289, and funds amounting Rs.151,319,381 received from Fiscal Management and Reform Project for renovation of the old Customs Building.

Although it had been stated that fixed assets valued at Rs.1,082,127, employees' loans amounting to Rs.210,414, and Employees' Gratuity Fund amounting to Rs.663,590 would be vested with the new company, on the liquidation of Miloda Institute, the said assets and liabilities had not been taken over according to accounts of the new Company.

22.1.5 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

22.2 Financial Statements

22.2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of Miloda Institute for the period of 05 months ended 31 May 2013 and its financial performance and cash flows for the period of 05 months then ended in accordance with Sri Lanka Accounting Standards.

22.2.2 Comments on Financial Statements

22.2.2.1 Sri Lanka Accounting Policies

Capital expenses of Rs.1,082,128 incurred on fixed assets had been shown under current assets contrary to Sri Lanka Accounting Standard No. 16, and the policy of the Institute for the depreciation of assets had not been disclosed in the accounts.

22.2.2.2 Accounting Policies

Although it was stated that action had not been taken to vest any non-financial asset in the Academy of Financial Studies Limited by Guarantee, capital expenses amounting to Rs.3,758,873 and Rs.1,082,128 incurred on the restoration of capital assets in terms of Accounting Policy 06, had been written off against the profit as recurrent expenses instead of being vested in the new Company as capital assets.

22.2.2.3 Accounting Deficiencies

The following differences existed between the balances stated in the Financial Statements and the Ledger Accounts.

Category of Expenses	Balance According to Financial Statements	Balance According to Ledger Accounts
-----	-----	-----
	Rs.	Rs.
Expenses incurred on the newly proposed Miloda Building	4,055,288	5,619,121
Obsolete Raw Materials	153,452	-

22.2.3 Lack of Evidence for Audit

In terms of Accounting Policy No. 04 presented together with financial statements, the audit had not been presented with any information on the manner of settlement of course fees amounting to Rs.613,295 receivable from Government and Semi-government institutions, and a sum of Rs.2,838,980 deposited in the Institute as course fees received in advance from Government and Semi-government institutions.

22.2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances on non-compliance with laws, rules, regulations and management decisions observed during the course of audit are as follows.

Reference to Laws, Rules, and Regulations	Non-compliance
(a) Financial Regulations of Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 753(1)	After preparing the Issue Orders for articles, the original copy should be forwarded to the officer to whom the issue is made, along with the articles, and the duplicate retained. However, with regard to the issue of fixed assets valued at Rs.15,118,141, Issue Orders had not been made in such a manner.
(ii) Financial Regulation 753(2)	When articles are received, a Receipt Order should be made out by the officer receiving articles. The original should be forwarded to the officer who issued the articles and the duplicate retained. However, Receipt Orders had not been obtained with regard to the aforesaid fixed assets.
(iii) Financial Regulation 373(1)	Although the Institute should have surrendered the balance of imprest to the Department of State Accounts of the Treasury prior to the establishment of the new company, the balance of sub-imprest of this Institute amounting to Rs.10,000 as at 31 May 2013 had been transferred to New Miloda Institute.
(b) Public Enterprises Circular	
Circular No. 30 dated 13 July 2005.	In case that temporary surplus funds of Public Institution invested in Treasury Bills or other fixed deposits, such cash should be deposited in the State Institutions' Temporary Surplus Trust Fund under Account No. 4670 with effect from 01 August 2005. Contrary to that, a sum of Rs.96,500,000 had been invested in the fixed deposits in the People's Bank.

22.3 Financial Review

22.3.1 Financial Results

According to the financial statements presented, the operating result of the Institute for the period of 05 months ended 31 May 2013 amounted to a deficit of Rs.2,358,377 as against the surplus of Rs.3,975,277 for the preceding year. The deterioration of the financial result had been caused by the decrease in the income through the training programmes and the interest income and accounting for the capital and recurrent expenditures amounting to Rs.4,841,000 incurred on the establishment of New Miloda Institute as expenditure of the Institute.

22.3.2 Analytical Financial Review

Description	2012	For 5 months of 2013
-----	-----	-----
	Rs.	Rs.
Income from Training and Educational Services	19,107,900	1,873,000
Direct expenditure of Training and Educational Services	<u>(4,199,891)</u>	<u>(519,550)</u>
Contribution through Training	14,908,009	1,353,450
Cost of Administration and other Overheads	<u>(22,203,072)</u>	<u>(9,150,598)</u>
Loss incurred by Training and Educational Services	(7,295,063)	(7,797,148)
Other Income	<u>11,270,340</u>	<u>5,438,771</u>
Net Surplus / (Deficit)	<u>3,975,277</u>	<u>(2,358,377)</u>
Contributory Ratio (Per cent)	78	75

Losses of Rs.7,295,063 and Rs.7,797,148 had been incurred from the training and educational services conducted by the Institute during the year 2012 and during the period of 5 months of the year 2013 respectively. Even though contributory ratios of 78 per cent and 75 per cent had been received from training and educational services in the years 2012 and 2013 respectively such losses had been caused due to increase in overhead costs. The interest and other income amounting to Rs.11,270,340 and Rs.2,358,377 received in the year 2012 and during the period of 05 months in the year 2013 respectively, had resulted in a profit of Rs.3,975,277 for the year 2012 and a loss of Rs.2,358,377 for the five months period of the year 2013.

22.4 Operating Review

Performance

The Institute had earned an income of Rs.1,873,000 during a period of 4 months from January to April 2013 by conducting 11 training and educational service programmes and direct expenditure of Rs.519,550 had been incurred on earning such income. As an Action

Plan relating to training and educational service programmes expected to be conducted during that period, had not been presented to audit, it could not be verified in audit whether programs had been conducted in a manner that the objectives of the Institute could be achieved.

22.5 Accountability and Good Governance

22.5.1 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the Institute should present the draft financial statements to the Auditor General within 60 days after the close of the financial year. Nevertheless, financial statements for the period of 5 months ended 31 May 2013, had been presented only on 03 December 2014.

22.5.2 Budgetary Control

Significant variances were observed between the budgeted expenditure and the actual expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

22.6 Systems and Controls

Special attention should have been paid to the weaknesses in the following areas of systems and controls observed during the course of audit.

- (a) Fixed Assets
- (b) Overhead Costs

23. Report of the Auditor General on the Financial Statements of the Democratic Socialist Republic of Sri Lanka for the year ended 31 December 2013

23.1.1 Scope of Audit

The audit of financial statements of the Democratic Socialist Republic of Sri Lanka for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 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. The Management Audit Report for the year under review was furnished to the Deputy Secretary to the Treasury on 14 October 2014.

23.1.2 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.

23.1.3 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 risks assessments, the auditor considers internal control relevant to the Republic's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

23.1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 23.2.4 of this report.

23.2 Financial Statements

23.2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 23.2.4 of this report the financial statements give a true and fair view of the financial position of the Democratic Socialist Republic of Sri Lanka as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

23.2.2 Financial Performance

The financial performance of the Democratic Socialist Republic of Sri Lanka for the year ended 31 December 2013 as compared with the preceding year is given below.

Revised Budget Revenue		<u>Year 2013</u>	<u>Year 2012</u>
Estimates for the year 2013		Actual	Actual
-----	-----	-----	-----
Rs. Millions		Rs. Millions	Rs. Millions
239,518.0	Income Tax	205,665.6	172,593.1
577,959.1	Taxes on Local Goods and Services	498,526.3	462,164.1
234,723.0	Taxes on International Trade	219,451.3	210,539.3
-----		-----	-----
1,052,200.1	Tax Revenue	923,643.2	845,296.5
140,026.0	Non-tax Revenue and Others	142,604.2	151,520.4

1,192,226.1	Total Revenue (a)	1,066,247.4	996,816.9
	Less : Expenditure		
	Salaries, Wages and other Service Benefits	306,889.2	272,620.0
308,290.0	Other Goods and Services	130,477.0	110,014.4
135,586.8	Subsidies, Grants and Transfers	351,387.7	326,576.3
379,556.9	Interest Payment	464,529.4	408,986.7
486,485.9	Other Recurrent Expenditure	225.6	133.3
1,064.7			
1,310,984.3	Total of All Recurrent Expenditure (b)	1,253,508.9	1,118,330.7
118,758.2	Revenue Deficit (a) – (b)	187,261.5	121,513.8
544,988.7	Government Investments	455,578.2	471,088.8
663,746.9	Budget Deficit	642,839.7	592,602.6
	Financing of Budget Deficit		
201,068.2	Foreign Borrowings	183,317.2	365,698.4
(113,000.0)	Repayment of Foreign Loans	(94,895.9)	(152,898.7)
88,068.2	Net Foreign Borrowings	88,421.3	212,799.7
20,000.0	Foreign Grants	15,859.0	16,070.8
108,068.2	Total Foreign Financing	104,280.3	228,870.5
1,118,893.5	Domestic Non-Banking Borrowings	1,089,696.2	725,869.3
(634,000.0)	Repayment of Domestic Borrowings	(607,623.0)	(449,915.1)
484,893.5	Net Domestic Borrowings	482,073.2	275,954.2
16,825.0	Recovery of Loans	15,968.5	16,409.1
800.0	Sale of Capital Assets	280.3	831.1
-	Net Difference in Deposit Accounts and Liabilities	7,639.6	22,160.9
-	Increase / (Decrease) of Cash and Ready Cash	32,597.8	48,376.8
610,586.7	Total Financing	642,839.7	592,602.6

23.2.3 Financial Position

A Comparison of the Assets and Liabilities of the Democratic Socialist Republic of Sri Lanka as at the end of the year under review and the preceding year is given below.

	As at 31 December	
	2013	2012
	Rs. Millions	Rs. Millions
Financial Assets		
Loans to Public Officers	23,012.2	24,034.4
Advances to Government Departments	9,229.9	9,052.2
Memberships Fees	3,517.2	3,517.2
Lending	370,618.1	323,121.6
Government Contribution to Enterprises owned by Government	212,976.3	176,600.8
Stamp Stock Account	971.0	1,010.3
Total of Financial Assets	620,324.7	537,336.5
Liabilities		
Bank Overdraft	137,076.8	104,479.0
Advances from the Central Bank	109,271.8	111,291.8
Foreign Loans Revolving Fund	22,586.7	22,183.4
Sundry Funds	1,386.5	1,456.7
Government Borrowings	5,996,496.3	5,408,759.8
Deposits and Other Liabilities	83,410.4	75,756.0
Operating Account with Government Departments	(4,905.3)	(3,963.1)
Sundry Accounts	(380.5)	(2,107.7)
Total Liabilities	6,344,942.7	5,717,855.9
Contingencies Fund	140.0	140.0
Total of Liabilities and Contingencies Fund	6,345,082.7	5,717,995.9
Total of Liabilities and the Balances of Contingencies Fund exceeding Financial Assets		
Consolidated Fund – Accumulated Deficit	312,477.1	272,239.7
Total Investments in Physical Assets and the Accumulated Net Revenue Deficit	5,412,281.1	4,908,419.7
	5,724,758.2	5,180,659.4
Commitments for Contingencies	362,923.5	401,411.0

23.2.4 Accounting Deficiencies

The following deficiencies were observed.

- (a) Sums of Rs.6,000 million and Rs.2,000 million received from a state bank as advances in the years 2012 and 2013 respectively had been brought to account as income in the financial statements of the Republic for the years 2012 and 2013.
- (b) Foreign borrowings aggregating Rs.75,045 million had been obtained through two agreements for two specific projects of two public enterprises. Eventhough the Cabinet of Ministers had decided to transfer such foreign borrowings and debt service to relevant enterprises, such loan balance had been shown further in the financial statements of Republic as foreign borrowings.
- (c) A balance totalling Rs.23,146 million comprising Rs.19,817 million received on behalf of a land given for the development of hotel industry shown under explanatory Note No.26 in the financial statements of 2011 and Rs.3,329 million earned income therefrom by 01 January 2013 had been retained in the General Deposits Account, without crediting the state revenue. A balance of Rs.17,586 million had remained as at 31 December 2013 after Rs.5,560 million paid therefrom during the year under review.
- (d) The difference of Rs.39,054 million remained between the balances in the financial statements of the Republic as at 31 December 2013 as foreign borrowings, settlement of Development Bonds under local borrowings and non-accounted loan balances and according to the ledgers and loan records had been shown as exchange difference. Nevertheless the management had failed to establish that clearly.
- (e) Revenue generated by Provincial Councils and the expenditure incurred thereof had not been brought to the financial statements of the Republic.

23.2.5 Bank Overdraft

According to the financial statements the Bank overdraft as at 31 December 2013 amounted to Rs.137,077 million and the composition of that had been shown in Note No. 21 of the financial statements. The following observations are made in this connection.

- (a) One account out of 12 Bank Accounts shown in the Note 21 of the financial statements was the account (8020) of the Deputy Secretary to the Treasury. The Bank overdrafts of 03 accounts out of 10 accounts included in that account totalling Rs.165,697 million and the favourable balances of 07 accounts totalling Rs.8,268 million had been set off and the resultant overdraft of Rs.157,429 million had been shown in the financial statements. The actual Bank overdraft balance of Account No.8020 as at 31 December 2013 had increased by Rs.15,510 million as compared with the overdraft balance of the preceding year.
- (b) An interest of Rs.10,262 million had been paid during the year under review for the Bank overdraft of Account of the Deputy Secretary, Treasury stated in paragraph(a) above and it was an increase by Rs.2,658 million as compared with the interest paid Rs.7,604 million for the preceding year. That increase had been 35 per cent.

- (c) The debit balance of the Treasury Authorised Advance Account (7002) adjusted to the bank overdraft balance amounting to Rs.27,603 million had been shown as Rs.27,115 million after setting off the credit balance of Rs.488 million. This balance included unsettled debit balances totalling Rs.1,482 million and credit balances totalling Rs.464 million relating to the periods ranging from 1 to 17 years. Details appear below.

Account Number	Balance as at 31 December 2013		Year of Commencement of Balance
	Debit	Credit	
	Rs.	Rs.	
7002/0000/00/336/97	92,369,760	-	1997
7002/0000/00/75/97	53,575,400	-	1997
7002/0000/00/377/98	161,096,408	-	1998
7002/0000/00/332/99	101,591,142	-	1999
7002/0000/00/328/00	200,405,060	-	2000
7002/0000/00/35/08	63,350,921	-	2008
7002/0000/00/35/09	32,271,945	-	2009
7002/0000/00/35/10	675,170,151	-	2010
7002/0000/00/35/11	-	463,557,480	2011
7002/0000/00/35/12	101,950,473	-	2012
7002/0000/00/333/12	2,931	-	2012
	1,481,784,191	463,557,480	

- (d) The debit balance of Rs.70,101,042 as at 31 December 2013 in the Treasury Authorized Account (7003) for the Reimbursable Foreign Aid had been set off to the credit balance of Rs.15,000 and adjusted as Rs.70,086,042. This balance included 5 debit balances totalling Rs.38,401,706 and a credit balance of Rs.15,000 relating to the periods ranging from 08 to 13 years. Details appear below.

Account Number	Balance as at 31 December 2013		Commencing year of Balance
	Debit	Credit	
	Rs.	Rs.	
7003/0000/00/372/03	20,000,000	-	2003
7003/0000/00/43/04	-	15,000	2004
7003/0000/00/43/05	14,286,931	-	2005
7003/0000/00/43/01	11,358	-	2001
7003/0000/00/47/00	4,043,282	-	2000
7003/0000/00/43/02	60,135	-	2002
	38,401,706	15,000	

23.2.6 General Deposit Account

The balance shown under liabilities as deposits and other liabilities was Rs.83,410 million. The balance of the Treasury General Deposit Account No.(6000) had been shown as Rs.77,109.9 million in Note No. 26 of the financial statements. That balances according to the Treasury Computer Printouts are as shown below.

Category of Deposits	Balance as at 31 December 2013		
	Debit Balance	Credit Balance	Net Credit Balance
	Rs.Millions	Rs.Millions	Rs. Millions
Security Deposits	-	152.3	152,3
Tender Deposits	-	30.4	30.4
Sundry Deposits (Old) (6000-3)	2		(2)
Corporations and Funds	-	1,222	1,222
Institutions Vested in the Government	-	111.2	111.2
Funds (Boards)	-	28,134.9	28,134.9
Surplus Funds	-	252.4	252.4
Depreciation Reserve Fund	-	153.1	153.1
Temporary Borrowings (Administrative Loan)	-	14,083.7	14,083.7
Foreign Aid Grants		3,141.8	3,141.8
Deposit of Provisions	0.6	-	(0.6)
Deposits made by Private Institutions	-	88.1	88.1
Revenue Remittance to Provincial Councils	-	1,594.4	1594.4
General Deposits	-	28,146.9	28,146.9
Others	-	0.7	0.7
Total	2.6	77,111.9	77,109.3

The following observations are made in this regard.

- (a) Balance of the General Deposit Account had been shown as Rs.77,109.3 million after setting off the debit balances totalled Rs.2.6 million to credit balances totalled Rs.77,111.9 million.
- (b) According to the Public Accounts Circular No. 200/2009 of 29 October 2009, no deposits should be credited to the old accounts after 01 November 2009 and those General Deposits accounts should be closed down after the settlement of the deposit balances lying in those accounts. Nevertheless, action had not been taken accordingly.

23.2.7 Losses and Damage

The value of the losses and damage during the year 2013 amounted to Rs.225,621,581. That is an increase of Rs.92,355,260 or 69.3 per cent as compared with the value of the losses and damage of Rs.133,266,321 for the preceding year.

The following observation is made in this regard.

Even though a balance of Rs.225,621,581 had been shown as losses and damage in the financial statements for the year under review, the value of losses and damage shown in the DGSA 7(1) format in the Appropriation Accounts in respect of 46 Heads received as at 21 April 2014, the date of audit totalled Rs.249,045,257. Therefore the value of the losses and damage not included in the financial statements relating to such 46 Heads amounted to Rs.23,423,676.

23.2.8 Accounting for Fixed Assets

The following observations are made.

- (a) Even though a sum of Rs.219,283,847,951 had been utilized for Improvements and Additions of Fixed Assets under Capital Provisions during the year under review, the value of the fixed assets owned by the State had not been separately computed and brought to account in the financial statements for the year under review. Further, the actual value of the fixed assets had not reflected in the financial statements due to the accounting policy adopted in preparing Accounts as non-accounting of disposals of fixed assets during the year under review. The value of the improvements and additions of fixed assets during the year under review amounted to Rs.27,336,766,157 and Rs.191,947,081,794 respectively.
- (b) A sum of Rs.1,885,267,693 paid for purchases of vehicles under leases had been included in the "Additions to Vehicles".

23.2.9 Capital Contribution to Government Owned Businesses

According to the financial Statements the total capital contribution in 125 Government Owned Businesses as at 31 December 2013 had been Rs.212,976,260,878. The following observations are made in this regard.

- (a) The value of capital contribution invested in 14 Businesses out of 125 Government owned Businesses amounting to Rs.461,505,280 had not been confirmed.
- (b) Even though it was shown in the financial statements that the capital contribution of the General Treasury of 12 Government owned Businesses totalled

Rs.124,269,630,593 the capital contribution confirmed as correct by such institutions totalled Rs.160,536,354,844. Accordingly, the capital contribution over confirmed relating to these 12 institutions amounted to Rs.36,266,724,251.

- (c) Even though it was shown in the financial statements that the capital contribution of the General Treasury relating to 08 out of 125 Government owned Businesses amounted to 35,828,544,856, the total of the capital contribution confirmed by that institutions amounted to Rs.30,727,606,329. Accordingly, the capital contribution under confirmed relating to these 08 institutions amounted to Rs.5,100,938,527.
- (d) The Government Capital Contribution to Sri Lanka Tourism Development Authority amounting to Rs.1,636,043,832 had not been included in the financial statements of the Republic – 2013.
- (e) According to the confirmation of the balances of the capital of “Mihin Lanka” private company as at 31 December 2013, the value of the shareholding of the government amounted to Rs.5,140,610,810 In addition to this share capital, the balance confirmed as Government holding Capital Advances amounted to Rs.2,807,419,946 This Capital Advance balance had not been included in the financial statements of the Republic.

23.2.10 Revenue Received from Capital Contribution

Even though a sum of Rs.82,900,260,159 had been invested in the share capital of 91 institutions comprising 62 institutions owned by the Government, 24 plantation companies 02 Development Banks and 03 Corporations with quoted shares in US Dollars, dividends amounting to Rs.4,768,286,280 had been received in the year under review only from 38 institutions in which a sum of Rs.33,750,711,417 had been invested. The percentage of the value of that dividend amount had been less than 6 per cent of the total investment

23.2.11 Foreign Loans and Grants

A sum of Rs.201,068,225,000 and Rs.12,952,025,000 had been estimated as Foreign Loans and Grants respectively in the statement of financial position for the year under review respectively. It was a decrease by Rs.40,487,118,000 or 16.8 per cent of revised foreign loans estimate and a decrease by Rs.416,303,000 or 3.1 per cent of revised foreign grants estimate. Similarly the original estimate for foreign grants for the year under review had been revised up to Rs.20,000,000,000 by Rs.7,047,975,000. The details appear in the following chart.

	Annual Estimate	Revised Estimate	Actual Receipts	Annual Provisions for Expenditure	Annual Expenditure	Saving
	Rs.	Rs	Rs	Rs	Rs	Rs.
Foreign Loans	201,068,225,000	-	183,317,158,351	214,151,792,146	185,654,462,497	28,497,329,649
Foreign Grants	12,925,025,000	20,000,000,000	15,858,996,,167	19,026,786,134	14,847,556,499	4,179,229,635

The following observations are made in this regard.

- (a) Overprovisions of Rs.13,083,567,146 had been made more than the estimated foreign loan amount in making provisions for expenditure by utilizing foreign loans.
- (b) Even though actual receipts of foreign loans in the year under review amounted to Rs.183,317,158,351, the total amount spent under 41 Heads of Expenditure amounted to Rs.185,654,462,497. Accordingly it was not revealed in audit how the expenditure of Rs.2,337,304,146 made from foreign loans more than the receipts.
- (c) The entire amount of Rs.4,464,592,366 provided under foreign loan financing for eleven Expenditure Heads had remained underutilized.
- (d) Entire provisions of Rs.1,430,339,955 allocated for 14 Expenditure Heads under foreign Grants financing in the year under review had remained underutilized.
- (e) According to the 854-1 report prepared annually by the Department of External Resources, a sum of Rs.14,718,564,079 received under 11 loan agreements in the year 2013 had not been brought to account.
- (f) According to the financial statements and 854-1 report of the Department of External Resources the following differences were revealed on the repayable loan balance and the loans settled during the year. Due to non-reconciliation of accounts the correct account balance had not been established in audit.

Particulars	Balance according to Financial Statements	Balance according to 854-1 Report	Difference
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	Rs.	Rs.	Rs.
Repayable Loan Balance	2,491,067,436,322	2,756,270,641,876	265,203,205,554
Loans Repaid during the Year	94,895,887,005	105,625,648,033	10,729,761,028

- (g) The value of the foreign loans received under 36 loan agreements had been stated as Rs.65,976,391,933 in the financial statements. Nevertheless, according to 854-1 report prepared by the Department of External Resources the receipts relating to said loan agreements had been Rs.133,885,346,910. Therefore, a sum of Rs.67,908,954,977 had been understated in the financial statements.
- (h) According to the approval of the Cabinet of Ministers dated 11 June 2011, 725 units of construction equipment valued at U.S.Dollars 115.8 million had been purchased by the Ministry of Economic Development in the year 2011 on loan basis from a company in China and the payments had been made under capital provisions up to the year 2013. But according to the approval of the Cabinet of Ministers a loan agreement should be signed by the Treasury on behalf of the Government with the China Company in terms of the Section 3.2 of the Cabinet Memorandum. Nevertheless, such a loan agreement had not been signed and this amount had not been brought to account as public debt as well.

- (i) According to the financial statements for the year under review the value of the foreign grants amounted to Rs.15,858,996,167. That was a decrease by Rs.4,141,003,833 of revised foreign grant of Rs.20,000,000,000. Nevertheless foreign grants received for 73 projects amounting to Rs.6,020,393,784 had not been utilized even by the end of the year under review.

23.2.12 Advance Account

A sum of Rs.1,274,671,550 had been spent exceeding the maximum expenditure (debit) limit amounting to Rs.570,000,000 of the Advance Account Activity Item No.30601 without considering the limits authorized by Appropriation Act No. 23 of 2012.

23.3 Financial and Operating Review

23.3.1 State Revenue

The following observations are made

- (a) According to the Annual Budget Estimates for the year under review the estimated total revenue of the Government amounted to Rs.1,303 billion. Nevertheless, according to Revised Estimate the total government revenue had been reduced by Rs.91 billion up to Rs.1,212 billion. That represented a percentage of 7 per cent of the original estimated revenue. The actual revenue for the year 2013 inclusive of foreign grants amounted to Rs.1,082 billion. Accordingly, the revised estimate had been an over estimation of Rs.130 billion.
- (b) The earned income under 50 codes of revised revenue had been less than even from the revised estimate by Rs,184,257 million.
- (c) The collection of revenue under following 19 Revenue Codes for the year 2013 had decreased as compared with the preceding year.

Revenue Code	Particulars of Revenue	Receipts for the Year Under Review (2013)	Receipts for the Preceding Year (2012)	Decrease of Revenue	Percentage of Decrease of Revenue
		Rs. Millions	Rs. Millions	Rs. Millions	
10:02:01:04	Import Duties	96,590	99,469	2,879	3
10:02:05:03	Petroleum Product Tax	27,131	28,466	1,335	5
10:02:05:99	Other Taxes	2,516	3,336	820	24
10:03:02:00	Transfer Tax	1,146	1,253	107	8
10:03:04:00	Share Transaction Tax	289	592	303	51
10:03:07:03	Private Timber Transport Tax	56	59	3	5
10:01:03:00	Import and Export Licenses Tax	458	513	55	11
10:01:04:00	Ports and Airports Development Tax	61,506	70,111	8,605	12

10:04:03:99	Duties and other Taxes	255	344	89	26
10:04:04:00	Economic Service Charge Tax	6,596	14,864	8,268	56
20:02:01:04	Lease Rent from Regional Plantation Companies	695	771	76	10
20:02:03:00	Profits	30,400	42,214	11,814	28
20:03:01:00	Departmental Enquiries	143	180	37	21
20:03:02:13	Examination and other Fees	156	263	107	41
20:03:02:14	Fees recover under Motor Traffic and other Receipts	6,525	6,578	53	0.8
20:03:02:17	Fees on Local Enquiries for Apparels	91	105	14	13
20:03:03:00	Fines and Confiscations	2,274	5,137	2,863	56
20:05:01:00	Central Bank Profits	26,350	43,000	16,650	39
20:05:99:00	National Lotteries Board and others	2,173	2,223	50	2

- (d) Revenue amounting to Rs.99,463 had been collected exceeding the revised estimated revenue under 35 revenue codes in the year under review. In considering the ranges of increase of income a realistic estimation was not observed in audit.
- (e) A high variation was revealed between original revenue estimates and revised revenue estimates under 21 revenue codes in the year under review.
- (f) According to the Report of the Arrears of Revenue prepared by the Department of Treasury Operations, the information relating to revenue amounting to Rs.7,785,285,540 identified as arrears of revenue as at the end of the year under review had not been included in the financial statements. Details appear below.

Revenue Code	Particulars	Arrears of Revenue
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		Rs.
2002.01.01	Rent on Government Buildings	334,852,341
2002.02.01	Interest – On lending	3,157,778,924
2002.02.99	Interest – Other	90,277
2003.02.99	Sales Proceeds – Sundries	5,098,993
2003.99.00	Sales Proceeds – Other Receipts	13,000
2006.04.00	Capital Revenue, Non-recovery of Loans	4,287.452.005

Total		7,785,285,540
		=====

23.3.2 Public Expenditure

In terms of provisions of the Article 148 of Chapter xvii of the Constitution of the Democratic Socialist Republic of Sri Lanka the full control of public finance is devolved in the Parliament. Provisions for public expenditure for the year 2013 had been made from the Appropriation Act No.23 of 2012. Accordingly, provisions of Rs.1,387 billion comprising Rs.827 billion for recurrent expenditure and provisions of Rs.560 billion for capital expenditure had been made for 202 Expenditure Heads. Similarly, expenditure amounting to Rs.1,180 billion comprising Rs.463 billion for recurrent expenditure and Rs.717 billion for capital expenditure should be incurred in the year under review from Consolidated Fund approved under existing Law. Accordingly, Provisions of Rs.2,567 billion had been made for public expenditure in the annual estimate for the year 2013. Therefore, the annual Provisions for the year 2013 had been Rs.2,603 billion inclusive of Rs.36 billion additional provisions made for special Law Services. Provisions totalling Rs.74 billion comprising Rs.37 billion for capital expenditure and Rs.37 billion for recurrent expenditure had been made by Parliament for Appropriation Head 240, Department of National Budget, and Development Programme No.02 for the year under review.

Out of the total provisions of Rs.1,310,984,362,030 made for Recurrent Objects for the year under review, a sum of Rs.1,253,508,957,764 had been utilized, thus the savings had been Rs.57,475,404,266. The overall total savings represented 4.4 per cent of the recurrent provisions. Out of the total provisions of Rs.1,291,988,759,988 made for Capital Objects, provisions totalling Rs.1,158,097,060,349 had been utilized, thus the savings had been Rs.133,891,699,639. The overall total savings represented 10.4 per cent of the capital provisions.

The following observations are made in this connection.

- (a) The total provisions of Rs.1,451,483,366 made for 23 Recurrent Objects under 60 Expenditure Heads and the total provisions of Rs.11,915,542,020 made for 15 Capital Objects under 97 Expenditure Heads had not been utilized even by the end of the year.
- (b) Out of the total provisions of Rs.134,657,421,551 made for 28 Recurrent Objects under 126 Expenditure Heads, provisions of Rs.89,567,307,166 had only been utilized, thus the savings were Rs.45,090,114,385. Such overall total savings had been 33 per cent of the recurrent provisions. In considering the underutilization of provisions separately it was ranged between 26 per cent and 99 per cent.

Savings Ranges	Total Provision Recurrent	Total Expenditure Recurrent	Savings
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	Rs.	Rs.	Rs.
76 per cent to 99 per cent	565,142,243	84,909,677	480,232,566
51 per cent to 75 per cent	1,892,732,126	824,937,103	1,067,795,023

26 per cent to 50 per cent	132,199,547,182	88,657,460,386	43,542,086,796
Total	134,657,421,551	89,567,307,166	45,090,114,385

- (c) Out of the total provisions of Rs.153,731,989,732 made for 16 Capital Objects under 172 Expenditure Heads, provisions of Rs.78,751,069,172 had only been utilized, thus the savings were Rs.74,980,920,559. The percentage of that savings out of the net provisions for Object of that Expenditure Heads had been ranged between 26 per cent to 99 per cent.

Savings Ranges	Total Provision Capital	Total Expenditure Capital	Savings
%	Rs.	Rs.	Rs.
76 per cent to 99 per cent	17,387,273,776	1,426,346,194	15,960,927,582
51 per cent 75 per cent	41,032,556,818	16,732,314,091	24,300,242,727
26 per cent 50 per cent	95,312,159,137	60,592,408,887	34,719,750,250
Total	153,731,989,731	78,751,069,172	74,980,920,559

- (d) Out of the additional provisions made under Appropriation Head 240 Programme 02, Project 02 of the Department of National Budget, Rs.7,065,300,607 transferred to recurrent expenditure by under 41 Financial Regulation 66 transfers, and Rs.19,045,007,779 transferred to capital expenditure by under 100 Financial Regulation 66 transfers, had been re-transferred by 31 December 2013.

23.3.3 Budget Deficit

The revised estimated budget deficit of the Republic for the year under review amounted to Rs.664 billion and that as compared with the revised estimated budget deficit for the preceding year indicated an increase of Rs.14 billion or 02 per cent. According to the financial statements for the year 2013, the actual budget deficit amounted to Rs.643 billion, thus indicating a favourable position of Rs.21 billion over the estimated budget deficit. The actual Budget deficit for the year under review had been 7.4 per cent of the Gross Domestic Product.

23.3.4 Liabilities of the Republic

According to the financial statements, the total liabilities of the Republic as at the end of the year under review amounted to Rs.6,344,943 million and as compared with the total liabilities of Rs.5,717,857 million for the preceding year indicated an increase of Rs.627,086 million or 11 per cent. The details of such increase are as follows.

Liability	Balance as at 31 December		Difference (Decrease) Increase	Difference (Decrease) Increase as a Percentage
	2013	2012		
	Rs.Millions	Rs.Millions	Rs.Millions	
Bank Overdraft	137,077	104,479	32,598	31.2
Central Bank Advances	109,272	111,292	(2,020)	1.8
Foreign Loans Revolving Fund	22,587	22,183	404	1.8
Sundry Funds	1,386	1,457	(71)	4.9
Public Debt Accounts	5,996,496	5,408,760	587,736	10.9
Deposits and Other Liabilities	83,410	75,756	7,654	10.1
Operating Accounts of the State Department	(4,905)	(3,963)	(942)	23.8
Sundry Accounts	(380)	(2,107)	1,727	85.4
	6,344,943	5,717,857	627,086	10.9