

Report of the Auditor General on Head 238 - Department of Fiscal Policy -- Year 2015

The audit of the Appropriation Account, Revenue Accounts and the Reconciliation Statements including the financial records, books, registers and other records of the Head 238 – Department of Fiscal Policy for the year ended 31 December 2015 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 Director General of the Department on 05 December 2016. The audit observations, comments and findings on the accounts and reconciliation statements were based on a review of the Accounts and Reconciliation Statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

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

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account, Revenue Accounts, and the Reconciliation Statements in accordance with the provisions in Articles 148,149,150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Financial 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. Accounts

2.1 Appropriation Account

Total Provision and Expenditure

The total net provision made for the Department amounted to Rs.78.38 million and out of that Rs.72.66 million had been utilized by the end of the year under review. Accordingly, the savings out of the net provision of the Department amounted to Rs.5.72 million or 7.30 per cent. Details appear below.

Expenditure	As at 31 December 2015			Savings as a Percentage of the Net Provisions
	Net Provision	Utilization	Savings	
	Rs.Millions	Rs.Millions	Rs.Millions	
Recurrent	75.88	70.43	5.45	7.18
Capital	2.50	2.23	0.27	10.80
Total	78.38	72.66	5.72	7.30

2.2 Revenue Accounts

The Department of Fiscal Policy had prepared Revenue Estimates totalling Rs. 12,005 million in respect of 02 Revenue Codes for the year 2015 and Revenue totalling Rs.21.36 million had been collected from only one out of those Revenue Codes in the year under review. It had been 327.20 per cent of the estimated revenue relating to that Revenue Code. No revenue whatsoever had been collected from the other Revenue Code. Details appear below.

Revenue Code	As at 31 December 2015			Excess/(Shortfall) as a Percentage of Estimated Revenue
	Estimated Revenue	Actual Revenue	Excess/ (Shortfall)	
	Rs. Millions	Rs. Millions	Rs. Millions	
10.02.10.00	5.00	21.36	16.36	327.20
20.05.01.00	12,000.00	-	(12,000.00)	(100.00)
Total	12,005.00	21.36	(11,983.64)	(99.82)

2.3 Advances to Public Officers Account

Limits Authorized by Parliament

Limits authorized by Parliament for the Advances to Public Officers Account, Item No.23801 of the Department and the actual amounts are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
2.72	0.99	1.00	1.70	10.00	6.56

2.4 Audit Observation

The Appropriation Account, the Revenue Accounts and the Reconciliation Statements for the year ended 31 December 2015 of the Department of Fiscal Policy have been prepared satisfactorily subject to the Audit Observations appearing in the Management Audit Report referred to in paragraph 1.1 above. The material and significant Audit Observations out of the Audit Observations included in the said Management Audit Report appear in paragraph 3.

3. Material and Significant Audit Observations

3.1 Revenue Accounts

The duties relating to the preparation of Revenue Estimates, collection of Revenue, Accounting and the presentation of Accounts relating to 02 Revenue Codes had been assigned to the Head of Department as the Revenue Accounting Officer. The following deficiencies were observed during the course of the test audit of those Revenue Codes.

(a) Revenue Code 10.02.10.00 Social Responsibility Levy

The following observations are made.

- (i) In terms of the State Accounts Circular No.247/2015 of 29 December 2015, the Revenue Account for the year 2015 should be furnished to the Auditor General before 31 March 2016. Nevertheless, that had been furnished to Audit on 02 May 2016 after delay a period one month.
- (ii) The original revenue estimate for the year under review amounted to Rs.5.00 million. Out of that, revenue amounting to Rs.21.36 million had been by the end of the year under review. It had been 327.20 per cent of the estimated revenue.
- (iii) The Sri Lanka Customs and the Department of Inland Revenue had sent Returns of Arrears of Revenue totalling Rs.82,893,328 relating to that Revenue Code to the Department by 31 December 2015. Accordingly, the arrears of revenue of this Revenue Code amounted to Rs.82,893,328. However, the arrears of revenue included in the Revenue Account amounted to Rs.61,537,332. As such, the Arrears of Revenue had been understated by Rs.21,355,996 in the revenue Account. However, the progress of recovery of arrears of revenue of the Department had been at a weak level.

(b) Revenue Code 20.05.01.00 - Central Bank Profits

The following observations are made.

- (i) The net revenue collected as profits of the Central Bank in the preceding year amounted to Rs.11,500. Revenue of Rs.12,000 had been estimated for the year under review and subsequently, the revenue estimate had been revised to the revenue amounting to Rs.12,000 million. However, no revenue whatsoever had been collected in the year under review.
- (ii) The Central Bank of Sri Lanka had not declared the dividends in the year under review. As such, there was no revenue relevant to the Revenue Account.

3.2 Advances to Public Officers Account

The following observation was made during the course of audit test checks of the Reconciliation Statement as at 31 December 2015 relating to the Advances to Public Officers Account Item No. 23801.

The loan balance of Rs.85,378 of an officer who had gone on transfer to a Provincial Council in May 2002 should have been recovered as a lump sum from the relevant Provincial Council in terms of the National Budget Circular No.118 of 11 October 2015. The Department had failed to recover that loan balance even by the end of the year under review.

3.3 Non-compliance

----- 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.

References to Laws, Rules and Regulations -----	Value ----- Rs.	Non-compliance -----
(a) Circulars of the Ministry of Finance and Planning -----		
(i) Circular No.FP.01/2010/01 of 10 October 2010	Rs.382,162 US\$ 1,600	Even though the incidental allowance which is entitled to officers who had proceeded abroad, had been paid by host Government or the sponsor institution, without considering that, sums US\$ 1,600 and Rs.382,162 had been paid to the officers of the Department in 05 instances.
(ii) - Do-	Rs.126,000 US\$ 3,200	The Department had paid a sum of Rs.126,000 for air tickets and US\$ 3,200 (400+2,800) as incidental and combined allowances for 10 days to an officer to proceed abroad with study leave for following a Postgraduate Degree Course of the Defence Services Command and Staff College from 04 January 2015 to 24 December 2015. The approval obtained therefor was not available in the file.

(b) **Budget Circulars**

Circular No.150 of 07 December 2010	Rs.7.4 million	Even though the maximum market price of a motor vehicle which can be purchased by a Director General under the Financial Leasing Method, amounted to Rs.4 million excluding Excise Duty and Customs Duty, the value of the motor vehicle assigned to the Director General, amounted to Rs.7.4 million.
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3.4 Performance

The following observations are made on the progress of the Department according to the Annual Action Plan for the year 2015.

- (a) Revenue estimates relating to the following mentioned Revenue Codes for the year 2015 had been sent to the Department by the Revenue Accounting Officer. The revenue expected to be collected in those revenue estimates so sent, totalled Rs.128,138 million. The estimated revenue so sent, had been increased by Rs.63,033 million by the Department and shown as Rs.191,138 million in the preparation of the Annual Budget Estimate. Details appear below.

Revenue Code	Estimate of the Revenue Accounting Officers	Vote on Account Budget	Difference
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	Rs. Millions	Rs. Millions	Rs. Millions
20.02.02.01	6,221	6,725	500
20.02.01.99	60	300	240
20.02.01.01	650	700	50
10.02.11.00	29,000	40,000	11,000
20.02.02.99	1,300	1,500	200
20.03.02.99	7,000	8,990	1,990
20.03.99.00	4,000	15,000	11,000
20.06.04.00	14,077	14,300	223
30.01.01.00	16,000	30,000	14,000
20.02.03.00	30,680	45,500	14,820
20.02.04.00	5,050	5,160	110
20.04.01.00	9,100	15,000	5,900
20.04.02.00	5,000	8,000	3,000
Total	128,138	191,175	63,033
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- (b) In terms of Fiscal Policy Circular No.01/2015 of 20 July 2015, it had been stated that the forecasting of accuracy of revenue is of vital importance. Moreover, it had been stated that the management of the Fiscal Plan including the State Revenue and receipts and the Fiscal Operation is a key function. Action had not been so taken by the Department of Fiscal Finance Policy in the forecasting of the entire revenue of the Government. The following observations are made in this connection.
- (i) Differences between the original estimated revenue of the year under review and the actual revenue collected in the year ranged from 10 per cent to 1968 per cent.
 - (ii) Differences between the revised revenue estimate of the year under review and the actual revenue collected in the year ranged from 10 per cent to 120 per cent.
 - (iii) Even though original and revised estimates had been prepared for Pradeshiya Sabhas, reports on actual revenue had not been furnished.
- (c) The Department had made provision under the Object 238-1-1-0-1405 of the Annual Budget Estimate - 2015 for settling the Value Added Tax under Tsunami Relief Project. The Department of Inland Revenue had been authorized for incurring the relevant expenditure. As such, a sum of Rs.32,171,486 had been spent for 07 projects. Even though particulars on that expenditure had been requested for, only one file had been furnished to Audit by stating that the relevant files had been sent to the Record Room. According to a letter in that file No. FP/06/20/13/136 of 16 November 2005, except for the Letter postponing the exemption of tax amounting to Rs.26,435,521, no particulars whatsoever relating to other performance of the Project had been furnished. It was observed during the course of audit test checks that a sum of Rs.32,171,486 had been spent in the year 2015 as value Added Tax of 15 per cent for 07 Projects costing Rs.214,476,573 based on invoices for the years 2005, 2006 and 2007.
- (d) Preparation and management of a Data Base implemented throughout the year should have been done according to the Action Plan. However, it was observed that the Department had not maintained a Data Base on the exemption of Value Added Tax levied on assets for the Goods imported to this country.

3.5 Transactions of Contentious Nature

The following observations are made.

- (a) Sums of Rs.3,864 and Rs.3,183 had been spent per copy for printing of the Annual Report of the Ministry of Finance for the years 2012 and 2013 respectively. Printing of the Annual Report of the Ministry of Finance for the year 2014 had been done by the Ministry itself and a sum of Rs.1,480 per copy had been spent for printing.
- (b) According to the information presented to Audit, 2,750 and 1,800 copies of Annual Reports of the Ministry of Finance in the years 2013 and 2014 respectively had remained without distributing. Even though these Annual Reports had been published in the website of the Department, the aforesaid remaining Reports relating to the year 2013 had

been distributed to schools by spending Rs.1,320,000 by the Speed Post Courier service. Moreover, a sum of Rs.405,000 had been spent for the distribution of the 1,800 remaining reports relating to the year 2014 to Universities and schools by the Speed Post Courier service.

- (c) The printing of Fiscal Finance Management Reports relating to the years 2014, 2015 and 2016 had been done by the Department itself. Sums of Rs.8,449 and Rs.7,967 had been spent for printing of these reports in the years 2013 and 2014 respectively. However, the cost for the printing of one report of the year 2016 had been decreased to Rs.495. The printing of these reports in the years 2014 and 2015 had been assigned to a private institution and in the year 2016, it had been assigned to the Government Press. As such, the cost had minimized.
- (d) According to the information presented to Audit, 376 Fiscal Management Reports each had remained in the years 2014 and 2015 respectively.
- (e) According to the information presented, the same group of officers had been appointed for the Technical Evaluation Committee and the Procurement Committee appointed for the printing of Fiscal Management Reports as well as Annual Reports in the years 2013 and 2014.
- (f) According to the information presented to Audit, 719 and 1,714 Fiscal Management Reports for the midyear had remained in the years 2014 and 2015 respectively and 487 and 1,367 Pre-Election Finance Quality Reports had remained in the years 2014 and 2015 respectively.

3.6 Human Resources Management

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

The position of the cadre as at 31 December 2015 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
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(i) Senior Level	22	13	09
(ii) Tertiary Level	03	02	01
(iii) Secondary Level	25	18	07
(iv) Primary Level	15	10	05
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Total	65	43	22
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The following observation is made.

Thirteen officers at the Senior Level in the actual cadre had participated in local and foreign training and conferences in 20 instances as well and one Assistant Director had proceeded abroad in the year 2015 itself for a private purpose