

Report of the Auditor General on the Head 240 – Department of National Budget - Year 2016

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 2016 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 28 September 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 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 the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account 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. The responsibility includes; designing, implementing, 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

The total net provision made for Department amounted to Rs. 632.11 billion and out of that Rs. 299.68 billion had been utilized by the end of the year under review. Accordingly, the savings out of the net provision had been Rs. 332.43 billion or 52.59 per cent. Details appear below.

Expenditure	As at 31 December 2016			Savings as a Percentage of Net Provisions
	Net Provision	Utilization	Savings	
	Rs. Billions	Rs. Billions	Rs. Billions	
Recurrent	47.39	47.33	0.06	0.13
Capital	584.72	252.35	332.37	56.84
Total	632.11	299.68	332.43	52.59

2.2 Revenue Account

The Department had prepared Revenue Estimates totaling Rs. 40.00 million in respect of a Revenue Code for the year 2016 and Revenue totaling Rs. 19.38 million had been collected in the year under review. That had been a 48.45 per cent out of the Estimated Revenue. Details appear below.

Revenue Code	As at 31 December 2016			Deficit as a Percentage of Estimated Revenue
	Estimated Revenue	Actual Revenue	Deficit	
	Rs. Millions	Rs. Millions	Rs. Millions	
20.03.04.00	40.00	19.38	20.62	51.55

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. 24001 of Department of National Budget and the actuals 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
7.00	6.96	5.00	5.06	25	21.25

2.4 Imprest Account

The balance of the Imprest Account No. 7002/0000/00/0262/0016/000 of the Department of National Budget as at 31 December 2016 was Rs. 0.09 million .

2.5 Audit Observation

The Appropriation Account and the Reconciliation Statements of Department of National Budget for the year ended 31 December 2016 had 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 Management Audit Report appear in paragraph 3.

3. Material and Significant Audit Observations

3.1 Revenue Account

The following observations are made during the audit test check carried out in respect of the Revenue Account No. 20.03.04.00 of Public Officers Motor Cycle Premium of the Department.

- (a) The Revenue amounted to Rs. 40.00 million had been collected for this Revenue Code under a Revised Revenue Estimation for the year under review. The Revenue had not been collected under this Revenue Code after the date of 31 December 2015 . Accordingly, the Department had informed to the audit that the Revenue Estimates had not been made for the year 2016 and this Revenue Code had been used only to take the adjustments in to accounts for the correction of the errors occurred after the year 2015 .
- (b) Even though the Revised Revenue Estimate had been Rs. 40.00 million the Net Revenue collected according to the Revenue Account had been Rs. 19.38 million. It had been a proportion of 48 per cent out of the Revised Revenue Estimate. However, the Department had informed to audit that the Net Revenue after the correction of the errors was 69 per cent out of the Revised Revenue Estimate.
- (c) Half yearly Arrears Revenue Reports had not been prepared and presented to the Department of Fiscal Policy with the copies to the Auditor General in terms of Financial Regulations 128 (2) (c) for this Revenue Code.
- (d) An amount totalled to Rs. 879,310 which was not relevant to the Revenue Account had been credited to this Revenue Account by three District Secretariat Offices with regard to the payments for the motor cycles while being transferred for the posts not entitled for the ownership of motor cycles, resigning from the service or at the retirement were observed at the audit test checks conducted .
- (e) Even though it had been reported that the Revenue amounted to Rs. 138,500 had received from the Department of Export Agriculture as per the Revenue Account , that revenue had not been recorded by the reconciliation statements sent by that Department. As the revenue

received had not been reconciled by the Department with the reports sent, the accuracy of the income mentioned in the Revenue Account could not be able to confirm .

- (f) The District Secretariat Ratnapura had informed to the Department of National Budget by the letter dated 10 January 2017 a sum of Rs. 560,420 relevant to the District Secretariat Office Ratnapura , a sum of Rs. 566,840 relevant to the Divisional Secretariat Office Nivithigala and a sum of Rs. 144,920 relevant to the Divisional Secretariat Office Elapatha as an aggregated amount of Rs. 1,272,180 were the values which should be paid back and to be corrected as such . Nevertheless the actions had not been taken to make those corrections. However, the Department had informed to the audit that these corrections should be made by the institutions themselves .
- (g) Although information with regard to the motor cycles whereas the cash paid back while resigning from the posts should be informed to remove them from the Register of Financial Lease Payment to the related finance institution and the Department of Motor Traffic the occasions in case of such actions not taken were observed. The money received as such in the year 2015 and the year 2016 had been retained in the General Deposits Account . The settlements in the General Deposit Account had not been updated due to the various reasons and a balance of Rs. 78.79 million to be settled as such was remained in the Deposit Account as at 01 June 2017.
- The Department had informed to the audit that a sum of Rs. 33.00 million out of that deposit balance by the 30 September 2017 was remained and these balances could not be able to settle further due to a delay existed in receiving the information from the financial institutions as well as from the officers.
- (h) In accordance with the Budget Proposals of the year 2014 the motor cycles had been handed over to the public officers from the year 2014 and as per the disclosures at the audit test checks carried out in the two Districts regarding that , updated information had not been maintained by the related District Secretariat Offices. Nevertheless , it had been informed to the audit that the payments are being made by the Department of National Budget under the Financial Leasing Method according to the number of motorcycles confirmed as handed over to the field officers by the District Secretariats. Accordingly it was impossible to confirm the accuracy of the payment in audit.
- (i) A suitable methodology had not been prepared by the Department to confirm the cash paid back by the related officers at the instances such as vacated of post and transfer to another post and the information in respect of the cash retained in the General Deposit Accounts were received to the Department.
- (j) As it was revealed in the physical examination, the instances of handing over the motor cycles to the same officer more than one and omission of payment of related money at the instance of transferring to the non- field post had been disclosed . Sufficient evidences had not been furnished to audit to confirm as the steps in advance were taken in this regard.

However, it had been informed by the Department to the audit that the authority to take disciplinary action in this regard had been granted to the relevant institutional Heads by the instruction letter No. BD/GPS/130/9/14/MC- 4 dated 16 May 2016 .

- (k) A capital value amounted to Rs. 2,971.66 million and an interest amounted to Rs. 1,484.81 million with regard to that had been paid for the motor cycles purchased in the year 2016 and the Capital value payable as at 31 December 2016 was Rs. 11,960.00 million. The details in respect of the interest payable as at the date had not been furnished to audit.

3.2 Advances to Public Officers Account

The following observations are made during the course of audit test check of the Reconciliation Statement as 31 December 2016 relating to the Advances to Public Officers Account Item No. 24001 furnished to audit.

- (a) Even though the two loan balances totalled to Rs. 305,621 was outstanding from two officers who were deceased while on working is being lapsed over a period of 15 years and 16 years , the Department had failed to recover those balances even by the 17 October 2017.
- (b) Even though the loan balances receivable from two officers who had vacated their posts totalled to Rs. 307,599 were being remained from 01 year and 06 years, the Department had failed to recover those balances even by the 17 October 2017 .

3.3 Imprest Account

A foreign travel advance amounting Rs. 83,325 which had been granted to an officer in the year 2008 had not been settled even by the 17 October 2017. Therefore the balance in the imprest account of the Department amounted to Rs. 86,932 had been impossible to settle even by the 28 October 2017.

3.4 Account not – included in the Department Books

Even though it had been informed to the audit that the account No. 7000/0000/00/0374/0002/000 which was included in the Treasury printouts bears an opening balance of Rs. 89,043 but not relevant to the Department of National Budget, actions had not been taken to settle this balance remained for several years.

3.5 Assets Management

Even though the Report of Movement of Non- current Assets of the Appropriation Account had been prepared by including Fixed Assets relating from the year 2004 to the year 2016 , five hundred and eighty items which were purchased after that year but not mentioned the value had not been included in the Report.

3.6 Non - compliances with Laws, Rules and Regulations

The files relating to the 04 accidents out of 12 vehicle accidents of the Department had not been furnished to audit. Even though a loss had occurred to a vehicle of the Department on 29 April 2014 amounted to Rs. 22,508 actions had not been taken to recover or write off the loss in terms of Financial Regulations from the Regulations 104 to 109 even by the 31 December 2016 in this regard.

3.7 Performance

The observations in respect of the progress of the Department according to the Annual Budget Estimates 2016 are shown below.

- (a) The Provisions amounted to Rs. 623,645 million had been made available for the Supplementary Support Services and Contingent Liabilities Project under the Head 240 of First Volume of the Appropriation Act No. 16 of 2015 revised by the Appropriation Act (Revised) No. 23 of 2016. Additional provision amounted to Rs. 55.00 million had been provided by the Parliament through a Supplementary Estimate for the Project in the year under review. Accordingly provisions amounted to Rs. 623,700 million had been made available for that project. Out of the provision amounted to Rs. 623,645 million made available in accordance with the Appropriation Act , a sum of Rs. 360 million for the Contingencies Fund and a provision of Rs. 623,285 million for 146 Budget Proposals had been made available. A provision of Rs. 291,274 million had been transferred to other Heads from that Project by the end of the year under review. Accordingly , a provision of Rs. 332,426 million had been saved out of the total provision made available for that project. A sum of Rs. 330,876 million out of the provision made available for the 84 Budget Proposals out of that saved provisions . That saving had been a proportion ranged from 13 per cent to 100 per cent out of the provisions made available. Any transfer had not been carried out from the provisions amounted to Rs. 230,806 million made available in respect of 37 Budget Proposals out of that. The Department of National Budget had informed to the audit that the certain Budget Proposals are not being implemented due to practical problems, as a result of non- issuing of provisions

in respect of that the provisions had saved at the end of the year since a physical and financial progress was not shown relating to the Budget Proposals which were not implemented in that manner .

- (b) Out of the Provisions made available for the Supplementary Support Services and Contingent Liabilities Project under the Head 240 in terms 6 (1) of the Appropriation Act No. 16 of 2015 the transferring of provisions and the reasons for that had been tabled in the Parliament within the 02 months from the date of provisions transferred . Nevertheless actions had not been taken by the Department to table all the information in the Parliament in terms of the Section 6 (2) of the Act by the Government's Fiscal Performance Report issued as per the Financial Management (Liability) Act No.03 of 2003 . Similarly although the Recurrent and Capital Grants totalled to Rs. 114,886 million had been transferred from 01 October to 31 December in the year under review those information had not been tabled in the Parliament by the report.
- (c) Even though the overall provision for the year 2016 had been mentioned as Rs. 623.3 billion under the Supplementary Support Services and Contingent Liabilities Project included in the Annual Report of the Ministry of Finance in the year 2016 the Net Provision according to the Annual Appropriation Account had been Rs. 623.7 billion. Accordingly a difference of Rs. 0.4 billion was observed. Similarly, even though the total of the summary of the transfer of provisions was Rs. 246.9 billion under the project of that report , the total had been Rs. 291.3 billion as per the Appropriation Account. In that connection a difference of Rs. 44.4 billion was observed .
- (d) Even though it had been mentioned that the information with regard to the all the transfers done out of the provisions made available for the Supplementary Support Services and Contingent Liabilities Project as per the Public Finance (Liability) Act No. 03 of 2003 according to the Annual Report 2016 of the Ministry of Finance would be included in the Public Finance Performance Report of the year 2016, those information had been included in the Public Finance Performance Report 2017 .
- (e) At the instance of the audit test check conducted in respect of the transferring of provisions made available under the Supplementary Support Services and Contingent Liabilities Project by the Department of National Budget , circumstances of non-updating of relevant registers, circumstances of including inaccurate information in letters for additional provisions, circumstances of granting the provisions without confirming the accuracy while granting additional provisions based on the evaluation of the requirements by checking the approvals relating to that and also the occasions of transferring the provisions non-compliance to the special guidelines mentioned in the Paragraph 2.2. 3 of the Annual Budget Estimates 2016 were observed.

- (f) Additional provisions had been issued at 1355 instances under the Expenditure Objects in the year under review. Several occasions of cancellation of provisions in time to time were observed. Even though the details of transferring of those provisions had been tabled in the Parliament once in two months in terms of Sub-section 6 (1) of the above Appropriation Act, occasions of cancellation of transferring of those provisions and the matters for the reasons of thereto had not been tabled in the Parliament.
- (g) The Instructions and Guidelines for the preparation of Annual Budget Estimates 2016 by the National Budget Circular No. 3/2015 of 29 July 2015 had been issued. Accordingly, instead of Modified Programme Budgeting using at present while preparation of the Budget towards the using of limited public resources efficiently and effectively it had been decided to introduce “Zero Based Budgeting Approach” by considering total review of government expenses. The Zero Based Budgeting Approach method was attached to planning, budgeting, and review the procedure and also had been expected to identify the methods and the alternatives for using of limited resources efficiently. Similarly, it had also been shown as a flexible management approach producing the opportunity to re-distribution of the resources rationally and reliably by paying attention for generalization and a systematic review for the performance of the current programmes and supply of the funds. However, the nominal values totalled to Rs. 139.23 billion including in the Estimates revealed at audit test checks and even though it had shown as the more provision had been made available to the significant sections of the economy by granting provisions for an Object which had not requested provisions amounting to Rs. 12.96 billion, that allocation had not been utilized.
- (h) Even though it had been mentioned as the progress of every programme should be supervised and evaluated continuously for the confirmation of existence of the every programme by introducing Zero Based Budgeting Approach from that in terms of National Budget Circular No. 06/2015 of 29 December 2015 all the details with regard to the progress relating to the year 2015 had not been furnished to audit. Out of the 494 Budget Proposals of the year 2016 Financial progress of 130 Proposals had only been furnished to audit.

3.8 Human Resources Management

Approved Cadre and Actual Cadre

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

	Category of Employees	Approved Cadre	Actual Cadre	Number of vacancies
(i)	Senior Level	39	36	03
(ii)	Tertiary Level	04	04	00
(iii)	Secondary Level	75	63	12
(iv)	Primary Level	37	35	02
	Total	155	138	17