

Fiscal Management Reform Programme (Modernization of Revenue Administration) - 2013

The audit of financial statements of the Fiscal Management Reform Programme (Modernization of Revenue Administration) for the year ended 31 December 2013 was carried out under my direction in pursuance of provision in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 4.05 (b) of Article IV of the Loan Agreement No.2132 SRI dated 20 December 2004 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Asian Development Bank (ADB).

1.2 Implementation, Objectives, Funding and Duration of the Programme

According to the Loan Agreement of the Fiscal Management Reform Programme (Modernization of Revenue Administration), the Ministry of Finance and Planning is responsible for the Execution and Implementation of the Programme. The objective of the Programme is to support institutional strengthening focusing primarily on the procurement of equipment for the modernization of revenue administration. According to the Loan Agreement, the total estimated cost of the Programme is US\$ 15 million and the entire amount was agreed to be financed by the Asian Development Bank. The Programme commenced its activities on 20 December 2004 and was scheduled to be completed by 31 December 2007. However, Asian Development Bank had extended the completion date of the Programme up to 31 December 2011 on the request made by the Government of Sri Lanka and allowed time till 16 March 2012 for the reimbursement of funds. However, the Project had continued its operations up to 31 December 2013 by using Government of Sri Lanka Funds.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive 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. The audit was carried out in accordance with Generally Accepted Accounting Principles to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. The examination also included such tests of systems and

controls, transactions, assets, liabilities and accounting records as deemed necessary to assess the following.

- a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Programme management and the reliability of books, records etc. relating to the operations of the Programme.
- b) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Programme from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Programme in financial and physical terms, the assets and liabilities arising from the operations of the Programme, the identification of purchases made out of the Loan etc.
- c) Whether the expenditure had been correctly identified according to the classification adopted for their implementation of the Programme.
- d) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- e) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.

3. Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 5 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2013 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided and,
- (c) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.

4. Financial Statements

4.1 Financial Performance

According to the financial statements presented, the expenditure of the Programme for the year ended 31 December 2013 amounted to Rs. 20.16 million and the cumulative expenditure of the Programme as at 31 December 2013 amounted to Rs. 1,807.7 million. The following statement shows a summary of expenditure for the year under review, the expenditure for the year 2012 and the cumulative expenditure as at 31 December 2013.

Category	Expenditure for the year ended 31 December		Cumulative Expenditure as at 31 December 2013
	2013 Rs. million	2012 Rs. million	Rs. million
Furniture and Fittings	-	-	62.53
Local Area Network	-	567.60	862.76
Civil Works	-	-	4.43
Value added Tax and Other Taxes on Development Expenditure	-	112.74	135.66
Project Management	0.04	0.16	6.01
Loan Interest and Commitment Charges	-	-	68.37
Establishment of Academy of Financial Studies	20.12	647.82	667.94
Total	20.16	1,328.32	1,807.7

5. Audit Observations

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

Annual Board of Surveys on assets of the Programme had not been carried out in terms of Financial Regulation 756. Further, a Register of Fixed Assets in terms of the Treasury Circular No. 842 of 19 December 1978 and a Register of Computers and Accessories in terms of the Treasury Circular No.1A1/2002/02 of 28 November 2002 had not been maintained. Therefore, it was not possible to ascertain in audit that the physical existence of the assets valued at Rs. 62,526,875 purchased by the Project Monitoring Unit to distribute among the Revenue Administration Institutions.

5.2 Lack of Documentary Evidence for Audit

The copies of Annual Action Plan and the progress reports thereon had not been submitted for audit as enable to the evaluation of the financial and physical progress of the activities of the Project. Further, the list of assets and other inventory items procured and handed over to the Department of Inland Revenue, Department of Excise had not been rendered for audit.

6. Financial and Physical Performance

6.1 Utilization of Funds

Certain significant statistics relating to the financing of funds, budgetary provisions for the year under review, utilization of funds during the year under review and the cumulative expenditure as at 31 December 2013 are shown below.

Source	Amount agreed to be financed		Allocation made in the Annual Budget	Amount utilized during the year under review		Amount utilized as at 31 December 2013	
	USD Mn	Rs Mn		USD Mn	Rs Mn	USD Mn	Rs Mn
Asian Development bank	15	1,920	45	-	-	10	1,354
Government of Sri Lanka	-	-	10	0.18	23.92	3.34	428
Total	15	1,920	55	0.18	23.92	13.34	1,782

The following observations are made.

- (a) According to the above information, US\$ 10 million equivalent to Rs. 1,354 million of proceeds from Asian Development Bank, out of US\$ 15 million equivalent to Rs.1,920 million allocated had been utilized. Therefore, 66 per cent of total provision for the Programme only had been utilized even at the end of seven years of operations including the extended period of the Programme.
- (b) According to the Loan Agreement, the major objective of the Programme is to Strengthening of the revenue administration by supplying equipment to the Department of Inland Revenue, Department of Excise and Sri Lanka Customs. Therefore, a sum of Rs. 1,031 million had been spent for the strengthening of the revenue administration by supplying equipment to the Department of Inland Revenue. Further, a sum of Rs.701.28 million had been spent for the Ministry of Finance and Planning and it includes the development activities carried out at the Academy of Financial Studies (Miloda) at a cost of Rs.667.94 million. In addition, a sum of Rs.2.29 million had been spent for strengthening of activities of Department of Excise. The following further observations are made thereon.

- (i) According to the information received, no development expenditure whatsoever had been spent, out of the total allocation made for the Sri Lanka Customs which is a major revenue institution. Out of the total expenditure, only a sum of Rs. 2.29 million or 0.13 per cent had been spent for the Department of Excise.

- (ii) It was observed that the works carried out for modernization of old building of the Department of Custom to establish the Academy of Financial Studies are not directly related to achievement of the objectives of the Programme. Further, the proper approval had not been obtained for the expenses amounting Rs. 287.97 million incurred in this connection.