

Head 245 - Report of the Auditor General on the Department of Public Finance Year 2017

The Appropriation Account and the Reconciliation Statement under Head and Item Number stated in the First Schedule and Third Schedule of the Appropriation Act, No. 24 of 2016 as amended by the Appropriation (Amendment) Act, No.32 of 2017 were presented to Audit by the Department of Public Finance. The financial and physical performance reflected by the said accounts and the reconciliation statement were audited in terms of Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Financial Management and Accountability

The Minister of Finance is charged with the raising of Revenue and the collection of other Government monies as well as with the general oversight of all the financial operations of Government in terms of Financial Regulation 124 of the Democratic Socialist Republic of Sri Lanka. The Chief Accounting Officers have been appointed by the Minister of Finance to discharge the above responsibility in terms of Financial Regulation 124(2). The Head of the Department will be the Accounting Officer in respect of all the financial transactions of his Department in terms of Financial Regulation 125(1)(a) and the Revenue Accounting Officer has been appointed by the Treasury. This responsibility includes designing, implementing and maintaining internal controls relevant to the maintenance, preparation and fair presentation of Accounts and Reconciliation Statements presented within the limitations imposed by Parliament 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, Government Financial Regulations and Administrative Regulations.

1.3 Scope of Audit

The audit of the Department of Public Finance – Head 245 for the year ended 31 December 2017 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka in respect of designing of financial and physical performance, Government expenditure, Government revenue, management of human and physical resources, apply of internal control systems, compliance with laws, rules and regulations and maintenance of books, registers, records and reconciliation statements in an updated manner, preparation and presentation of accounts in timely manner, issuance of performance reports to respective parties based on the performance indicators. The Management Audit Report for the year under review was issued to the Director General of the Department on 20 August 2018. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the plans, accounts, reconciliation statements and performance reports 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.

1.4 Audit Observation

The audit observations of the Department of Public Finance for the year ended 31 December 2017 revealed in audit, appear in the Management Audit Report in detail, mentioned in paragraph 1.3 above. The material and significant audit observations out of those observations appear from paragraph 2.1 to 2.9 of this report. It was observed that the accountability as the Accounting Officer had been satisfactorily executed, to ensure the adequacy of the financial administration subjected to the following summarized audit observations revealed in the execution of the provisions of the Financial Regulation 128 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

Accountability of the Accounting Officer in terms of Financial Regulation 128	Non-compliance with the Provisions by the Accounting Officer	Reference to the Paragraph of the report which included the Observations
--	---	---

Financial Regulations

128(1)(a)	That the work of his department is planned and carried out with due dispatch, having regard to the policy laid down by the Government and the intentions of Parliament in granting him financial provision for the activities authorised and that an endeavour is made to complete the programme of work laid down for the year and/or to attain the targets specified ;	1. Achievement of sustainable development goals 2.4 2. Non-preparation of the budget estimate realistically 2.5 3. Non-achievement of the expected level of output 2.1 4. Deficiencies in implementing the procurement process 2.2
128(1)(b)	That the organization for financial control and accounting in his department is effective, and provides adequately for the correct ascertainment, where necessary, of dues to Government, the systematic, complete and prompt collection of dues, and bringing to account of monies received, the authorisation of commitments on behalf of the Government, the supervision and examination of	1.Shortcomings in the preparation of estimates on imprests 2.7 2.Commitments and Liabilities 2.3

	services and supplies rendered, and the prompt and correct payment therefor from public funds;		
128(1)(c)	That the Financial Regulations and other supplementary instructions of the Government are adhered to in his department, and that they are supplemented by departmental instructions, where necessary;	Non-compliances	2.8
128(1)(j)	That any expenditure or commitment incurred, falls within the scope and limits of his Votes or other authorised financial provision, and is covered by adequate authority;	1. Deficiencies in the Advances to Public Officers Account 2. Shortcomings in the Management of Human Resources	2.6 2.9

2. Material and Significant Audit Observations

2.1 Performance

Non-performance of Duties

According to the Annual Action Plan, 10 key functions should have been performed by the Department. However, according to the Annual Performance Report, out of those 10 functions for which provisions had not been allocated from the Annual Budget, 03 functions had not been completed and details thereon are given below.

- (a) According to the Action Plan of the Department for the year 2017, the information relevant for evaluating the progress at the end of the year had not been made available to Audit. As such, achieving the expected result relating to 06 areas of responsibility/ taking action is adequate, had not been confirmed in Audit.
- (b) According to 2016 Budget Proposal Nos.425 and 426, it had been proposed to review all statutory and non-statutory funds, to justify the existence of funds thereby, to revise the Articles relevant to those funds to suit the present requirements and to bring the receipts and payments of funds under the control of the Parliament. As such, a report relating thereto had been prepared by the main committee and 08 sub-committees appointed on 02 June 2016 relating to this purpose and issued on 31 March 2017. This report had been submitted to the Cabinet Committee on Economic Development on 21 June 2017. The following matters were observed in this connection.
 - (i) According to the information received to the Department, it is mentioned that out of 210 funds, 105 Public Funds and 105 Non-Public Funds including Thrift Funds, Gratuity Funds, Welfare Funds, Internal Management Funds, Research

Funds and Funds of improving hospital wards, had existed. The Committee had reported that those Funds are not considered in this review and that several Funds had not been reported to the Department. Accordingly, it was observed that the Department had not taken action to fully achieve the expected objectives through these budget proposals.

- (ii) According to the information included in the letter sent to the Chairman of the Committee by the Minister of Economic Development by including the recommendations of the Committee on reviewing Public Funds, except 10 Funds included in the aforesaid Public Funds, the details of remaining Funds are as follows.

Serial Number	Number of Funds	Values of Net Assets	Recommendations of the Committee in brief
-----	-----	-----	-----
		Rs.Millions	
1	21	25,023	Further maintenance of Funds as the income is self-generated.
2	29	22,214	Re-establishment of the Management of the Fund, changing the Management Authority and maintenance by due to internal integrations of the Fund
3	12	31,185	Further maintenance by taking all receipts and payments into the annual budget process and including in the budget process.
4	13	2,629	Closing down after obtaining Cabinet approval
5	14	13,581	A Government institution can be operated by normal procedure and as such, including in the budget process of the Government
6	6	52,105	Including all remaining Funds except the Public Service Provident Fund in the Public Service Pension Scheme.
	-----	-----	
	95	146,737	
	=====	=====	

- (c) Additional provisions of Rs.10,800,000 had been obtained on 02 September 2016 for this purpose and an expenditure of Rs.3,470,825 had been incurred by Object No.1405. However, no recommendations whatsoever mentioned above had been implemented even by 19 July 2018, the date of Audit.

- (d) Moreover, if the Committee is of the opinion that the expected purpose/service is not carried out by the Fund or maintaining the said Fund is unfair, it was mentioned in those letters that those funds should be taken under the Annual Appropriation Act from the

financial year of 2017. However, it was observed that the said expected purpose as well as the justification of the existence of the funds and revision of Articles relating to those funds so as to suit the present requirements had not been carried out up to now.

- (e) In terms of Financial Regulation 153, after the receipt of the Report of the Committee on Public Accounts, the Treasury Minutes relating to the various matters dealt with in the Report will be issued by the Department of Public Finance on behalf of the General Treasury, on the instructions of the Minister of Finance. Moreover, in future financial activities, the Chief Accounting Officers and Accounting Officers should study these Minutes and use them as guidance. According to the information received to Audit, the Treasury Minutes on the first report No.240-2013 and second report No.356-2015 of Parliament publications of the Committee on Public Accounts issued for the financial years from the year 2005 to the year 2010, had been issued on 02 December 2015. However, according to the information of the Committee on Public Accounts, 05 reports including an interim report had been issued subsequently. Nevertheless, action had not been so taken on the said reports. As such, it was observed that the opportunity of studying those reports and using them for guidance had been deprived of to the Chief Accounting Officers and Accounting Officers.
- (f) The management of public finance by all institutions of the Public Sector, namely, Government Ministries, Departments and Statutory Boards during a period of about 25 years from the year 1993 up to the present, is carried out in accordance with the Financial Regulations of 1992 and Guidelines and Circulars issued by the General Treasury by fulfilling the shortcomings from time to time in the present Regulations. Certain Financial Regulations from 1992 up to now had been revised many times and according to a 2015 budget proposal, the requirement of revising Financial Regulations to suit a country with middle income had been further stressed. According to the Action Plan for the year 2017, even though it had been expected to amend and table the Public Finance Management Bill in Parliament and if required, to conduct training for supply of assistance in the implementation of the said Act, those purposes had not yet been fulfilled.
- (g) According to the file presented to Audit, the Cabinet Memorandum No. MF/PF/03/CM/2018/92 of 31 May 2018 relating to the above Bill of the Minister of Finance and Mass Media and according to the report No.18/1187/809/035 dated 31 May 2018 of the Cabinet meeting relating thereto, it had been informed to appoint a group/ a committee of specialists with knowledge and experience in Public Finance Management and to submit the recommendations relating thereto to the Cabinet of Ministers within 03 weeks. However, evidence was not made available to Audit that any other function had been carried out in this connection except appointing the committee relating thereto on 22 June 2018.
- (h) In terms of Financial Regulation 340, the Department of Public Finance should obtain stocks of Counterfoil Books from the Government Printer in a manner adequate in fulfilling the requirements of all Government Departments. However, the Department had not obtained adequate Counterfoil Books due to reasons such as inadequate space. Moreover, in terms of Financial Regulations 316 and 317, the Counterfoil Books should always be kept in safe custody in a vault, safe, strong box, strong room or other place of security, specially provided for the purpose. However, the Department had not done so. It

was observed that the issuance and registration of Counterfoil Books had not been carried out properly as well. Moreover, it is mentioned that the Receipt Book bearing No.796501 – 796600 (23W) has not been issued to the Department by the Press and the Department had not taken action relating to that as well. A misplacement of such nature had been reported in the preceding year too and the Department had not taken action in terms of Financial Regulation 343 therefor as well.

2.2 Obtaining Supplies and Services through the Procurement Process

Provisions of Rs.18.35 million had been made for supplies and services which should have been obtained by taking action according to the Government Procurement Guidelines by the Department and only provisions of Rs.0.91 million out of that had been utilized. As such, a sum of Rs.17.44 million or 95.04 per cent of the provisions made had been saved.

The following observations are made in this connection.

- (a) Even though a Procurement Plan had been prepared by the Department for the year 2017, it did not tally with the budget due to the following matters.
 - (i) Even though provisions of Rs.400,000 had been made under a Capital Object, the details on purchases relating thereto had not been included in the Procurement Plan and the entire provision thereof had not been utilized even by 31 December 2017.
 - (ii) None of the purchases to be made by using a sum of Rs.300,000 made under one Capital Object had been included in the Procurement Plan. Moreover, no expenditure had been incurred under this Object even by 31 December 2017.
 - (iii) As shown above, provisions of Rs.3,000,000 had been made to purchase furniture and office equipment under Object 2102 and additional provisions of Rs.14,000,000 had been obtained by a supplementary estimate therefor. However, the procurement activities expected to be carried out by the additional provisions so obtained, had not been included in the revised Procurement Plan. Moreover, a sum of Rs.16,869,475 or a sum of 99 per cent out of the entire provisions of Rs.17,000,000 had been saved by the end of the year without being utilized. As such, the rationality in obtaining additional provisions without taking action to spend that provided sum, was not observed in Audit.
- (b) In terms of the Procurement Plan, the purchase of stationery had not been carried out properly. As such, the same Item had to be purchased under higher prices.
- (c) Even though a Procurement Plan had been prepared, the quantity of stationery/office requirements to be purchased in the year had not been determined and as such, purchases had been made considering as urgent requirements without calling for quotations.

- (d) The Fourth South Asian Procurement Summit had been held in Sri Lanka from 20 to 23 February 2017 by the Department and an expenditure of Rs.3,484,411 had been incurred therefor.

The following observations are made in this connection.

- (i) The expenditure and activities relevant to this Summit had not been included in the Procurement Plan of the year 2017 and action was being taken by the Department relating to holding of this Summit even by October 2016. However, the Department had not taken action to include the relevant information even in the revised Procurement Plan presented on 23 December 2016.
- (ii) Even though the total cost had been Rs.3,484,411 therefor as mentioned above, the Department had not identified this total cost at the beginning and reached a proper procurement process accordingly.

2.3 Commitments and Liabilities

The following observations are made in this connection.

- (a) Liabilities valued at a total of Rs.73,251,882 had not been included in the Statement of Liabilities.
- (b) In terms of Financial Regulation 94 (i) and Section 6.4 of the National Budget Circular No.01/2014 of 01 January 2014, it should be ensured that sufficient budgetary provisions are available under the relevant Object Code prior to making a commitment. However, commitments of Rs.73,937,746 had been incurred in the year under review without ensuring so.

2.4 Achievement of Sustainable Development Goals

Every Government Institution should act in terms of the 2030 “Agenda” of the United Nations on sustainable development and the Department was not aware of the manner in which they should operate in respect of functions that come under their scope relating to the year under review.

2.5 Utilization of Provisions made available by Parliament for the Performance of Functions

Details on provisions made for the Department during a period of 05 years ended 31 December 2017, utilization and savings thereon and audit observations relating to information of the year under review, appear below.

Year	Type of Expenditure	Net Provision	Actual Expenditure	Savings	Savings as a Percentage of Net Provisions
		Rs.Millions	Rs.Millions	Rs.Millions	
2013	Recurrent	138.23	137.88	0.35	0.25
	Capital	2.52	2.00	0.52	21
	Total	140.75	139.88	0.87	
2014	Recurrent	188.25	188.18	0.07	0.04
	Capital	2.30	2.10	0.2	8.69
	Total	190.55	190.28	0.27	0.14
2015	Recurrent	194.60	192.43	2.17	1
	Capital	2.30	1.73	0.57	25
	Total	196.90	194.16	2.74	1
2016	Recurrent	66.78	59.16	7.62	11
	Capital	10.49	5.95	4.54	43
	Total	77.27	65.11	12.16	16
2017	Recurrent	521.43	520.57	0.87	0.16
	Capital	53.25	10.27	42.98	81
	Total	574.68	530.84	43.85	8

The following observations are made in this connection.

Appropriation Account

- (a) Additional provisions had been obtained within a percentage from 150 per cent to 1,550 per cent under supplementary provisions of Rs.7,000,000 for 03 Objects for the year 2017 and the savings of those Objects were 15, 99 and 77 per cent respectively.
- (b) In terms of Financial Regulation 75, the net amount of a Supplementary Estimate shall be the amount of additional financial provision required less savings available for transfer. However, out of supplementary provisions totalling Rs.45,000,000 obtained for two additional provisions, a sum of Rs.42,276,750 had been saved. It had been a saving of 77 per cent and 99 per cent out of the total net provisions.
- (c) Provisions had been obtained within a percentage of 57 per cent in 02 instances of supplementary provisions for an Object with an annual provision of Rs.2,500,000 and Financial Regulation 66 Transfers and the savings of provisions of the said Object was 90 per cent.

- (d) Deductions of 09 per cent to 63 per cent under provisions in Financial Regulations 66 – 69 in provisions of 05 Objects of which annual provisions totalling Rs.23,450,000 and increases of 09 per cent to 57 per cent of provisions of 08 Objects of which annual provisions totalling Rs.34,500,000 had been carried out.
- (e) The savings of 06 Objects with net provisions totalling Rs.56,398,200, had totalled Rs.43,739,569. As such, it was in the range between 4 per cent and 100 per cent of the net provisions.

2.6 Advances to Public Officers Account

 The limits authorized by Parliament for the Advances to Public Officers Account, Item No. 24501 relating to the Department and the actual amounts according to the Account are shown below.

<u>Expenditure</u>		<u>Receipts</u>		<u>Debit Balance</u>	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
-----	-----	-----	-----	-----	-----
Rs.Million	Rs.Million	Rs.Million	Rs.Million	Rs.Million	Rs.Million
4.0	4.2	1.8	2.8	18.0	10.7

The following observations are made in this connection.

- (a) According to the Appropriation Account, the maximum limit of expenditure amounted to Rs.4 million. However, as the actual value amounted to Rs. 4.2 million, thus observing an exceeding in limit of Rs.0.2 million. Nevertheless, on enquiry in this connection, it had been informed to Audit that limits had exceeded due to a sum of Rs.0.4 million being debited to 245011 instead of debiting to 245012 of this Account and that it had been rectified by Transfer Paper of 07 February 2018.
- (b) As a result, differences of Rs.0.4 million existed in debits and credits between the Departmental books and Treasury Computer Prints during the year.

2.7 Imprest Account

According to the Imprest Estimate prepared by the Department for the year under review, details on imprests expected to be obtained monthly, imprests applied monthly and imprests received, are as follows.

Month	Imprest to be applied as planned	Imprest applied	Imprest received	Difference between the Imprest applied as planned and the imprest applied	Difference between the Imprest applied and the Imprest received
	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions
January	5.80	5.70	5.30	(0.09)	(0.40)
February	5.80	6.71	9.33	0.92	2.62
March	5.80	5.60	4.70	(0.20)	(0.90)
April	5.80	6.09	5.50	0.29	(0.59)
May	5.80	5.95	4.87	0.16	(1.08)
June	5.80	5.93	4.50	0.14	(1.43)
July	5.80	5.75	4.61	(0.04)	(1.14)
August	5.80	11.50	10.37	5.71	(1.13)
September	5.79	7.42	5.94	1.62	(1.48)
October	5.79	7.10	5.26	1.31	(1.84)
November	5.79	13.20	4.96	7.41	(8.24)
December	5.82	15.00	6.70	9.19	(8.30)
Total	69.59	95.95	72.04	26.42	(23.91)

The following observations are made in this connection.

- Even though similar amounts had been shown as imprests to be applied after planning as mentioned above by the Department, in each month the Department had applied amounts different to each other.
- According to the letter No.TO/BE1/2/IMP/245/2017 dated 09 January 2017 of the Department of Treasury Operations sent to the Department under the topic, "Deciding the Limit of Sub-imprest for the year 2017", it had been informed that action should be taken to determine the limits of Sub-imprests by reviewing the monthly limit of Sub-imprest and reporting true information. However, it was not observed that the Department had taken action accordingly.

2.8 Non-compliances

Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with provisions in laws, rules and regulations observed during the course of Audit are analyzed and shown below.

Reference to Laws, Rules, Regulations etc.	Value	Non-compliance
-----	-----	-----
	Rs.	
Financial Regulations of the Democratic Socialist Republic of Sri Lanka		

(i) Financial Regulation 756 and paragraph 3.1.5 of the Public Finance Circular No.05/2016 of 31 March 2016	-	Action should be taken as necessary before the 26 th February of every financial year relating to unserviceable stores (D), serviceable stores (R), saleable stores (S) and transferable stores (T) included in the Report on Board of Survey. However, action had not been taken accordingly even by 01 May 2018, the date of Audit.
Financial Regulation 756 (4)		The Department had decided to purchase new wooden furniture to suit the modernization of office rooms and obtained a report on disposal of goods through a committee on 09 January 2018 for disposal of old wooden furniture owned by the Department after carrying out a survey on the said wooden furniture. However, it was observed that those items of wooden furniture had been included even in the said report on survey. As such, recommendations of the Committee on survey appointed additionally, had not been implemented.

2.9 Human Resources Management

2.9.1 Approved Cadre, Actual Cadre and Expenditure on Personal Emoluments

The position on the approved, actual cadre and vacancies as at 31 December 2017 for the performance of the functions mentioned in paragraph 2.1 above, is as follows. The Department had spent a sum of Rs.44.52 million for the year under review for Category of personal emoluments. Accordingly, the annual expenditure on personal emoluments had been Rs.654,683.

Category of Employees	Approved Cadre	Actual Cadre	Vacancies
Senior Level	29	20	09
Tertiary Level	02	02	00
Secondary Level	33	31	02
Primary Level	17	15	02
Total	81	68	13

The following observations are made in this connection.

- Out of the 81 posts of the approved cadre of the Department, there were 13 vacancies. As such, it had been 16 per cent of the approved cadre and there had been 09 posts in the Senior Level among these vacancies.
- The post of the Director General as well as 02 posts of Additional Director General had been filled by Acting Appointments and the remaining post of Director General had been vacant by 31 December 2017.
- Accordingly, it was further observed in Audit that the post of Director General of the Top Management Level and 01 of 03 posts of Additional Director General of the Department which carries out the activities of preparation, review, development, follow up action and updating of public finance systems and procedures for strengthening of a widespread background of Good Governance with an institutional function that assists public accountability in the Public Sector, had been on Acting basis from the year 2012 and the other posts had been in vacant position. The Department had not taken action up to now in filling these posts on substantive basis.
- According to the letter No.MF1/03/D/DPF dated 16 February 2018 of the Secretary to the Ministry of Finance and Mass Media sent in reply to the Letter No. 02/125 dated 04 August 2017 forwarded in obtaining covering approval of the Public Service Commission for the appointment of the officer, appointed on Acting basis for the post of Additional Director General from 03 May 2013, the Department had been notified that

the Commission had decided against granting approval for the said appointment. Moreover, it had been notified by Letter No.MF1/01/26/12/DPF dated 05 April 2018 of the Secretary to the Ministry of Finance and Mass Media that the Commission had granted approval for the appointment of the said officer in the performance of duties from 02 May 2013 to 25 March 2018. Nevertheless, according to the Letter No. PFD/ADM/07/01 dated 17 March 2018 presented to Audit by the Department, it was observed that this officer had not been paid an Acting salary and that communication and fuel allowances had been paid exceeding the amounts entitled to the substantive appointment for engaging in full time duty.