

Head 250 – Department of State Accounts

1 Financial Statements

1.1 Unqualified Opinion

The audit of the financial statements of the Department of State Accounts for the year ended 31 December 2018 March comprising the statement of financial position as at 31 December 2018 and the statement of financial performance and cash flow statement for the year then ended, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. The summary report including my comment and observations on the financial statements of the Department of State Accounts was issued to the Accounting Officer on 30 May 2019 in terms of Section 11(1) of the National Audit Act, No. 19 of 2018. The Detailed Management Audit Report relating to the Department in terms of Section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Accounting Officer on 29 May 2019. This report will be tabled in Parliament in pursuance of provisions in Article 154(6) of the Constitution to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Department of State Accounts as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Unqualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Chief Accounting Officer and Accounting Officer for the Financial Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No. 19 of 2018 and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. As per Section 16(1) of the National Audit Act No. 19 of 2018, the Department is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

As per Sub-section 38 (1) (c) of the National Audit Act, the Accounting Officer shall ensure that effective internal control system for the financial control of the Department exists, and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, significant audit findings, any significant deficiencies in internal control and other matters that I identify during my audit.

1.5 Report on Other Legal and Regulatory Requirements

I express the following matters in accordance with Section 6 (d) of the National Audit Act, No. 19 of 2018.

- (a) Since there was no requirement to prepare financial statements for the preceding year, it could not be stated that the financial statements presented for the year under review were consistent with the preceding year.
- (b) Since there was no requirement for the Department of State Accounts to prepare financial statements for the preceding year, recommendations on the financial statements had not been presented.

2 Financial Review

2.1 Expenditure Management

Audit Observation	Recommendation	Comment of the Accounting Officer
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(a) The budget provision had been increased which ranging from 8 percent to 126 percent by supplementary allocations.	Necessary provisions should be made from annual budget estimates.	In addition to filling the cadre during the year 2018 and planned foreign training and workshops, it had to take additional provisions to participate officers for important workshops.
(b) The total provision of Rs. 400,000 of 02 objects provided from annual budget estimate had totally remained.	-Do-	The capital nature maintenance expenditure was not incurred since most of the staff officers used their personal vehicles instead of official vehicles.

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| (c) Excess provisions had been made for 04 objects and as such, the saving after the utilization of provisions ranged between 12 percent to 34 percent of the net provisions relating to the respective objects. | -Do- | The provisions were saved because of reduction in domestic travel expenses, cancelling the foreign travel of DIPPC course which conducted by the Miloda institute, using the personal vehicles instead of official vehicles by some officers, conducting training programmes on free of charge by Miloda and none conducting of training programmes in relation to payroll software. |
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2.2 Reconciliation Statement of Government Officers' Advance "B" Account

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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(a) The adequate steps had not been taken to recover loan balance of Rs. 164,953 of diseased officer comes from 09 years.	Adequate steps should be taken to recover loan balances.	Actions are being taken to recover loan balances with National Insurance Trust Fund.
(b) The steps had not been taken to recover loan balance of Rs. 132,846 of an officer who vacated in post coming from 05 years.	-Do-	A court case has been filed in relation to recover the balance.

2.3 Non -Commercial Advance Account

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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Miscellaneous Advance Account

The following observations are made on the balance of Rs.173,004,106 of Miscellaneous Advance Account as at 31 December 2018.

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| (a) Only nine percent of the loan balance of Rs. 173,599,852 as at 31 December 2017 had been recovered at the end of March 2019. | An adequate steps should be taken to recover outstanding loan balances. | Advices and assistance has been given to relevant organizations in order to recover outstanding balances by contacting directly with relevant institution and making follow up actions. |
| (b) Although several attempts had been taken to recover outstanding balances during the year 2017, the department had not taken such actions during the year under review and had taken steps only to write off the amount of Rs. 14,959,629. | -Do- | Because of the barriers arisen in contacting organizations which had been given sub imprests, there was no opportunity to have considerable progress in year 2018. |

- (c) According to recovery details of last 5 years of the account opened for Department of Agrarian Development in relation to the advances given to purchase paddy in year 2006, the outstanding balance as at 31 December 2018 was Rs. 10,766,151. Although, the facts had been presented that outstanding amounts could be recovered in the discussion held between Director General of State Accounts and Officers of Department of Agrarian Development, on 16 November 2017, no further steps had been taken in this regard.
- Do-
- Since, the Department of State Accounts could not be able to recover outstanding balances directly, it only acts as intermediary and make following up actions by giving instructions and assistance to the relevant institutions.
- (d) The amount recoverable from District Secretariat, Matale was Rs. 2,243,000 as at 31 December 2018 in relating to Multipurpose Co-operative Societies in Laggala. It was observed that, though this amount was being recovered by monthly installment of Rs. 5,000, it would take more than 37 years to recover the outstanding amount completely.
- Do-
- Since the Multipurpose Co-operative Society of the Laggala is facing with financial incapacibilities, it is informed that, it is difficult to recover materially.

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| (e) | It was observed that the recovering of outstanding amount of Rs. 36,553,853 from District Secretariat, Anuradhapura was slow. | -Do- | It is informed that the outstanding money could be recovered after receiving the judgment of the court cases which were filed against Agrarian Development Centres and Multi-purpose Corporative Societies. |
| (f) | Although Rs. 595,747 had been received during the year under review and Rs. 75,000 had been received up to March 2019 to settle the advances from three District Secretariats and Department of Agrarian Development, the further outstanding balance from those institution was Rs. 51,304,691. | -Do- | Advances amounted to Rs. 60,000, Rs. 330,000 and Rs. 198,420 have been settled by District Secretariats of Matale, Kandy and Anuradhapura in preceding year respectively and a sum of Rs. 7,267 has been settled by the department of Agrarian Development. |
| (g) | The outstanding advance balance of Rs. 55,927,666 receivable from District Secretariat, Polonnaruwa by March 2019 was 35 percent from the total advance to be settled at that date and no adequate further actions had been taken to recover that amount. | -Do- | The outstanding amount to be settled by District Secretariat, Polonnaruwa is Rs. 55,927,665. |
| (h) | No adequate action had been taken to recover the advances of | -Do- | A sum of Rs. 200,000 has been settled in March |

Rs. 681,800 given to purchase paddy in the year 2008 to District Secretariat, Batticaloa.

2019 by District Secretariat, Batticaloa with the effect of continuous follow up actions.

- (i) By the date of 31 December 2018, no actions had been taken to recover advance balance of Rs. 2,408,460 which had been given to the Director of General Hospital, Colombo in year 2002 in relation to cash robbery of the Dental Colombo -Do-

The Court case is hearing and wish to take necessary actions after the Court case.

2.4 Non-Compliance with Laws, Rules, Regulations

The following observations are made.

Observation

Reference to the Laws, Rules, Regulations -----	Non-Compliance -----	Recommendation -----	Comments of the Accounting officer -----
Public Finance Circular No 2016/05 dated 31 March 2016 Paragraph No. 03.3.1	After completing the board of survey for the year 2018, the relevant report had not been furnished to the audit before 17 March 2019.	Action should be taken in accordance with circular	Answers had not been provided.

3. Operational Review

3.1 Planning

The following observations are made

Audit observation	Recommendation	Comments of the Accounting officer
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The action plan of the Department for the year 2018 had not been prepared in comply with the particulars of the Public Finance Circular No. 2014/01, dated 17 February 2014.	The action plan should be prepared in compliance with the particulars of the circular.	The action plan of the year 2019 has been prepared by considering those facts in accordance with Public Finance Circular No. 2014/01

3.2 Non-achieving the Expected Output level

The following observations are made

Audit observation	Recommendation	Comments of the Accounting officer
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(a) According to the action plan for the year 2018, the opening and monitoring of general deposit accounts was a main function of the Department and the unsettled balance in such general deposit accounts as at 31 December 2018 was Rs. 76.86 billion. The following observations are made in this regard.		
(i) Although, the deposit account No. 6003 for District Secretariats was expected to be closed, the	The action should be taken to reach the expected outcome.	The debit balances will be settled according to the committee report presented by the Colombo district secretariat with regard to debit

total debit balances relating to four accounts were Rs. 10,674,858 as at 31 December 2018.

balances.

- (ii) Although the information has been provided that which kind of deposit accounts could be maintained by State Accounts Circular No. 2015/243, dated 24 June 2015, the total debit balances of Rs. 940,723 exists in the 6000/3 and 6000/286 deposit accounts excluded within that circular.
- The action should be taken in accordance with circular.
- The actions are being taken to settle this balance by discussing with the relevant Ministry related to the scope at present.
- (b) As revealed in test of sampling, the total unrecovered balance of advance "B" accounts relating to 62 institutions continuing from the number of years relevant to the officers who retired, deceased and vacated their posts was Rs. 301,148,736.
- The actions should be taken to reach the expected outcome through the main function of the department.
- In addition to the issuing of Circular No. 2017/262, dated 29 December 2017 by the Department, necessary instructions have been given to all ministries/ departments for further actions to be taken regarding the outstanding loan balances more than five years.