

Head 238 – Department of Fiscal Policy

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Department of Fiscal Policy for the year ended 31 December 2018 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 comments and observations on the financial statements of Department of Fiscal Policy was issued to the Accounting Officer on 31 May 2019 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. As per Section 11 (2) of the Audit Act, the Detailed Annual Management Audit Report related to the Department of Fiscal Policy was issued to the Accounting Officer on 31 May 2019. This report will be tabled in Parliament in pursuance of Provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Department as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). 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

Chief Accounting Officer and 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 Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Sub-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 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 Responsibility 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 the summary report of the Auditor General 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, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5. Report on Other Legal Requirements

I express the following matters in accordance with Section 6 (d) and Section 38 of National Audit Act, No. 19 of 2018.

- (a) Since there was no need for the Department of Fiscal Policy 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 Fiscal Policy to prepare financial statements for the preceding year, recommendations on the financial statements had not been made.

1.6 Comments on the Financial Statements

1.6.1 Noncompliance of Financial Statements with Provisions of Circulars

Even though financial statements have to be prepared in terms of the State Accounts Circular No.267/2018 of 21 November 2018, an instance of non-compliance is mentioned below.

Audit Observation	Recommendation	Comments of Accounting Officer
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Action had not been taken to identify and to reconcile the difference of Rs. 10,226,463 existed among the values of 03 items of assets in accordance with the Assets Register as at 31 December 2017 as per the CIGAS Programme and the Assets Register presented along with the financial statements as at 01 January 2018.	Taking action to identify and reconcile the difference in those balances.	Agreed with your observation. In recording a receipt from another institution during the year other than a new purchase of non-current assets, it is recorded as an opening balance through the CIGAS Programme. Therefore, the balance of the CIGAS Programme as at 31 December 2017 and the balance of the account as at 01 January 2018 show such a difference.

2. Financial Review

2.1 Imprest Management

The following observations are made.

Audit Observation	Recommendation	Comments of Accounting Officer
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It had been scheduled to request imprest amounting to Rs. 4071.68 million during the year 2018 and an amount of Rs. 89.91 had been requested. However, the General Treasury had issued only an amount of Rs. 61.41.	Action should be taken to properly plan the imprest and to effectively manage imprest.	The amount of Rs. 4 billion had been allocated to be paid to Prima Ceylon (Pvt.) Ltd. and it was not possible to pay this amount as Agreements have not yet been signed with the Prima Ceylon (Pvt.) Ltd.

2.2 Income Management

The following observations are made.

Audit Observation	Recommendation	Comments of Accounting Officer
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Revenue Code and Description of Revenue Code – 10.02.10.00 – Social Responsibility Tax		

(a) An amount of Rs. 64,802,267 related to the aforesaid Revenue Account as at 31 December 2018 remained arrears and it was observed that a balance of Rs. 63,012,706 that had exceeded 05 years remained within this balance.	In terms of the FR 128 (e) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka, special provisions should be implemented to promptly collect dues to Government.	This Social Responsibility Tax was stopped in the year 2011 and only the dues of the tax to be paid are being collected at present.

(b) In terms of the FR 128 (e) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka, adequate information had not been presented to audit that Provisions had been made to promptly collect dues to the Government by inquiring the Accounting Officers and Departments who collect the State income.

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In considering the schedule related to these dues, all the values were related to very old institutions and arrangements are being made by the Customs Department and Excise Department to collect such dues.

2.3 Expenditure Management

The following observations are made.

Audit Observation	Recommendation	Comments of Accounting Officer
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(a) An expenditure of Rs. 845,395 had been incurred for the payment of incidental allowances for a foreign tour and for the payment of air tickets from one object inapplicably prior to getting the approval for transferring subject to FR 66.	Action should be taken to pay from the relevant Objects after getting the due approval for transfers subject to FR 66.	The expenditure had been incurred after discussing with the National Budget Department since provisions allocated in the Head of Expenditure on foreign tour expenses and then, requests had been made to get the approval subject to FR 66.
(b) Provisions of 03 Recurrent Objects had been deducted from 02 per cent to 30 per cent and the provisions of 05 Objects had been increased from 07 per cent to 146 per cent during the year 2018 under Provisions stipulated in FR 66-69.	Necessary steps should be taken to prepare annual estimates realistically and effectively.	Provisions have been transferred by considering the additional requirement of provisions and savings for each Object.
(c) Even though Provisions of Rs.4.08 billion had been allocated for overall recurrent expenditure in the year 2018, the savings of provisions had been	Necessary steps should be taken to prepare annual estimates realistically and effectively.	Agreed with your observation.

99 per cent out of the net provisions.

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| <p>(d) Even though the amount of Rs.4 billion that had to be paid to the Prima Ceylon (Private) Ltd. had been included in the recurrent provisions, The arbitration issue with that institution had not been settled even by 31 December 2018.</p> | <p>Action should be taken to expeditiously settle the relevant issue.</p> | <p>The Government had agreed to pay an amount of USD 55 million to the Prima Ceylon (Pvt) Limited in the International Arbitration and the amount could not be paid as agreements had not been signed with the institution.</p> |
| <p>(e) Provisions amounting to Rs. 1,600,000 had been allocated for capital expenditure in the year 2018 and Fifty five (55) per cent of net provisions had been saved out of the provisions.</p> | <p>Necessary steps should be taken to prepare annual estimates in realistic and effective manner.</p> | <p>Some purchased were not done as scheduled and it was the reason for that.</p> |

2.4. Incurring of Liabilities and Commitments

 The following observations are made.

Audit Observation

Recommendation

Comments of Accounting Officer

 In terms of FR 94 (i) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka and Section 6.4 of the National Budget Circular 01/2014 of 01 January 2014, it should be confirmed that adequate provisions for the purpose are available within the relevant Objects prior to making commitments for liabilities. However, liabilities amounting to Rs. 88,723 had been incurred for 03 Objects without functioning in that way during the year 2018.

 In terms of the relevant Financial Regulation and the Circular, incurring of commitments should be done after confirming that adequate provisions are available for the purpose within the relevant Objects.

 In considering total recurrent provisions of this Department, provisions could be transferred if payment for expenses stated in the audit query had been made during the month of December. Accordingly, it can be observed that provisions are adequate.

2.5 Non-compliance with Laws, Rules and Regulations

 The following observation is made.

Audit Observation	Recommendation	Comments of Accounting Officer
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Reference to Laws, Rules and Regulations	Non -Compliance	
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FR 756 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka and Paragraph 3.1.5 of the Public Finance Circular No. 05/2016 of 31 March 2016.	Recommendations indicated in the survey report provided after completing the survey of goods had not been implemented even by 19 April 2018.	Action should be taken expeditiously on the recommendations indicated in the goods survey report in terms of the Financial Regulations and Circulars.
		Noted down to finalize the goods survey report in the ensuing year as per the Circular.

3. Operational Review

3.1 Non-accomplishment of Roles

 The following observations are made.

Audit Observation	Recommendation	Comments of Accounting Officer
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(a) A favourable variation of 20 per cent to 2036 per cent and unfavourable variation of 21 per cent to 70 per cent could be observed between basic income estimate of the year under review and actual income collected within the year as income estimates had not been reviewed and analysed systematically in the preparation of income estimates by	Income estimates should be prepared accurately by focusing attention to FR 50.	Reasons such as Macro-economic assumptions which were considered as the basis for the preparation of estimates and the effect of the variation among its actual values and non-implementation of the amendment made to the new Income Tax in the expected manner were the major factors that had created the variation

the Department.

(b) Even though monthly reports should be presented using Form No. 1 on or before 10 day of the succeeding month in terms of Paragraph 07 of the Circular No. 01.2002 of 17 July 2002, the Department had not functioned in that way pertaining to the reports that should be submitted by this Department to the Customs Department and Excise Department.

Action should be taken by the Department to submit monthly reports in accordance with the relevant Circulars.

between actual income and the expected income.

A letter had been referred to all the Revenue Accounting Officers and it had been inquired about the action that has already been taken to recover the dues stated in the audit query mentioned in relation to the Excise Department.

4. Accomplishment of Sustainable Developmental Goals

Audit Observation

Information had not been presented to audit that the Department had implemented required action even by the year 2019 for the identification of goals and indexes of the Department and for the accomplishment of the goals by prioritizing the sustainable developmental goals and indexes under such goals.

Recommendation

Action should be taken to prepare relevant plans by focusing attention to sustainable developmental goals that can be accomplished and make arrangements to accomplish such goals.

Comments of Accounting Officer

Action is taken by this Department to accomplish 3 sustainable developmental goals through the Action Plan for the year 2019.