

Report of the Auditor General on Head 240 the Department of National Budget- Year 2015

The audit of the Appropriation Account, Revenue Account and the reconciliation statements including the financial records, books, registers and other records of the Department of National Budget for the year ended 31 December 2015 was carried out in pursuance to provisions in Article 154(1) of the Constitution of 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 21 November 2016. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and test of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitation 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 Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account, Revenue Account and the Reconciliation Statements in accordance with the provisions in Articles 148, 149, 150 and 152 of the Constitution of 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. Accounts

2.1 Appropriation Account

Total provision and Expenditure

The total net provision made for the National Budget Department amounted to Rs.15,267.51 million and out of that Rs.6,902.00 million had been utilized by the end of the year under review. Accordingly, provisions of Rs.8,365.51 million or 54.79 per cent of the total net provision had been saved. Details are shown below.

Expenditure	As at 31 December 2015			Savings as a Percentage of Net Provision
	Net Provision	Utilization	Savings	
	Rs. million	Rs. million	Rs. million	
Recurrent	8,554.03	2,350.22	6,203.81	72.52
Capital	6,713.48	4,551.78	2,161.70	32.20
Total	15,267.51	6,902.00	8,365.51	54.79

2.2 Revenue Account

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

The Department had estimated a Revenue totalling Rs.800.00 million in respect of Revenue Code 20.03.04.00 for the year 2015 and Revenue totalling Rs.772.05 million had been collected as at the end of the year under review. It had been 96.51 per cent from the Estimated Revenue.

2.3 Advances to Public Officers Account

----- Limits Authorized by Parliament -----

The Limits authorized by Parliament for the Advances to Public Officers Account of the Department under Item No. 24001 and the actual amounts are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
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Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million
5.50	5.28	3.80	4.30	27.00	19.87

2.4 Imprest Account

The balance of the Imprest Account No.7002/0000/00/0262/0015/000 under the Department as at 31 December 2015 was Rs.87,677.

2.5 General Deposits Account

The balance of the Deposits Account No.6000/0000/00/0013/0129/000 under the Department as at 31 December 2015 was Rs.20.18 million.

2.6 Audit Observation

It was observed that subject to the audit observations appearing in the above paragraph 1.1 of the Management Audit Report, the Appropriation Account, Revenue Account and the Reconciliation Statements of the Department of National Budget for the year ended 31 December 2015 have been prepared satisfactorily. The material and important observations out of the observations included in that Management Audit Report appear in paragraph 03 herein.

3. Material and Significant Audit Observations

3.1 Appropriation Account

Budgetary Variance

The following observations are made.

- (a) The entire provision had been saved due to the non-utilization of any provisions out of the provision of Rs.1,500 million made available for 02 Objects.
- (b) Excess provisions had been made for 05 expenditure Objects and as such, the savings after the utilization of provisions, ranged from 20 per cent to 92 per cent of the net provision relating to the respective Objects.

3.2 Revenue Account

The following observations are made during the audit test check carried out in respect of initial payments made to public officers for motor cycles from Revenue Account No. 20.03.04.00 by the Department.

- (a) If the remaining service period of the officers who obtained motor cycles as at 30 June 2014 was less than 01 year in terms of the Budget Circular No. 2/2014 of 23 September 2014, a sum of Rs.100,000 and Rs.90,000 should be paid for motor cycles and scooters respectively. The details of the officers who had paid as such had not been furnished to audit. As it was revealed in audit test checks conducted in the months of November and December 2016 relating to 02 Districts, the registers including the above details and the distribution of motor cycles had not been maintained by the relevant institutions as well.
- (b) According to the General Instruction Letter No. BD/GPS/130/9/14/MC-II dated 07 July 2015, a field officer should pay the market value of the motor cycle at once in case of transfer to a post which does not entitle a motor cycle, resignation from the post, suspension from service, retirement before the due date etc. Although it had been mentioned that the details of the motor cycles should be informed to the Department after such payment, the Department had not taken any action to obtain a confirmation from relevant institutions to ensure that all the details were obtained.
- (c) Due to the reasons such as the officers who were engaged in field duties transferred to the non-field duties, retirement before the due date, resignation from the service and suspension of service, a sum of Rs. 20,175,120 had been remitted to the Department as the value of those motor cycles. It should be informed to the relevant Finance Companies and the Department of Motor Traffic for the removal of related information from the agreements of the Financial Leasing and the transfers by the Department. Nevertheless,

the value of Rs.20,175,120 so received in the year 2015 had been retained by the Department in a newly opened deposit account.

- (d) The following observations are made during the audit test checks carried out in respect of the Revenue Account furnished by the Department.
- (i) It was informed the audit by the Department that within the credits made by the Ministry of Provincial Councils and Local Government, the refunded money later on relating to the obtaining of the extra motor cycle by the members of Local Authorities in the year 2015 who obtained two motor cycles by each was included. Those values had not been rectified by the Department even by 30 April 2016.
 - (ii) The income relating to the other Revenue Heads amounting Rs.4,265,694 had been credited to this Revenue Account and although those credits had been identified, the Department had not rectified them even by 30 April 2016.
 - (iii) Even though a sum of Rs.157,020 had been credited to this Revenue Account erroneously by 02 other Departments, action had not been taken to rectify them even by 30 April 2016.
 - (iv) Even though the money refunded by the officers who had left had been deposited in a General Deposit Account, a sum of Rs.4,758,260 so received during the year under review had not been eliminated from this Revenue Account.
- (e) Even though the initial payments had been made for motor cycles, it was observed in audit that those motor cycles had not been distributed nearly to 200 officers even by 30 April 2016. The motor cycles had not been purchased even by 30 April 2016 for that purpose. Similarly, the corroborative evidence had not been furnished to audit to ensure whether the 500 scooters purchased had been distributed.

3.3 Reconciliation Statements on Advances to Public Officers Account

The following observations are made during the course of audit test check of the Reconciliation Statement as 31 December 2015 relating to the Advances to Public Officers Account Item No. 24001 furnished to audit.

- (a) Even though various steps had been taken to recover the loan balances totalling Rs.305,622 outstanding from two (02) deceased/retired officers remained from the period of 14 years to 15 years, those loan balances had not been settled even by 31 December 2015.

- (b) Action had not been taken to recover the loan balances totalling Rs.307,599 during the year under review outstanding from the officers who had left the office and a loan balance thereof had remained over a period of 06 years.

3.4 Imprest Account

Within the balance of Rs.87,677 as at 31 December 2015, a balance of an advance for foreign travel amounting Rs. 83,325 which was given to an officer in the year 2008 had been included and those advances had not been settled even by the end of the year under review.

3.5 Unsettled Liabilities

The observations are shown below.

- (a) Even though a sum of Rs.5,352,812 had been shown as liabilities in the Appropriation Account in the year 2015, according to the test checks that amount was Rs.8,791,389 and as such that value had been understated by Rs.3,438,577.
- (b) Although it should be ensured that sufficient provisions are available in the relevant Objects before entering in to commitments in terms of Financial Regulation No. 94(1) and Paragraph 6.4 of the National Budget Circular No. 01/2014 of 01 January 2014, liabilities amounting Rs.8,217,231 had been committed without such an assurance.

3.6 Non-compliances

The following observations are made.

- (a) In accordance with the Budget Circular No. 150 of 07 December 2010, an agreement with selected companies for a period of one year to purchase vehicles on behalf of the General Treasury should have been signed. Instead the Department had not entered in to such agreements annually and separate agreements had been entered into with the relevant bank in case of purchase of vehicles.
- (b) In terms of paragraphs 03 and 04 of the above Circular, the approval should have been granted to procure vehicles from the selected leasing companies after assess and prioritize the applications sent to the Department by the Heads of the Government Agencies together with the recommendation of the Secretary to the respective Line Ministry. Even though the said Government Institution should have been purchased the relevant vehicle from the approved leasing company, action had been taken by the Department to purchase vehicles by entering into agreements from time to time with the relevant leasing company according to the application received, without following the above procedures.
- (c) In terms of the Paragraph 06 of the above Circular, even though the maximum market price of a vehicle which was obtainable under this, for a Director General excluding Excise and Custom Duty was Rs. 4 million, the instances of purchasing of vehicles more than that value in contrary to that were observed.

3.7 Performance

The audit observations on the progress of the Department according to the Annual Action Plan for the year 2015 are given below.

- (a) In accordance with the Budget Circular No. 150 of 07 December 2010, it was expected the purchase vehicles for Government Agencies under the Financial Leasing Method, the old vehicles with high maintenance cost should be disposed of after purchasing the vehicles. According to the information furnished by the Department, 3,958 vehicles had been purchased since the beginning of the Financial Leasing Method up to 30 April 2016 and although, the related cost there to was Rs.12,745.51 million, a sum of Rs. 7,230.82 million had been paid thereof as at 31 December 2015. The following deficiencies were observed in this connection.
- (i) In terms of Guideline 2.14.1 of the Government Procurement Guideline, when purchase of goods and services for Rs. 100 million or more it should be functioned on a decision of a Cabinet Appointed Procurement Committee. In accordance with the Cabinet Memorandum No. BD/GPS/130/9/12 of 30 August 2010 it had been decided to purchase only from two State Banks and Subsidiary Leasing Companies, affiliated to them.
- (ii) According to the Paragraph 02 of the Budget Circular No. 150 issued as per aforesaid Cabinet Decision, although it was mentioned that the Department of National Budget should negotiate with a subsidiary leasing company to a State Bank and another State Bank and then select the leasing company which offered the most advantageous prices and conditions to the Government in terms of the Guideline 3.3 of Government Procurement Guideline, those terms had not been followed due to this procurement had to be affected expeditiously. Accordingly the recommendation of Technical Evaluation Committee or any approval whatsoever for the deviation from procurement procedures thereof had not been obtained.
- (iii) In making inquiries about the relevant approvals relating to the deviation from the Circular, the Department had informed the audit that all the requirements were fulfilled to obtain the discount benefit through purchasing a large quantity of vehicles at once for all Government Institutions and discount benefit would be given in respect of purchasing more than 50 vehicles. However, in the examination of agreements on sample basis, it was observed that agreements had been entered in to with 01, 03, 04 vehicles etc. Due to purchasing large quantity of vehicles relating to that by the Department as 02 orders it had been informed to audit that vehicles were purchased at the reduced price.

- (iv) Forty nine vehicles had been received free of charge (free unit) and it was informed audit that those vehicles had been distributed to 22 Government Agencies.
 - (v) It was agreed to obtain vehicles from two private companies and the total discounts receivable from those companies was Rs. 71,250,000 and the details thereon had not been furnished to audit. The Department had informed to audit that vehicles were purchased with the reduced price from that company as well.
 - (vi) Even though 3,958 vehicles had been purchased from the commencement of Financial Leasing Method up to 30 April 2016, it had been identified that 2,668 vehicles relating to 172 institutions should be disposed of during the year 2015. Out of those vehicles, disposals of 16 per cent or 432 vehicles had been completed during the year under review. Accordingly, the details relating to achievement of targets through implementing the Financial Leasing Method on disposal of vehicles older than 10 years and the vehicles which were not economically viable had not been furnished to audit.
 - (vii) Even though the purchase of vehicles had been recommended under Financial Leasing Method in December 2010 by informing the reasons such as the ownership of the vehicle would entirely be transferred to the lessee institute after payment of lease installments during 05 years under the Financial Leasing Method, the financial influence would be spread over that period due to the payments of value of the vehicles were purchased under the Financial Leasing Method are being occurred over a long period of time and under that, the maintenance cost would be accredited to the lessee institute whereas the maintenance cost are being at minimum level during the first 05 years. The Method of Operating Leasing had been recommended in February 2016 of the expectations such as to promote the leasing industry, to reduce the huge maintenance cost incurred by the Government Agencies and minimize the weakness of the above system. However, it was observed that the ownership of the vehicle would never been transferred to the Government, because of the vehicle were obtained under 60 months fixed rent “use and return option” basis under Operating Leasing Method.
 - (viii) Even though it had been agreed to charge 12 per cent interest on this at the discussion held on 14 December 2010 with the Secretary to the Treasury, Officers of the Department of National Budget and the representatives of a State Bank for this lease, according to the details received from the State Bank, it ranged from 10.5 per cent to 14.5 per cent.
- (b) The Department had given necessary provisions under the Supplementary Support Services and Contingent Liabilities Project, where provisions were not made available in

the Annual Budget Estimates or provisions were not sufficient to perform the relevant activity. The following observations are made in this connection.

- (i) The provisions had been granted for 51 applications during the year 2015 and the proportion of provisions more than the granted provisions for 28 applications there from had been saved. A proportion of provisions more than 35 per cent of provisions granted for 08 applications had been saved.
- (ii) According to the documents furnished to audit with regard to this, the instances of provisions granted exceeding the allocation provided for 06 Objects during the year were observed under this. Even though the additional provisions amounting Rs.271 million had been granted to the Ministry of Irrigation and Water Resources Management according to the Performance Report of the Department, furthermore, an over payment amounting to Rs.1,726 million had been made exceeding the provisions as at the end of the year.

3.8 Human Resources Management

Approved Cadre and Actual Cadre

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

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	38	28	10
(ii) Tertiary Level	04	02	02
(iii) Secondary Level	75	60	15
(iv) Primary Level	38	35	03
Total	155	125	30