Report of the Auditor General on Head 249–Department of Treasury Operations- Year 2017

The Appropriation Account and the Reconciliation Statements 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 and 12 Revenue Accounts relevant to the Revenue Codes included in the Table 3:1:2 of the Annual Budget Estimate were presented to Audit by the Department of Treasury Operations. The financial and physical performance reflected by those accounts and the reconciliation statements 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, Revenue Accounting Officer and the Accounting Officer for the Financial Management and Accountability

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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 Audit Scope

The audit of Department of Treasury Operations –Head 249 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 01 February 2019. 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 Treasury Operations for the year ended 31 December 2017 revealed in audit appear in Management Audit Report in detail, mentioned in paragraph 1.3 above. The material and significant audit observations out of the audit observations included in the Management Audit Report appear in paragraph 2.1 to 2.19 of this report. It was observed that the accountability as the Chief Accounting Officer and 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 specified in the Financial Regulation 128 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

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Accountability of the Accounting Officer in terms of Financial Regulation 128 (1)		Non-compliance of the Accounting Officer to the Provision	Reference to the Paragraph of the report Containing Observations
Financial Regulations			
128(1)(a)	The work of his department is planned and carried out with due despatch , 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 attain the targets specified.	1. Failure to prepare Budget Estimates realistically. 2. Deficiencies in human resource management. 3. Failure to achieve the expected level of output.	2.5 (a) (b) 2.9 2.2.
128(1)(d)	An adequate system of internal check for receipts, payments, and issues is maintained and tested from time to time.	Deficiencies in General Deposit Accounts	2.8
128(1)(e)	Adequate and proper arrangements are made for the safe custody and preservation of money, stores, equipment, and other assets	Deficiencies in assets management	2.4

	belonging to the Government, or is in its custody, and that these are verified from time to time; and, where they are disposed of , such disposal is according to prescribed Regulations and instructions.		

Accountability of the Revenue Accounting Officer in terms of Financial Regulation 128 (2)
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128 (2) (a)	The estimates of Revenue are prepared completely, and as accurately as possible, for the Heads, Sub-heads, Items and sub-Items of Revenue for which he has been appointed Revenue Accounting Officer.	Failure to collect expected level of revenue/ Failure to take steps to revise the estimate in case of increase or decrease of the revenue.	2.6 (a) (i) 2.6 (b) (i) 2.6 (c) (i) 2.6 (g) (l)
128 (2) (d)	Returns are obtained from other departments and offices in which any portions of the Revenue for which he is responsible are collected, and are incorporated in the Estimates of Revenue, the Revenue Accounts and the Returns prepared by him in terms of (a), (b) and (c) above respectively.	Failure to call for information from other departments involving in the collection of revenue, for the revenue estimates.	2.6 (c) (ii) (f)(i) 2.6(j) (ii)(iii)(iv) 2.6 (I) (i) (h) (ii) (iii)
128 (2) (e)	Special arrangements are made for the expeditious collection of outstanding arrears of Revenue in consultation with the Accounting Officers and departments concerned in collection.	1. Failure to call for information with regard to the outstanding revenue from the departments involving in the collection of revenue relating to the revenue code. 2. Failure to collect the revenue in outstanding.	2.6(a) (ii)(iii), (c) (iii), (d), (e) (k)
128 (2) (f)	The activities in regard to the collection of Revenue by the various departments concerned are coordinated in consultation with the respective Accounting Officers	No consultations or correspondence had been carried out with the other institutions involving in the collection of revenue relating to the revenue code.	2.6 (h) (iv)
128 (2) (g)	Records are maintained of the amounts collected under the appropriate Heads Sub-Heads, Items and Sub-Items of Revenue, by	Preperation of revenue account based on the figures indicated in the final computer printouts of the Treasury.	2.6 (f) (iii), (iv)

	obtaining such information as is necessary from the various departments concerned and that such records are reconciled with the accounts of Revenue collections maintained in the Treasury, under the respective Heads, Sub-Heads, Items and Sub-Items.		
128 (2) (i)	Rates and charges or taxes, fees, etc., are reviewed and that due action is taken to revise them from time to time, where necessary, having regard to changes in economic and other circumstances.	Failure to analyse the matters contributed to the revenue variation.	2.6 (a) (ii) 2.6 (k) (iii), (iv), (v)

2. Material and Significant Audit Observations

2.1 Key Functions of the Department

(a) Management of Treasury Cash Flows.

(b) Disbursement of Treasury Funds through the payment system.

(c) Assessment, prioritization and release of funds to spending agencies.

(d) Issuance of Treasury Guarantees.

(e) Maintenance of fund flows relating to the on-lending programs of the Government.

(f) Estimation, Collection and Accounting of Non-Tax Revenue under 12 Revenue heads.

(g) Facilitation for disbursement of funds under Foreign Aid Loans and Grants.

(h) Facilitation of Accounting of Foreign-Aid Projects.

(i) Accounting of Government borrowings and debt repayments.

(j) Authorization and Supervision of Government bank accounts and imprest accounts.

(k) Handling the property loan scheme of the Government Officers.

2.2 Performance

(a) Management of Treasury Cash Flows

The total cash receipts including revenue and other cash receipts stood at Rs. 1,765.3 billion during the year under review and after spending Rs. 2,499.7 billions comprising recurrent expenditure of Rs. 1,853.6 billion and capital expenditure of Rs. 646.1 billion, the net cash deficit of the year had stodd at Rs. 734.4 billion. It had been an increase of Rs. 182.2 billion or 32.99 per cent compared to the preceding year. After adjusting the net borrowings of the year amounting to Rs.695.6 billion, balance of the adjustment account amounting to Rs.12.9 billion and opening cash deposit of the year amounting to Rs.160.3 billion to the above net cash deficit, the cash balance (deficit) as at 31 December 2017 amounted to Rs.186.2 billion and the cash deficit had increased by Rs.25.9 billion or 16.15 per cent as compared with the preceding year.

(b) Release of Imprests

The Treasury had issued imprests as in the following manner to the Ministries, Departments, Provincial Councils, District Secretariats, Commissions and other institutions during the year under review in order to incur their expenditure.

	Recurrent	Capital	Total
	Rs.Millions	Rs.Millions	Rs.Millions
Estimated Expenditure	2,026,683	935,259	2,961,942
Imprests requested during the year under review.	1,334,466	863,557	2,198,023
Annual Imprest Limit	1,201,380	584,114	1,785,494
Imprests released during the year	1,131,340	400,819	1,532,159
Release of imprests less than the annual imprest limit	70,040	183,295	253,335

Accordingly, the General Treasury had released imprests totalling Rs.253,335 million comprising Rs.70,040 million for the recurrent expenditure and Rs.183,295 for capital expenditure less than the annual imprests limit during the year under review. Similarly, 56 per cent and 43 per cent of the annual estimated recurrent and capital expenditure only had been released during the year.

2.3 Obtaining Supplies and Services through the Procurement Process

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The Department had made provisions of Rs.7.28 million in order to obtain supplies and services in compliance with the Government Procurement Guidelines of which provisions of Rs.2.63 million only had been used.

2.4 Assets Management

A vehicle worth Rs.6.5 million transferred during the year under review had not been included in the Note (i) Non Current Assets Movement Report of the Appropriation Account , 2017.

2.5 Utilization of Provisions made by Parliament to execute Activities

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The particulars relating to the provisions made to the Department and utilisation and savings for the 05 years period ended 31 December 2017 along with audit observations thereon are as follows.

Year	Category of Expenditure	Net Provision	Utilization	Savings	Savings as a percentage of the net provision
		Rs. Millions	Rs. Millions	Rs. Millions	
2013	Recurrent	492,488.77	470,532.19	21,956.58	04
	Capital	1,066.80	649.13	417.67	39
	Repayment of Public Debts	747,000.00	702,518.90	44,481.10	06
	Total	**1,240,555.57**	**1,173,700.22**	**66,855.35**	**05**
2014	Recurrent	455,503.70	453,774.80	1,728.91	0
	Capital	3,155.89	1,961.08	1,194.81	38
	Repayment of Public Debts	658,719.22	635,966.57	22,752.65	03
	Total	**1,117,378.81**	**1,091,702.45**	**25,676.37**	**02**
2015	Recurrent	531,602.58	528,958.83	2,643.74	0
	Capital	5,475.32	5,457.99	17.33	0
	Repayment of Public Debts	863,781.10	846,395.11	17,385.99	02
	Total	**1,400,859.00**	**1,380,811.93**	**20,047.06**	**01**
2016	Recurrent	621,424.36	614,495.63	6,928.73	01
	Capital	7,626.21	5,759.69	1,866.52	24
	Repayment of Public Debts	743,380.69	741,548.63	1,832.06	0
	Total	**1,372,431.26**	**1,361,803.95**	**10,627.31**	**01**

2017	Recurrent	767,407.13	741,783.85	25,623.28	03
	Capital	2,249.78	2,142.74	107.04	05
	Repayment of Public Debts	898,105.65	867,483.51	30,622.14	03
	Total	**1,667,762.56**	**1,611,410.10**	**56,352.46**	**03**

The following observations are made regarding the year under review.

Appropriation Account

(a) Non-utilization of provisions made

The total net provisions amounting to Rs.0.1 million made for an Object had been entirely saved without being used for any purpose.

(b) Making overprovisions

Overprovisions totalling Rs.464.7 million had been made for 11 Objects and sums totalling Rs.204.9 million of the provisions of those Objects only had been used. Accordingly, savings had ranged from 18 per cent to 92 per cent of the total net provisions made.

2.6 Estimated and Actual Revenue

The Department had estimated revenue of Rs.60,075 million for 12 Revenue Codes for the year 2017 and the above estimate had been revised up to Rs.51,039 million subsequently. Revenue totalling Rs. 55,099.23 million had been collected during the year under review and it had been 92 per cent of the original estimate and 108 per cent of the revised estimate. Details appear below.

Revenue Code	**Original Estimate of Revenue**	**As at 31 December 2017**		**Excess / (Shortfall)**		**Excess/ (Shortfall)**	
		Revised Estimate of Revenue	**Actual Revenue**	**As compared to the Revised Estimate**	**As compared to the Original Estimate**	**As a percentage of the Revised Estimate**	**As a percentage of the Original Estimate**
	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions		
20.02.01.99	400	278	358.75	80.75	(41.25)	29	(10)
20.02.02.0	4,950	4,300	4,648.59	348.59	(301.41)	08	(06)

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20.02.02.99	1,300	1,650	2,746.79	1,096.79	1,446.79	66	111
20.03.01.00	125	110	120.68	10.68	(4.32)	10	(03)
20.03.02.99	6,000	5,000	6,143.40	1,143.40	143.4	23	02
20.03.03.02	8,500	2,600	1,506.98	(1,093.02)	(6,993.02)	(42)	(82)
20.03.05.00	1,000	1	7.25	6.25	(992.75)	625	(99)
20.03.99.00	11,000	11,000	12,894.83	1,894.83	1,894.83	17	17
20.05.99.00	2,500	1,750	2,078.73	328.73	(421.27)	19	(17)
20.06.02.00	300	100	144.08	44.08	(155.92)	44	(52)
20.06.04.00	14,000	16,250	16,418.06	168.06	2,418.06	1	17
30.01.01.00	10,000	8,000	8,031.09	31.09	(1,968.91)	0.4	0.04
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	60,075	**51,039**	**55,099.23**	**4,060.23**	**(4,975.77)**	**8**	**8**
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The following observations are made on the above revenue accounts.

(a) Revenue Code 20.02.01.99 - Other Lease Rents

The following observations are made.

(i) The revenue collected through the agreements such as lease rents had not been accounted in this revenue account. Accordingly, despite the possibility that such revenue could be correctly forcasted, the forcasts made had immensely varied subsequently.

(ii) Receipts and repayments of revenue from 11 Objects had been brought to account under this revenue code. Revenue of Rs.272.67 million had been received from the Battaramulla Suhurupaya Building belonging to the Ministry of Defence alone. It had been 76 per cent of the total net revenue collected under this revenue code. The following observations are made thereon.

- Adequate evidence had not been made available to Audit to substantiate that the Revenue Accounting Officer or the Heads of the Department engaged in the collection of revenue had carried out a considerable supervision or follow up on the determination, collection and accounting of revenue. The number of square feet allocated for these institutions and the value of a square foot had ranged from Rs.44 to Rs.215. As a result, relevant value had bee revised from time to time and in the determination of number of square feet and the value of a square foot, recommendations of the Department of Valuation had not been obtained. Agreements relating to that matter had not been reached even by 13 June 2018.

- Neither the Department of Treasury Operations nor the Ministry of Defence had furnished to Audit the detailed schedules revevant to the amounts credited to the revenue in each month. Even though a sum of Rs.49.91 million had been received from 01 January 2018 to 13 June 2018 as lease rent revenue releating to the year 2017, rental of Rs.5.02 million receivable from the Department of Registration of Persons relating to the month of December 2017 had not been recovered. Further, no outstanding revenue whatsoever had been recognized pertaining to the Suhurupaya Building under the outstanding revenue in the revenue account.

(iii) The Department of Treasury Operations had collected revenue amounting to Rs.51.70 million under this revenue code. Revenue collected under 03 lease agreements had been 14 per cent of the above collected revenue. The following observations are made thereon.

- An agreement had been entered into between the Government of United State of America and the Government of Sri Lanka relating to the grant of a land for the construction and maintenance of radio transmission station for a period of 20 years from 01 December 1991. The said agreement had been invalidated with effect from 31 December 2016. Lease rents revenue totalling Rs.14.41 million had been received during the period from the year 2014 to 2016. Nevertheless, that building had not been given on rent again even up to 30 September 2018 after the year 2016, and as such, the Government had been deprived of revenue which could have been earned.

- For the purpose of renting the premises Nos.223 and 227 at MainStreet, Colombo 11, agreements had been entered into with two private companies on 01 June 2003. Period of those agreements had been extended on two occasions, whereas those extensions had been granted only through the letters without being made any amendment thereon from 01 June 2011 even up to 30 April 2019. Accordingly, due to the decrease of the monthly rental during the final period and failure to enter into the agreements, revenue receivable to the Government had been decreased.

- The Sri Lanka Government had entered into an agreement with the China Bay Oil Farm 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 and lease rent should be adjusted in accordance with the production capacity. The following observations are made in this connection.

  - According to the Letter No.PE/EN/CPC/Gen/2017 of the Department of Public Enterprises, a lease agreement should have been entered into within a period of 06 months with regard to the stores facilities and the possession of the land in terms of Section 1.2 of the Memorandum of Understanding. In case the said agreement was effective, payment of relevant lease rent should have been revised in keeping with this Memorandum of Understanding. Nevertheless, evidence had not been made available to Audit to subtanciate that any policy measure had been taken by the Government then in power to enter into the relevant lease agreement up to 30 July 2019 and as such, the Department had informed the Audit that it was not possible to adjust the relevant rent as specified in the Memorandum of Understanding.

- When enquired this matter, the Audit has been infromed that the agreement involved in the China Bay Oil Farm institute relating to the Trincomalee Oil Tank Farm and imfromation on the due payments has been obtained from the institute at present, instructions in this connection are intended to be sought from the Legal Department and particulars can be made available to Audit once such instructions are received.

- It was accordingly observed that due to the failure to update this agreement by which income of US$ 100,000 could have been earned per annum and failure to adhere to the conditions apecified therein, the Government had been deprived of income which could have been earned.

(b) <u>Revenue Code 20.02.02.01 – Granting Loans and Interest</u>

The following observations are made.

(i) The Revenue Accounting Officer had furnished an original revenue estimate amounting to Rs. 3,574 million on 29 July 2016, whilst a revised estimate amounting to Rs. 4,340 million had been furnished on 28 July 2017 in respect of this Revenue Code and it had been again revised to be Rs.4,300.

(ii) The balance of the on-lending as at 31 December 2017 totaled Rs. 178,281 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 07 institutions amounted to Rs. 1,817 million as at 31 December 2017. Even though instructions with regard to recovery of loan interests had been sought from the Legal Department, the Department had failed to recover any amount other than the Rs.5 million recovered from the Milco Ltd.

(c) <u>Revenue Code 20.02.02.99 – Interest and Other Revenue</u>

The following observations are made.

(i) The original revenue estimate for the year 2017 amounting to Rs. 1,300 million had been revised to be Rs. 1,650 million. The total net revenue collected in the year under review amounted to Rs. 2,747 million representing 211 per cent of the original estimate, and 166 per cent of the revised estimate. The Department had informed the Audit that the receipt of unestimated interest income relevant to 02 Dollar Accounts of the Deputy Secretary to the Treasury pertaining to the years 2016 and 2017 at the beginning of the year from the Central Bank of Sri Lanka had attributed to experience a variation as indicated above. Although the Revenue Accounting Officer had submitted a revised estimate valued at Rs.1,000 million on 28 July 2017, it had been revised to be Rs.1650 million.

(ii) The interest recovered for the loans granted under the Advances to Public Officers Account is the main source of revenue under this revenue code. Nevertheless, when it is decided that there are no options to recover those balances, action will be taken to waive such balances under the Financial Regulation 113 and the Public Finance Department had taken action to waive Rs.2.68 million during the years 2015,2016 and 2017. Accordingly, an increasing tendancy for such waiving was observed in audit and its considerable increase could be observed in the year 2016. The Public Finance Department had waived loan balances of Rs.0.66 of the Advances to Public Officers Acounts relevant to 5 institutions in the year 2017, as well.

(iii) As had been revealed in the examination of 27 Advances to Public Officers Acounts selected on sample basis, loan balance of Rs.253.73 million due from the officers who had been transferred, interdicted or who had vacated the service or died could not be recovered even by the date of audit. In terms of Paragraph 04 (b) of the Fiacal Policy Circular No.01/2015 dated 20 July 2015, the Revenue Accounting Officer is required to take prompt actions to recover the revenue in arrears and prevent further accumulation of revenue in arrears. Nevertheless, it was observed that an approprisate measure had not been taken in respect of the recovery of interests relevant to these loan balances.

(d) <u>Revenue Code 20.03.01.00 – Sales and Charges- Sales of the Department</u>

Two institutions had collected revenue to this revenue account comprising 39 per cent and 35 per cent of the total revenue respectively. The relevant Revenue Accounting Officer had not maintained any information in relation to the administration of such reneue. The Audit had been informed that the responsibility in that respect had been entrusted with the Headds of the Departments involving in collection of revenue, by the Fiacal Policy Circular No.01/2015 (v) dated 20 July 2016. Nevertheless, it was revealed in audit that the above responsibility had not been properly upheld by the Headds of the Departments involving in the collection of revenue. Necessity for strengthening functions of the Revenue Accounting Officers including supervision and regulation with respect to optimum collection of such revenue and thereby increasing the Government Revenue is emphasized.

(e) <u>Revenue Code 20.03.02.99 – Salse and Charges-Administrative Charges and Payments - Sundry</u>

In terms of Paragraph 04 (b) of the Fiacal Policy Circular No.01/2015 dated 20 July 2015, prompt actions should be taken to prevent further accumulation of revenue in arrears. Nevertheless, spedicious action had not been taken to recover the revenue in arrears totalling Rs.0.96 million pertaining to the years 2014 and 2015 and Rs.0.04 million relating to the preceding year and credit to the Government Revenue.

(f) <u>Revenue Code 20.03.03.02 –Salse and Charges-Fines and Confiscations</u>

The following observations are made.

(i) Of the collected net revenue totalling Rs.1,507 million, a sum of Rs.1,072 million or 71 per cent had been received from the Ministry of Justice. Although the Department of Treasury Operation had acted as the Revenue Officer in respect of this account, more than 225 accounts units had involved in the collection of revenue. In terms of the instructions stipulated in the Fiacal Policy Circular No.01/2015 (v) dated 31 December 2016, the Revenue Officer should directly supervise and keep account books relating to all these revenue. Nevertheless, it is being impracticable, notification had been made in terms of Paragraphs (a)-(c) of the Circular No.01/2015 dated 20 July 2015 to the effect that the relevant task should be carried out by the Revenue Accounting Officers. Accordingly, either the documents or the details on revenue administration relating to 71 per cent of these revenue were not available in the Department of Treasury Operations.

(ii) Revenue amounting to Rs.411.80 million or 27 per cent of the total net revenue had been received under the Revenue Head of the Department of Treasury Operations during the year under review and that revenue was applicable to the confiscations.

(iii) According to the financial statements, 2017 of the National Lottery Board, the value of forfeited prizes amounted to Rs.339.07 million and as aresult of accounting Government Revenue on cash basis, forfeited prizes amounting to Rs.82.49 million relating to the period from 01 October 2016 to 31 December 2016 had been included therein.

(iv) According to the information furnished to Audit, repayment from the revenue stood at Rs.1,253.77 million and it had been 83 per cent of the total revenue of Rs.1,506.98 million. Ninety nine per cent of such repayments had represented correction of errors. Nevertheless, information relating to the issuance of necessary instructions for the minimization of such errors and the future action taken thereon by the Revenue Accounting Officer had not been made available to Audit.

(g) Revenue Code 20.03.05.00 –Treasury Bonds Surcharges

The following observations are made.

(i) Although Government Revenue had been recognized on cash basis as informed by the Fiscal Policy Department, since surcharge revenue on the Treasury Bonds had been diferred during the relevant period, action had not been taken according to the cash basis with respect to this revenue.

(ii) Although the original estimate amounting to Rs.1,000 million for the year under review had been revised to be Rs.1 million, it had been erroneously stated as Rs.0.5 million in the Revenue Account.

(iii) The total net revenue collected stood at Rs.7.25 million thus representing 0.7 per cent of the original estimate and 725 per cent of the correct revised revenue estimate. In terms of Paragraph 0.3 of the Fiscal Policy Circular No.01/2015 dated 20 July 2015, it is of paramount importance to make correct forcasts on revenue in order to determine the Government expenditure to take correct policy decisions. Nevertheless, it was observed to audit by the existence of considerable variances that the above objectives had not been achived.

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

The following observations are made.

(i) A sum of Rs.13,511.78 million had been received as revenue relating to this Revenue Account and a sum of Rs.111.80 million and Rs.505.15 million had been recognized as repayments and the debit relating to correction of errors respectively. Accordingly, sums totalling Rs.616.95 million had been repaid from the revenue and therefore, total net revnue had been Rs.12,894.83 million.

(ii) In terms of Financial Regulation 128 (2) (d), the Revenue Accounting Officer should have made adequate arrangement to ensure that returns are obtained from other departments and offices in which any portions of the Revenue for which he is responsible are collected and incorporate the matters included therein in the Estimates of Revenue. Nevertheless, the Fiscal Policy Circular No.01/2015 (v) dated 30 December 2016 had stated that the Heads of the Departments and institutions are required to keep the aforementioned responsibility.

Therefore, owing to lack of necessary docments for the audit of Revenue Account in the Department of Treasury Operations, two institutions that had collected revenue relating to above Revenue Accounts were selected on sample basis and carried out audit test checks theron in June 2018. The following observations are made in that respect.

- Although the responsibility as the Revenue Accounting Officer had been assigned to the heads of Ministries/Departments and other institutions, any written instruction other than the Fiscal Policy Circular No.01/2015 dated 20 December 2015 had not been given on revenue administration.
- Written instructions had also not been issued to the units involved in the collection of such revenue.
- Some instances were revealed in audit that the Revenue Accounting Officer and the Heads of Departments involed in the collection of revenue had not adequately fulfilled their responsibilities regarding the revenue in terms of Fiscal Policy Circular No.01/2015 dated 20 December 2015.

(iii) Following observations are made regarding the matters revealed at the audit test checks carried out on the collection of revenue of each Department mentioned below.

- Crops plants had been issued under the Export Agriculture Crops Cultivation programme under the Export Agriculture Department and 50 per cent of the quoted price of those plants should be borne by the cultivators. A new Revenue Code had not been received thereon from the Fiscal Policy Department even by June 2018. Further, it was observed that the Revenue Accounting Officer or Heads of Departments involed in the collection of revenue had not considerably carried out supervision or follow up as to whether the collection and accounting of relevant revenue had properly carried out. Even though the Director General had stated that these audit observations were not directly applicable to the Department of Treasury Operations, it was observed that the mediation of that Department in connection with the collection of revenue was further needed as the

Department that had been assigned the task of supervising the General Treasury. The following matters were observed at the audit test check carried out in this connection.

- Although money had been deposited, distribution of these plants had been carried out only upon the provisions annually made under the Object No.289-2-1-2202 and as such, a sum of Rs.3.04 million received by 31 December 2017 had not been stated under the relevant revenue account.
- According to the financial statements last prepared for the months of March, 2018 of the new bank account opened by the Department in the year 2018 to credit this revenue, there were unidentified receipts of Rs.2.25 million which had not been brought to account.

- The Department of Animal Production and Health was collecting revenue from 40 revenue units. Although the deposits that became lapsed for not claiming within 2 years from the date of deposit should be credited to the Government Revenue in terms of Financial Regulations 570 and 571, action had not so been taken with respect to balances of Rs.4 million existed in 4 deposits maintained by the Department. Similarly, the reates charged for the issue of licences under the Animal Feed Act remain unchanged over a period ranging from 4 years to 11 years.

(iv) As revealed in audit, revenue amounting to Rs.1.2 million earned through the provision of facilities for the external training programme conducted at the Leadership Development National Centre, Ambilipitiya functioning under the Ministry of National Policies and Economic Affairs had not been credited to the above revenue account and that amount had been retained in the General Deposit Account in order to incur expenditure of such programme, whereas formal approval had not been obtained for that purpose.

(i) Revenue Code 20.05.99.00 – Current Transfers – National Lotteries Board and Other Transfers

The following observations are made.

(i) Since Government Revenue had been accounted on cash basis, net revenue of Rs.19.62 million received in the year 2017 had not been brought to account as revenue of the year under review. Herein, revenue of the year 2016 had been accounted as revenue of the year under review while the revenue of the year 2017 had been accounted as revenue of the year 2018.

(ii) Sales income of Rs. 461.45 million had been earned from the *Sewana-Pasive* and *Supiri Govisetha* lotteries in the year 2016 from which no sales income had been earned in the year 2017. It was observed that the total sales income of the year 2017 had dropped by Rs.3,423.24 million or 20 per cent as compared with the year 2016. Even though the Director General had stated that these audit observations were not directly applicable to the Department of Treasury Operations, it was observed that the mediation of that Department in connection with the collection of revenue was further needed as the Department that had been assigned the task of supervising the General Treasury.

(iii) Approval of the Cabinet had been granted to initiate a health development lottery 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. The contribution of the lottery which remained at 15 per cent of the sale up to the year 2007 had 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 as compared with the year 2012, the contribution of the *Jathika Sampatha* Lottery to the Health Development Fund, remained unchanged as being 10 per cent. Acccordingly, the funds that the Health Development Fund had been deprived of throughout the period from 2012 up to December 2017, amounted to Rs. 180 million.

(iv) In order to make provisions for the welfare projects being implemented by the Ranaviru Seva Authority for the sake of disabled war heroes and their dependents, a contribution of 30 per cent from the income of the *Jayaviru* Lottery had been made at the inception of the Authority. From the month of March 2011, the name *Jayviru*, had been renamed as *Supiri Vasana Sampatha*, and according to the file presented to audit, 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. Accordingly, the *Ranaviru Seva* Authority had been deprived of an income amounting to Rs. 1,044 million during the period from December 2011 up to December 2017, whereas Department had not taken any step regarding the said less contribution even up to 06 February 2019.

(v) A contribution of 5 per cent from the income of the *Supiri Wasana Sampatha* Lottery had been made to the National Fund for the Disabled, and at the Cabinet meeting held on 04 August 2010, approval had been granted to increase the said percentage from 5 per cent up to 8.25 per cent. Nevertheless, that decision had not been implemented even up to 06 February 2019.

(vi) Ten per cent of the income from the *Supiri Wasana Sampatha* Lottery, had been credited to the National Sports Fund through the Consolidated Fund and the said percentage of contribution had been decreased to 5 per cent with effect from July 2013.

(vii) Income totalling Rs. 3,097 million received in the year from 04 lotteries in the year 2017, had not been made use of in respect of the objectives for conducting the relevant lotteries.

(viii) Since sales income had not been reported from 05 lotteries within a period from 06 to 11 months in the year 2017, the percentage of the contributions made from those lotteries to the expected objectives had been decreased.

(ix) 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 Department provide those funds for miscellaneous funds for the achievement of their objectives subject to making provions annually. Decreasing the percentage causes the contribution made by the lottery to the relevant funds/institutions to also decline, thus observing that achieving the relevant objectives would become difficult.

(j) Revenue Code 20.06.02.00 – Sale of Capital Assets

The following observations are made.

(i) Revenue amounting to Rs.190 million had been received relating to this Revenue Acount of which a sum of Rs.42.24 million or 22 per cent represented the debits pertaining to the correction of errors.

(ii) A Jeep that had been imported free of duty and transferred to the Ministry of Postal and Telecommunication had been disposed of on 30 August 2016. At the time of transfer, a shortcoming was found in the registration certificate and as such, trasnsfer had been rejected and the matter had been referred to the Department of Sri Lanka Customs for the recovery of duty. Therefore, the party that had purchaded the vehicle had been paid the sum of Rs.3.73 million spent for the purchase of the relevant vehicle. Accordingly, it was observed in audit that there were lapses of the procedure adopted relating to the sale of capital assets. It was observed that the mediation of that Department in connection with the collection of revenue was further needed as the Department that had been assigned the task of supervising the General Treasury.

(iii) In terms of Section 02 of the Assets Management Circular No.01/2018 dated 19 March 2018, instructions with regard to the disposal of Government vehicles had been given by the State Finance Circular No.02/2015 dated 10 July 2015. There were 7723 unroadworthy vehicles even by then. Nevertheless, the Revenue Accouting Officer had not taken necessary future actions to dispose of those vahices and credit the money to the Consolidated Fund.

(iv) Although a Comptroller General Office had been established in the Line Ministry for the formulation and maintenance of database on all the assets belonging to the Government and collection and analysis of information for the management of Government assets, even that office had not initiated a methodology for the sale of assets and collection of revenue relevant thereto even by 30 July 2019.

(k) Revenue Code 20.06.04.00 – Recovery of Loans

(i) The following matters were observed in the examination of several files selected on sample basis relating to each loan balance included in the total on-lending of Rs.181,367.52 existed by the end of the year under review.

- The Department had given loan totalled Rs.773.34 million comprising Rs.550.99 million and Rs. 222.35 million to the Sri Lanka Rubber Production and Export Corporation in the year 1999 and 2000 respectively, whereas it had not been possible to recover that loan amount even by the end of the year 2017. In connection with settling the liabilities therein, the Director General of the Department of Public Enterprises had informed the Corporation to take steps to recover the payment due from the monthly lease received by the State Resources Management Corporation. Nevertheless, any step thereon had not been taken during the year under review.
- Of the sum of Rs.11.11 million granted to the Sanasa Asssociation in the year 1992 to provide for the people with low income, any amount had not been receovered during the year under review.
- The Department had failed to recover the loan amounting to Rs.116 million granted to Ceylon Fisheries Corporation in 03 instances, even by the end of the year 2017. Herein, any amount of the loans granted in 02 instances had not been recovered and recoveries from the remaining loan had not been made after the year 2010.
- It had been stated in the Outstanding Revenue Report that at the meeting held under the patronage of the Deputy Secretary to the Treasury on 03 October 2017, the Ceylon Fisheries Corporation had been notified to take action to activate this loan by paying a part of the outstanding loan amount and constant follow up actions would be taken on the progress of the steps taken for the settlement of outsanding amount. Nevertheless, it was observed in audit that any progress had not been achieve in that connection.
- Out of the interest free loan amounting to Rs. 50 million granted to the National Paper Company, no amount whatsoever had been recovered even by 31 December 2017. Although it had been stated in the Outstanding Revenue Report that the Director General of the Department of Public Enterprises had informed the Company to settle the relevant loan either by selling the assets belonging to the Company or giving propertoes and assets on long term lease in a manner receiving the rent by the Government, no step whatsoever had been taken thereon even by the end of the year under review.
- Of the interest free loan amounting to Rs. 9.40 million granted to the Lanka Ceramic Corporation, a sum of Rs. 8.68 million remained unrecovered even up to the end of the year under review. Even though the Department of Public Enterprises had informed the Lanka Ceramic Corporation to restructure the Corporation and take steps to settle the above loan , according to the files made available to Audit, no future steps whatsoever had been taken thereon.
- Of the loan amounting to Rs. 1,333.99 million granted to the Sarvodaya Economic Enterprise Development Services (Guarantee) Limited in respect of the Renewable Energy for Rural Economic Development Project (RERED) project, Department had failed to recover Rs.563.02 million even by 31 December 2017.
- 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 on lending in respect of Municipal Council and Urban Council projects. Out of the above loan, a sum of Rs.275.58 million remained recoverable by 31 December 2017. At the meeting held under the patronage of the Deputy Secretary to the Treasury in connection with the recovery of this outstanding loan, it was decided to write off that outstanding loan amount under the Cabinet approval, whereas those activities had not been completed even by the end of the year under review.

- Of the loan granted to the National Livestock Development Board, a sum of Rs.1,861.60 million remained recoverable as at 31 December 2017.
- Of the on lending 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. 2,549.58 million remained outstanding by the end of the year 2017.
- Although it had been informed to Audit in the preceding year that legal actions had been instituted for the recovery of arrears of revenue receivable as at 31 December 2007 from the relevant institutions, no progress had been achieved relating to the recovery of arrears even by the end of the year under review.

(ii) A difference of Rs.6,108.56 million was observed between the On-Lending granted in the year 2017 and the expenditure incurred under the Object No.2302 (On-Lending) in the year 2017.

(iii) An unfavourable difference of Rs.422.71 million relating to 14 on-lending agreements and favourable difference of Rs.237.77 million relating to 04 on-lending agreements was observed between the Treasury books and balance confirmations as at 31 December 2017.

(v) On-lending totalling Rs.7,489 million comprising Rs.4,989.90 million granted in the years 2015 and 2016 and Rs.2,500 million granted in the year 2017 to the Ministry of National Policies and Economic Affairs under Object No.2302 to settle the payments of Golden Key depositors had not been accounted as on-lending. The relevant parties had been informed to enter into an on-lending agreement in respect of these transactions and accordingly, the Department had informed the Audit that action would be taken to account this loan as on-lending following the receipt of the relevant on-lending agreement.

(l) Revenue Code 30.01.01.00 – Foreign Grants

The following observations are made.

(i) In terms of Chapter XI of the Financial Regulations as amended by the State Finance Circular No.30/34 dated 20 April 1994, all negotiations forforeign aid should be conducted by the Director-General of the External Resources Department and the responsibility of recording, accounting, and properly using of all foreign aid grants received/ obtained by the entity in accordance with Financial Regulations 124,127 and 128 had been entrusted to the Chief Accounting Officers and Accounting Officers of the Ministries/ Departments. However, all parties had been apprised on the above matter, whereas the External Resources Department had informed the

Audit that there were instances where the above matter had not been complied with and the Department lacked written information thereon. It was observed that the mediation of that Department in connection with the collection of revenue as the Department that had been assigned the task of supervising the General Treasury was of importance.

(ii) As a methodology had not been introduced to substantiate whether the outside Ministries/Departments had been received such aid by the relevant Accounting Officer, it was not established in Audit that all the grants relating to this revenue code had been accounted in this account.

(iii) A sum of Rs.8.96 million received as grants at the beginning of the year under review had been retained in 03 General Deposit Accounts and that moneys had been so retained even by the end of the year under review without being used for the relevant purpose.

(iv) A sum of Rs.1.25 million received as grants had been credited to the Government Revenue without being used for the relevant purpose.

(v) 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. 14.87 million so received in respect of 11 projects had been remitted back to the donors in the year under review at the request of the Ministry/Departments executing those projects.

2.7 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**
Rs. Millions	**Rs. Millions**	**Rs. Millions**	**Rs. Millions**	**Rs. Millions**	**Rs. Millions**
8.00	7.95	4.20	4.44	24.50	19.98

2.8 General Deposit Account

Action had not been taken even by 31 December 2017 to settle the debit balance of Rs.35.12 million continued to exist in a General Deposit Account from the year 1990.

2.9 Human Resource Management

Attached Cadre, Actual Cadre, and Expenditure on Personnel Emoluments

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Particulars on the approved, actual, and vacant cadre for the execution of duties specified in Paragraph 2.1 above were as follows. The Department had spent a sum of Rs. 67 million for the year under review on personnel emoluments. Accordingly, per capita expenditure had been Rs.621,339.

	Category of Employees	Approved Cadre	Actual Cadre	No. of Vacancies
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(i)	Senior Level	24	18	6
(ii)	Tertiary Level	01	01	-
(iii)	Secondary Level	82	69	13
(iv)	Primary Level	20	20	-
	Total	----------	-----------	-----------
		127	108	19
		======	======	======

(a) Subject to the covering approval of the Public Service Commission, the Secretary to the Ministry of Finance and Planning had appointed an officer to the post of Additional Director General on acting basis from 19 February 2013. The Accountants Service Division of the Ministry of Public Administration and Management had extended the period of above acting appointment from 01 January 2017 to 31 December 2017 and in September 2018, the Public Service Commission had approved the above appointment as a fulltime acting appointment only for the period from 01 January 2018 to 31 December 2018.

(b) The total number of vacancies including 06 posts of the Senior Level stood at 19 as at 31 September 2017. In case the existence of such vacancies adversely affect the performanace of the Department, it is emphasized the requirement for filling such vacancies or revising the approved cadre. The Department had informed the Audit that according to the cadre review carried out by the Department of Management Services, the approved cadre of the

Department as at 31 October 2018 was 123 and accordingly there existed only 08 vacanceies for the time being.