Report of the Auditor General on Head 249 – Department of Treasury Operations - Year 2016

The audit of the Appropriation Account, Revenue Accounts, and the Reconciliation Statements including the financial records, books, registers and other records of the Head 249 – Department of Treasury Operations for the year ended 31 December 2016 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 31 August 2017. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the Accounts and Reconciliation Statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

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

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account, Revenue Accounts and the Reconciliation Statements in accordance with the provisions in Articles 148,149,150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

2. Accounts

2.1 Appropriation Account

Total Provision and Expenditure

The total net provision made for the Department amounted to Rs. 1,372,431.26 million and out of that, a sum of Rs. 1,361,803.95 million had been utilized by the end of the year under review. Accordingly, the savings out of the total net provisions of the Department amounted to Rs. 10,627.31 million or 0.77 per cent. Details appear below.

Expenditure	As at 31 December 2016 Net Provision	Utilization	Savings	Savings as a Percentage of Net Provision
	Rs. Millions	Rs. Millions	Rs. Millions	
Recurrent	621,424.36	614,495.63	6,928.73	1.11
Capital	7,626.21	5,759.69	1,866.52	24.48
Loan Repayments	743,380.69	741,548.63	1,832.06	0.25
Total	1,372,431.26	1,361,803.95	10,627.31	0.77

2.2 **Revenue Accounts**

The Department had prepared Revenue Estimates totalling Rs. 64,220 million for 11 Revenue Codes for the year 2016. Subsequently, that Estimates had been revised to Rs. 46,920 million. Revenue totalling Rs. 75,772 million had been collected during the year under review and that revenue collection ranged between (3) per cent to 2,313 per cent of the original Estimates of Revenue, indicating a range of 3 per cent to 2,775 per cent of the revised estimate. Details appear below.

Revenue Code	As at 31 December 2016				Actual Revenue as a Percentage of the Revised Statement of Revenue
	Original Estimate of Revenue	Revised Estimate of Revenue	Actual Revenue	Excess/ Shortfall	
	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	
20.02.01.99	300	250	7,188	6,938	2775
20.02.02.01	4,250	4,250	3,954	(296)	(7)
20.02.02.99	1,600	1,000	872	(128)	(13)
20.03.01.00	120	120	139	19	16
20.03.02.99	6,000	6,000	16,074	10,074	168
20.03.03.02	1,100	1,000	1,968	968	97
20.03.99.00	19,000	10,000	16,824	6,824	68
20.05.99.00	2,500	2,000	2,231	231	12
20.06.02.00	350	300	407	107	36
20.06.04.00	14,000	14,000	18,619	4,619	33
30.01.01.00	15,000	8,000	7,496	(504)	(6)
Total	**64,220**	**46,920**	**75,772**	**28,852**	**61**

2.3 **Advances to Public Officers Account**

Limits Authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers Account Item No.24901 of the Department 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. Millions	**Rs. Millions**	**Rs. Millions**	**Rs. Millions**	**Rs. Millions**	**Rs. Millions**
4.50	4.45	3.00	4.24	20.00	16.94

3. Audit Observation

The Appropriation Account, and the Reconciliation Statements of the Department of Treasury Operations for the year ended 31 December 2016 had been satisfactorily prepared 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 Management Audit Report, appear in Paragraph 3.

3. Material and Significant Audit Observations

3.1 Appropriation Account

Budgetary Variance

The following observations are made.

(i) As excess provision had been made for 07 Objects relating to Project No. 04 of the Program No. 01, the savings, after the utilization of the provisions, ranged between 13 per cent to 79 per cent of the net provisions relating to the respective Objects.

(ii) As excess provision had been made for 03 Objects relating to Project No. 02 of the Program No. 01, the savings, after the utilization of the provisions, ranged between 16 per cent to 86 per cent of the net provisions relating to the respective Objects.

(iii) As excess provision had been made for 03 Objects relating to Program No. 02, the savings, after the utilization of the provisions, ranged between 15 per cent to 86 per cent of the net provisions relating to the respective Objects.

3.2 Revenue Account

The preparation of the Estimates of Revenue of 11 Revenue Codes, the collection of , accounting and the presentation of Accounts had been devolved on the Head of Department. The following deficiencies were observed during the course of the test audit on those Revenue Codes.

3.2.1 Revenue Code 20.02.01.99 - Other Lease Rents

The following observations are made.

(a.) The original revenue estimate for the year 2016 amounting to Rs. 300 million, had been revised to Rs. 250 million, but the net revenue collected in the year totaled Rs. 7,188 million, equivalent to 2,396 per cent of the original estimate and 2,875 per cent of the revised estimate. As such, it was observed in audit that the preparation of revenue estimates had been non-realistic.

(b.) It is observed that the revenue, received to the said Revenue Account, had been related to agreements, such as lease agreements. As such, despite the possibility that such revenue could be accurately forecasted, making forecasts with significant variances, had been unacceptable in audit.

(c.) A revised estimate valued at Rs. 120 million had been prepared by the Revenue Accounting Officer on 29 July 2016 with respect to the Revenue Code 20.02.01.99, but the said value had been different to that of the revised estimate. However, despite the net revenue of Rs. 134.61 million collected under this revenue code by the end of June, the Department had failed to prepare and furnish even the revised estimate.

(d.) When a sample of files relating to lease rents maintained by the Department, had been examined, the following matters were observed in respect of each agreement.

- (i) The agreement entered into with a private institution on 09 December 1991 had elapsed by the year 2011, but lease rents amounting to Rs. 14.42 million had been received in respect of the year 2016. Nevertheless, it was observed that the agreement had been cancelled with effect from 31 December 2016.
- (ii) The lease rents should be recovered on 21 September of every year in terms of Ambewela and Pattipola agreement, Nos. 4/10/17/220, and 4/10/17/221, but only 02 installments of lease rent had been recovered from that institution in respect of the months of April and October.
- (iii) In terms of the agreement entered into with the China Bay Oil Form on the oil tank complex in Trincomalee for a period of 35 years with effect from 07 February 2003, it was stated that the lease rent would be automatically revised once in 5 years based on the cumulative inflation rate of the United States of America for the 5 preceding years. However, the annual lease rent of US $ 100,000 relating to the period from 2003 up to now, remained unchanged. The audit was informed in that connection by the Department of Treasury Operations that it had been decided to hand over the operations of the upper area of the oil tank complex in Trincomalee to a joint venture to be established by the Ceylon Petroleum Corporation and the Lanka Indian Oil Corporation, and hence, the Department had been informed by the Department of Public Enterprises that the implementation of the conditions set out in the old agreement had been delayed.
- (iv) The Agreement, No. 283 entered into with a private institution on 01 June 2009, had been cancelled on 31 May 2011. Later, in 02 instances, the period thereof had been extended by the Director General of Public Enterprises for 02 more years up to 31 May 2019, but the formal agreements relating thereto, had not been furnished to audit.

(e.) There had been a sum of Rs. 7,061,322,141 collected and remitted by other institutions under the Revenue Code 20.02.01.00. In terms of Section 04 of the Guideline on the estimation of Government revenue, collection, supervision and reporting relating to Public Finance Circular, No. 01/2015, dated 20 July 2015, instructions had been issued that reports should be maintained properly. However, such information/files had not been made available to audit, and as such, the verification of the accuracy of the revenue received, was difficult. Furthermore, the Public Finance Circular, No. 01/2015 (v), dated 30 December 2016 had informed that the Ministries/Departments, and the Heads of the Departments collecting the relevant revenue, should act in terms of the aforementioned Section 4, but it had been mentioned that the said Circular, would become effective from 26 December 2016.

(f.) The Sri Lanka Tourism Development Authority had transferred a fund amounting to Rs. 61.40 million in the month of July to this account in respect of the land in Pasikuda, but the recommendations and approvals relating thereto, had not been made available to audit.

3.2.2 Revenue Code 20.02.02.01 – Granting Loans and Interest

The following observations are made.

(a.) The estimate had been revised up to Rs. 4,250 million, a value equivalent to the original revenue estimate of Rs. 4,250 million for the year under review. However, the total net revenue collected amounted to Rs. 3,954 million, representing 93 per cent of the revenue estimate.

(b.) The Revenue Accounting Officer had furnished an original revenue estimate amounting to Rs. 3,478 million on 31 July 2015, whilst a revised estimate amounting to Rs. 3,989 million had been furnished on 30 July 2016 in respect of this Revenue Code. However, that had been revised to be Rs. 4,250 million causing the actual revenue to represent 93 per cent, but had the revision been made as per the request of the Revenue Accounting Officer, it was observed that the revenue would have been 99 per cent.

(c.) Recovery of loans as at 31 December 2016 – According to the Revenue Account, the balance of the sub loans totaled Rs. 164,753.30 million, but no proper action had been taken to recover the interest thereon. As had been mentioned in the reports of the revenue in arrears, the interest recoverable with respect to loans granted to 08 institutions amounted to Rs. 1,823.80 million as at 31 December 2016.

(d.) As had been disclosed in a sample test check, discussions had been held on the capitalization of the loan interest amounting to Rs. 2,912 million recoverable from the Water Supply and Drainage Board, but evidence to the effect that future action had been taken in that connection, was not revealed to the audit.

(e.) Having been pointed out in the audit of the preceding year, the Director General had issued letters to the Department of Legal Affairs requesting that instructions be issued to the Department of Treasury Operations on the recovery of loans, but it was observed in audit that no action whatsoever had been taken for the year under review in that connection.

3.2.3 Revenue Code 20.02.02.99 – Interest and Other Revenue

The original revenue estimate for the year 2016 amounting to Rs. 1,600 million had been revised to be Rs. 1,000 million. The total net revenue collected in the year under review amounted to Rs. 872.32 million representing 55 per cent of the original estimate, and 87 per cent of the revised estimate. As such, it was observed in audit that the estimate had not been prepared in a realistic manner.

3.2.4 Revenue Code 20.03.01.00 – Sales of the Department

The original revenue estimate for the year 2016 amounting to Rs. 120 million had been revised to be Rs. 120 million, thereby furnishing the revised estimate in a manner equivalent to the original value. However, the total net revenue collected in the year amounted to Rs. 139 million, thus indicating 116 per cent of the estimate. As such, it was observed in audit that the revenue had not been estimated in a realistic manner.

3.2.5 Revenue Code 20.03.02.99 – Administrative Charges and Payments - Sundry

The following observations are made.

(a.) The original revenue estimate for the year 2016 amounting to Rs. 6,000 million had been revised to be Rs. 6,000 million, thereby furnishing the revised estimate in a manner equivalent to the original value. However, the total net revenue collected in the year amounted to Rs. 16,074 million representing 268 per cent of the estimate. As such, it was observed in audit that the revenue had not been estimated in a realistic manner.

(b.) Although the following balances/funds included in the said net revenue had been credited to this account, the recommendations / approvals obtained thereon, had not been made available to audit by the Department.

Description	Amount Rs. Millions
The balance of the Account No. 8233 remaining idle in the main ledger.	1,268.67
Credit balances in the General Deposit Accounts.	1,227.47
Funds retained in the Employees' Provident Fund of the Central Bank of Sri Lanka under the contributory pension scheme.	2,833.32
Total	5,329.46

(c.) In terms of Section 04 (b) of the Fiscal Policy Circular, No.01/2015, dated 20 July 2015, measures should be taken immediately in order to prevent the accumulation of recoverable funds in arrears. Nevertheless, no recoveries whatsoever had been made with respect to the sum in arrears relating to the years 2013 and 2014 totaling Rs. 915,768, and the sum that remained in arrears in the preceding year amounting to Rs. 75,000.

3.2.6 Revenue Code 20.03.03.02 – Fines and Confiscations – other

The following observations are made.

(a.) The original revenue estimate for the year 2016 amounting to Rs. 1,100 million had been revised to Rs. 1,000 million, but the total net revenue collected in the year amounted to Rs. 1,968 million representing 178 per cent of the original estimate and 197 per cent of the revised estimate. However, had the revision been made in accordance with the request of the Revenue Accounting Officer, it was observed that the value would also have represented 179 per cent.

(b.) Due to the aforesaid reasons, the original estimates, as well as the revised estimates had not been prepared realistically.

3.2.7 Revenue Code 20.03.99.00 – Sales and Charges (Other Receipts)

The following observations are made.

(a.) The original revenue estimate for the year 2016 amounting to Rs. 19,000 million had been revised to Rs. 10,000 million, but the total net revenue collected in the year amounted to Rs. 16,824 million representing 89 per cent of the original estimate and 168 per cent of the revised estimate.

(b.) The Revenue Accounting Officer had furnished a revised estimate of Rs. 4,900 million on 29 July 2016, but the estimate had been revised to Rs. 10,000 million. As such, the actual revenue represented 168 per cent as above, but had the revision been made in accordance with the request of the Revenue Accounting Officer, it was observed that the value would also have increased up to 343 per cent.

(c.) Due to the aforesaid reasons, the original estimates, as well as the revised estimates had not been prepared realistically.

3.2.8 Revenue Code 20.05.99.00 – Current Transfers – National Lotteries Board and Other Transfers

The following observations are made.

(a.) The original revenue estimate for the year 2016 amounting to Rs. 2,500 million had been revised to Rs. 2,000 million, but the total net revenue collected in the year amounted to Rs. 2,231 million representing 89 per cent of the original estimate and 111 per cent of the revised estimate.

(b.) The Revenue Accounting Officer had furnished a revised estimate of Rs. 2,100 million on 29 July 2016, but the estimate had been revised to Rs. 2,000 million. As such, the actual revenue represented 111 per cent of the estimate as above, but had the revision been made in accordance with the request of the Revenue Accounting Officer, it was observed that the value would have only been 106 per cent.

(c.) A revenue estimate of Rs. 2,000 million had been made under this Revenue Code, and the actual revenue amounted to Rs. 223 million as had been said. However, a sum of Rs. 600 million had been estimated under the Object 249-1-1-1503-01 in order to pay back from the revenue of lotteries, but only a sum of Rs. 470 million had been repaid therefrom, thus indicating 21 per cent of the total revenue.

(d.) In consideration of the Cabinet Memorandum, dated 31 August 1995, a health development lottery had been initiated with the objective of raising funds for the repairs of the hospitals island wide and purchasing the necessary equipment for the hospitals. In terms of Section 7 (4) of the Finance Act (Amended), No. 22 of 1998, the Secretary to the Ministry should credit the income from the lottery to the Consolidated Fund, once the approved expenditure of the Board is deducted therefrom. As at 31 December 2016, the current contribution of the lottery to the Consolidated Fund had been 10 per cent and that value was observed to be 15 per cent in the year 2007. The contribution of the lottery had again been decreased to 10 per cent from the year 2008 subject to the conditions that the lottery would be maintained only for one year after the sales are improved, or until the price of a lottery ticket is increased from Rs. 10 to Rs. 20. However, despite the increase in the price of a lottery ticket in the year 2008 from Rs. 10 to Rs. 20, and the increase in the income from the sales of the lotteries in the years 2013, 2014, 2015, and 2016 by 17 per cent, 23 per cent, 32 per cent and 34 per cent respectively as opposed to the year 2012, the contribution of the *Jathika Sampatha* Lottery to the Health Development Fund, remained unchanged as being 10 per cent. According to the information in the relevant file, the funds that the Health Development Fund had been deprived of throughout the period from 2012 up to October 2016, amounted to Rs. 152,932,790.

(e.) A contribution of 5 per cent from the income of the *Supiri Wasana Sampatha* Lottery is made to the National Fund for the Disabled, and at the Cabinet meeting held on 04 August 2010, approval had been granted through the Cabinet Paper, No. 10/1683/442/009 that the said percentage be increased from 5 per cent up to 8.25 per cent. Nevertheless, action had not been taken accordingly even up to 30 May 2017.

(f.) Although 10 per cent of the income from the *Supiri Wasana Sampatha* Lottery, had been credited to the National Sports Fund through the Consolidated Fund, the said percentage of contribution had been decreased to 5 per cent with effect from July 2013 without a proper approval.

(g.) Many a welfare project is being implemented by the Ranaviru Seva Authority for the sake of disabled war heroes and their dependents. According to the information from the Ministry of Defence, a contribution of 30 per cent from the income of the *Jayaviru* Lottery had been made at the inception of the Authority in order to provision the said projects. From the first week of March 2011, the name *Jayviru*, had been renamed as *Supiri Vasana Sampatha*, and the said contribution had been decreased to 10 per cent from December 2011, but the approval obtained thereon, had not been made available to audit. According to the information in the relevant file, it was observed in audit that the *Ranaviru Seva* Authority had been deprived of an income amounting to Rs. 940,095,600 relating to the period from December 2011 up to December 2016.

(h.) The National Lotteries Board is an institution established under the Finance Act, No. 11 of 1963 to conduct lotteries, and it also conducts lotteries on behalf of various Ministries in terms of the provisions of the Act. Funds are allocated based on a percentage of contribution from the gross income in respect of the lotteries conducted for various Ministries, and the funds so allocated, are remitted to the relevant Ministries through the Consolidated Fund of the Government. The provision made in this manner for the Ministries contributes to miscellaneous funds operating under various objectives in those Ministries. Decreasing the percentage causes the contribution made by the lottery to the relevant funds/institutions to also decline, thus observing that achieving the objectives would become difficult.

(i.) Funds totalling Rs. 1,226 million received in the year from 8 lotteries, had not been made use of in respect of the objectives for conducting the relevant lotteries.

3.2.9 Revenue Code 20.06.02.00 – Sale of Capital Assets

The following observation is made.

Despite being requested by the Department that the original revenue estimate for the year 2016 amounting to Rs. 350 million be revised to Rs. 400 million, the estimate had been revised to Rs. 300 million. The net revenue collected in the year under this source of revenue totaled Rs. 407 million indicating 116 per cent of the original estimate, and 136 per cent of the revised estimate.

3.2.10 Revenue Code 20.06.04.00 – Recovery of Loans

The following observations are made.

(a.) The original revenue estimate prepared for the year under review amounted to Rs. 14,000 million, whereas the net revenue collected amounted to Rs. 18,619 million representing 133 per cent of the revenue estimate. However, the original estimate and the revised estimate furnished by the Revenue Accounting Officer amounted to Rs. 12,569 million and Rs. 14,949 million respectively , and had those revised estimates been approved, the said variance of 133 per cent would have been 124 per cent.

(b.) The following matters were observed in the examination on files selected on sample basis relating to each loan balance that the sub-loan balance furnished to audit had been comprised of.

(i) The Department had failed to recover any amount from the loans amounting to Rs. 550.99 million and Rs. 222.35 million granted to the Sri Lanka Rubber Manufacturing & Export Corporation in the years 1999 and 2000 respectively.

(ii) No amount whatsoever had been recovered from the loan amounting to Rs. 11.11 million granted to the *Sanasa* Association in the year 1992 in order to provide loans for the low income groups.

(iii) The Department had failed even by the end of the year under review to recover a sum of Rs. 111.6 million from the loan amounting to Rs. 116 million granted to the Ceylon Fisheries Corporation in 3 instances.

(iv) Of the interest free loan amounting to Rs. 50 million granted to the National Paper Company Ltd in order to enhance the production capacity of the Paper Mills in *Valachchanai*, and *Embilipitiya*, no amount whatsoever had been recovered.

Of the interest free loan amounting to Rs. 9.4 million granted on 01 October 2007 for paying gratuity to the employees of the Tile Factory in Bangadeniya, a sum of Rs. 8.68 million remained unrecovered even up to the end of the year under review.

(v) A balance of Rs. 422 million had remained recoverable as at 31 December 2016 from the loan amounting to Rs. 1,332 million granted in the year 2002 to a company in respect of the Renewable Energy for Rural Economic Development Project (RERED).

(vi) The loan amounting to Rs. 276.75 million obtained from the Asian Development Bank on 10 March 1993 under the Agreement – ADB 1204 (SRI) SF, had been granted to the Urban Development Authority so as to be given for sub-loans in respect of Municipal Council and Urban Council projects. This foreign loan should have been paid back to the Asian Development Bank within a period of 22 years with a grace period of 2 years, but the sub-loan amount of Rs. 276.75 million granted therefrom, had remained in arrears as at 31 December 2016.

(vii) The Department had failed to recover any amount from the loan balances totalling Rs. 4,772.41 million in arrears as at 01 January 2016 in respect of the loans granted to the National Livestock Development Board. Despite being informed that the National Livestock Development Board had agreed at a discussion held on 27 February 2015 relating to the recovery of the said loan granted out of a loan amounting to US $ 12.944 million obtained from Netherland and Australia for purchasing milch cows, the Department had failed even up to 31 December 2016 to recover the said loan balance in arrears.

(viii) Of the loans granted under stage 1 and stage 2 for the renovation of factories of the Milco Private Limited (Part 1) out of a loan obtained under the Loan No. 2013012 SL, sums of Rs. 350.68 million and Rs. 309.31 million had not been recovered respectively by the end of the year 2016.

3.2.11 <u>Revenue Code 30.01.01.00 – Foreign Grants</u>

The following observations are made.

(i) The original revenue estimate for the year under review amounting to Rs. 15,000 million, had later been revised to be Rs. 8,000 million, but the total revenue collected in the year amounted only to Rs. 7,495.97 million, representing 50 per cent of the original estimate and 94 per cent of the revised estimate. Accordingly, the original estimate was observed not to have been prepared in a realistic manner.

(ii) It was observed in accordance with the information of the Department of External Resources that there were instances in which only the aids received in the form of cash, materials, or services had been accounted by the Department of Treasury Operations. That is, in instances where the other expenses such as the administrative expenses incurred on granting foreign aids, had been included in the aid by the relevant donor institution, information was not received from the Ministries/Departments implementing the projects in a manner that the said other expenses were accounted as a part of the main aid. As such, it was observed that such expenses were not accounted as a part of the aid.

(iii) All the donor countries/institutions as well as the Government institutions including Ministries/ Departments had been apprised that all the foreign grants be sent to Sri Lanka through the Department of External Resources. It was observed according to the information from the Department of External Resources that there were instances where foreign grants had directly been obtained by the relevant Government institution through coordination with the donor institution contrary to the said instructions. Accordingly, it was observed that such foreign grants not included in this Revenue Account, could exist.

(iv) Although a sum of Rs. 7,495.97 million had been stated in the Revenue Account as being the total revenue collected as at 31 December 2016, it was observed that the said amount was only the expenditure incurred by the projects implemented through foreign grants. As the said methodology had been followed, the foreign grants amounting to Rs. 4,163 million received by the end of the year under review, had not been brought into this Revenue Account. As such, it was observed that the said Revenue Account had not disclosed the overall foreign grants collected.

(v) The age analysis as at 31 December 2016 on the balance that had not been accounted as grants in the Revenue Account, was as follows.

Age Group	Amount Rs. Millions
Less than 1 year	1,250.41
1-3 Years	2,903.07
More than 4 years	0.43
More than 6 Years	9.11
	4,163.02

(vi) A sum of Rs. 2,900.13 million received as grants at the beginning of the year under review had been retained in 28 General Deposit Accounts until the end of the year, and those monies had not been made use of on the relevant purposes. Those balances included balances over 5 years.

(vii) Due to failure in utilizing a sum of Rs. 8.57 million received as grants on the relevant purposes, the amount had been credited to the Government revenue in the year under review. However, the Department informed that, once the funds had been utilized on the relevant purposes, the funds of the projects of which the said purposes had been completed, were credited to the Government revenue.

(viii) Foreign grants received from foreign institutions and Governments in respect of various projects, had been retained in the General Deposit Account without being utilized on the relevant purposes. A sum of Rs. 11,341.18 million so received in respect of 09 projects had been remitted back to the donors in the year under review at the request of the Ministry/Departments relating to those projects.

(ix) The sum of Rs. 2.26 million received as a grant from the Ministry of Parliamentary Reform and Mass Media on 17 January 2006 under the Account No. 6000-10-1152 for the improvement of television programmes, had not been utilized on the intended purpose even up to 31 May 2017.

3.3 General Deposit Account

The following observations are made.

(i) In addition to the usual General Deposit Account, there had been 364 General Deposit Accounts opened under the Department, and 194 accounts with zero balances had been included therein. There had been 15 accounts with only balances sans any transaction performed in the years 2015 and 2016, whilst the number of accounts on which no transactions had been performed in the year 2016, had been 19. The Department had informed that, despite the zero balance, the accounts had not been closed as it would be necessary to find details on the transactions taken place in the past.

(ii) By the end of the year 2015, there had been an account (6000/0000/00/0010/0237/000) with a debit balance of Rs. 35.12 million continued to exist over a period of more than 20 years.

3.4 Accountability and Good Governance

Annual Action Plan and the Procurement Plan

Due to differences between the budget estimate and the Procurement Plan for the year 2016, the Procurement Plan had not complied with the budget estimate, and the relevant updates had not been made as well.

3.5 Assets Management

The following observation is made.

According to the letter, dated 28 July 2016, the assets belonging to the Department had been revalued, and it was observed that the values of revaluation had been decided on several methods and included in the account. However, the Department had stated that a specific method for revaluation had not been mentioned in the relevant instructions.

3.6 Performance

The observations on the progress of the Department according to the annual budget estimate for the year 2016 and the Action Plan, are as follows.

(a.) Inspection on the Treasury Guarantees – 2016

The following matters were observed.

(i) The limit of guarantees being 4.5 per cent of the Gross Domestic Product in terms of the provisions of the Fiscal Management (Responsibility) Act, No. 03 of 2003, had been revised up to 7 per cent by the Amendment Act, No. 15 of 2013, whilst the Amendment, No. 13 made on 23 August 2016 had revised the said limit up to 10 per cent with effect from 01 January 2016. Accordingly, the limit mentioned in the Act by the year 2014, had increased by 133 per cent reaching 233 per cent by the year 2016 as compared with the year 2013.

(ii) In terms of Section 02 of the Fiscal Management (Responsibility) Act, No. 03 of 2003, decisions on the policies of the Government should be taken by taking into account the financial impact on the future generations. However, instances were observed in which Treasury guarantees had been issued in the year 2016 effecting periods as longer as 40 years. There had been instances prior to the year 2016 as well where Treasury guarantees had been issued effecting longer periods such as 10 years. However, no information was revealed to the effect that quantitative and elaborative inspections had been carried out thereon.

(iii) The following matters were observed in the audit test check conducted on the guarantee files.

- The period of guarantee had been extended from time to time, but approval of the Cabinet had not been obtained thereon.
- Despite the receipt of budgetary provisions, the guarantees of which the period had elapsed, were not settled.
- Failure to constantly and adequately monitor the future plans / actions in respect of the settlement of loans relating to the guarantees.
- Failure to mention the loan period, and period of guarantee or the bank from which the loans had been obtained, in the relevant Cabinet Memoranda, and the letters of approval. Failure of the Treasury to take adequate action relating to the problems in view of strengthening the relevant institutions. Instead, loans had further been granted/acting as surety as temporary measures.
- Cancellation of the guarantee without obtaining the original copy.

(iv) According to the information made available to audit, a guarantee valued at US $ 200 million had been issued relating to the period from 27 June 2012 up to 31 December 2016 with respect to a loan obtained by the Ceylon Petroleum Corporation from the Bank of Ceylon, and the period of this Treasury guarantee had not been further extended beyond 31 December 2016. The Department had failed either to cancel the guarantee of which the period had not been extended, or take future action relating thereto. Nevertheless, the Department informed that the Board of Directors had decided not to extend the relevant guarantee, and the loan still remained unsettled.

(b.) Circular Fund for the Sale and Purchase of Farmers' Items

According to the information made available to audit, sums of Rs. 1,999.03 million and Rs. 237.41 million had been credited to 2 Heads of Revenue in the Circular Fund for the Sale and Purchase of Farmers' Items, thereby settling the balance of the cash book of the Fund. Nevertheless, the unsettled loan balance amounted to Rs. 155.56 million by the end of the year.

(c.) Release of Imprests

The following matters were observed.

(i) The imprests released in the years 2015 and 2016 in respect of recurrent and capital expenditure amounted to Rs. 2,447,059 and Rs. 360,226, and Rs. 2,453,882 and Rs. 390,588 respectively. Accordingly, the release of imprests in the year 2016 for capital expenditure had decreased by a sum of Rs. 30,362 million as compared with the year 2015 representing 8 per cent. The release of imprests for the settlement of loans had decreased by a sum of Rs. 90,323 million in the year under review representing 11 per cent, whilst the payment of interest on loans had increased by Rs. 71,896 million equivalent to 14 per cent.

(ii) As had been revealed in the examination on the limits of recurrent imprests for the Ministries and Departments in the year 2016, and the release of imprests in that connection, 33 instances were observed in which the value of un-released imprests ranged between 20 per cent and 100 per cent as compared with the limits of the imprests, whilst 110 instances were observed where the un-released capital imprests ranged between 20 per cent and 100 per cent. There had also been 135 instances where imprests ranging between 20 per cent to 100 per cent had not been released to Advances to Public Officers Account. Furthermore, it was also observed that imprests had not been released on priority basis.

(d.) Un-settled Imprest Balances

As had been revealed in the examination on the supervision and authorization of the Imprest Accounts of the Government, a main function of the Department, and according to the information made available to audit, the 06 Imprest Accounts established at the Ministries and Departments, had remained unsettled even up to the date of audit, whilst the net debit balances thereof totaled Rs. 736.66 million.

The following maters were observed in this connection.

(i) The unsettled Imprest balance of the Ministry of Justice amounted to Rs. 473.87 million and those balances had related to the period 1997-2000. As this situation had arisen as a result of the non-reconciliation of accounts due to non-availability of accountants at the courts during that period, the relevant Ministry had requested to take measures to write off the losses. Nevertheless, the Ministry had been informed by the Department of Public Finance that the said value could not be written off by considering it a loss in terms of Financial Regulations. However, in order to eliminate the said value from the books, the relevant Ministry had transferred a sum of Rs. 55 million to the relevant Object through the Authorization No. 1355.

(ii) A sum of Rs. 45.28 million had remained unsettled in the Imprest Account of the Presidential Secretariat even as at the date of audit. The Chief Financial Officer informed that the said debit had been made under no involvement whatsoever of the Presidential Secretariat, and no information in that connection had been available at the Presidential Secretariat. Despite being agreed by the Treasury to rectify the relevant debit, the balance has not so far been settled.

(iii) The balance of Rs. 226.69 million continued to exist in the Imprest Account of the Ministry of Foreign Affairs since the year 2013, had not been settled even up to 31 August 2017.

(e.) Official Bank Accounts of the Government

The following matters were observed.

(i) In the context of the banking system of the country being linked to a network, the Treasury Single Accounting System, playing an important role in the management of public funds by further improving the efficiency and productivity thereof, had been implemented by the Treasury in the year 2007. As such, the number of official bank accounts being maintained as at 31 December 2016 under the system of Treasury Single Account, had been 2343.

(ii) As the official bank accounts of the Government had been operated under the Treasury Single Accounting System, it was expected to perform the financial transactions in an economically productive manner, decrease the overdrafts and interest thereon, and avert the idle cash balances in the official bank accounts. However, it was not revealed in audit as to whether a proper internal methodology had been implemented relating to the existence of balances over Rs. 100 million in the official bank accounts of the Departments and Ministries since the year 2015, and dormant bank accounts, in order to prevent the reasons attributable thereto, thereby adequately analyzing/reviewing the progress of the said methodology. Accordingly, achievement of the relevant objectives was questionable as well. The Department informed that remedial action had been taken through the Integrated Treasury Management Information System planned to be introduced under the Fiscal Management Efficiency Project being implemented under the Ministry.

3.7 Human Resource Management

The position of cadre had been as follows as at 31 December 2016.

Category of Employee	Approved No.	Actual No.	No. of Vacancies	Excess No.
Senior Level	22	20	03	01
Tertiary Level	01	01	-	-
Secondary Level	82	65	17	-
Primary Level	20	20	-	-
Total	125	106	20	01

The following matters were observed in this connection.

(i) The existence of 06 vacancies out of the 07 posts of Information Communication Technology Assistant approved for this Department playing a pivotal role in the Government cash flows, and accounting activities including data processing relating to Government loans, was questionable in audit.

(ii) The number of approved posts in Class I/III of the Sri Lanka Accountants' Service, had been 08 as at 31 December 2016, whereas the actual cadre had been 09 thus indicating an excess of 01 post.

(iii) An officer had been appointed on acting basis to a post of Additional Director General by the then Secretary to the Ministry of Finance and Planning with effect from 19 February 2013 subject to the covering approval of the Public Service Commission. Approval of the Accountants' Division of the Ministry of Public Administration and Management had been granted to make the appointment in view of performing the duties only in the period from 19 February 2013 to 31 December 2016.