

Head 102 – Ministry of Finance, Economy and Policy Development

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Ministry of Finance, Economy and Policy Development for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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. In terms of Sub-section 11(1) of the National Audit Act, No.19 of 2018, the summary report including my comments and observations on the financial statements of the Ministry of Finance and Mass Media was issued to the Chief Accounting Officer on 08 June 2020. In terms of Sub-section 11(2) of the National Audit Act, the Annual Detailed Management Audit Report relating to the Ministry was issued on 09 September 2020 to the Chief Accounting Officer. This report which should be read in conjunction with Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka is submitted to Parliament in terms of Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, the accompanying financial statements prepared in accordance with the provisions of the State Accounts Circular No. 271/2019 dated 03 December 2019 give a true and fair view of the financial position of the Ministry of Finance, Economy and Policy Development as at 31 December 2019 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 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 opinion.

1.3 Responsibilities of Chief Accounting Officer for the Financial Statements

Chief Accounting Officer is 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 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 Ministry 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 Chief Accounting Officer shall ensure that effective internal control system for the financial control of the Ministry 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 General'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 skepticism 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 Ministry'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 structure and content of the financial statements containing the disclosures and the transactions and events that underlie the financial statements in an appropriate and reasonable manner.

I communicate with the Chief 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

As required by Sub-section 6 (1)(d) of the National Audit Act, No.19 of 2018, I state the followings.

- (a) That the financial statements are consistent with the preceding year,
- (b) The recommendations made by me on the financial statements furnished in the previous year had been executed.

2. Financial Review

2.1 Imprest Management

The following observations are made.

Audit observation	Recommendation	Comments of the Chief Accounting Officer
-----	-----	-----
(a) Although the accumulated Imprest amount to be applied for as planned for the year 2019 was Rs.5,893 million, an amount totalling Rs.2,285 million or 39 per cent had been applied less than the Imprest planned due to applying Rs.3,608 million only out of it.	The requirement to act to perform the relevant functions by obtaining Imprest as planned.	Lack of expected performance from projects and the restriction of capital expenditure through budget circulars had led to a decline in applying Imprest.
(b) Although amount totalling Rs.3,608 million as Imprest had been applied by the Ministry during the year 2019 for performing the related functions as planned, a sum totalling Rs.985 million or 27 per cent less than the Imprest requested had received due to an amount totalling Rs.2,623 million only had been given by the Treasury.	-do-	Agree with observation

2.2 Expenditure Management

The following observations are made.

Audit observation -----	Recommendation -----	Comments of the Chief Accounting Officer -----
(a) The total net provision totalling Rs.7,805,000 provided for 16 expenditure items were saved.	The requirement to act to make efficient use of provisions	Expenditures had not arrived as planned.
(b) Out of the total net provision of Rs.2,936,980,000 provided for 24 expenditure items under the Expenditure Head, a total of Rs.2,164,074,011 were saved. It was observed that the savings ranged from 50 per cent to 99 per cent of the net provisions related to expenditure items.	Necessary action should be taken to utilize the provisions efficiently and need to take action to obtain the imprest.	Ministry Reforms during the year, limitation of expenditure through Budget Circulars and failure to receive imprests as required were effected to underutilize of provisions.
(c) Although estimate provisions totalling Rs.52,000,000 were provided for incurring capital expenditure to 03 public institutions under expenditure Head, the total provision of Rs.48,177,270 or 93 per cent had saved at the end of the year under review due to the poor progress of those institutions in utilizing those provisions.	The requirement to act to make efficient use of provisions.	Agree with observations.
(d) According to an order issued by the Supreme Court in 2015, although the supplementary provisions of Rs.1,055,000,000 had been made in 2019 to compensate the depositors of the financial institutions, the sum of Rs.355,100,000 out of that provision or 34 per cent of the net provision were saved without being unused.	The requirement of obtaining imprest as planned and act to make efficient use of the provisions.	This was due to the non-receipt of sufficient imprest as needed from the Treasury.

2.3 Issue and Settlement of Advances

Audit observation	Recommendation	Comments of the Chief Accounting Officer
The total loan arrears of public officers more than one year as at 31 December 2019 was Rs.920,110.	The necessity to pay attention to taking future actions without delay by look into matters related to loan arrears.	Loans that couldn't be recovered as per Finance Regulation 113 had been referred to the Department of Public Finance for approval for a waiver and regarding the loan outstanding of two officers had been referred to the Attorney General's Department for instructions to recover the loans. Arrangements had been made to recover the remaining loan balances.

3. Operating Review

3.1 Delays in Executing Projects

Audit observation	Recommendation	Comments of the Chief Accounting Officer
Although an amount totalling Rs.1,894,600,000 had been provided during the year 2019 for 07 projects implementing by domestic funds/foreign funds/grants under Ministry, the provision totalling Rs.1,364,677,667 or 72 per had saved due to non-commencement of one project and slow performance of the remaining 06 projects.	The requirement to make efficient use of provisions to achieve project objectives.	During the year 2019, the non-commencement of one project under the Ministry and the non-submitting of expenditure to the expected level for the remaining six projects had mainly affected to this.

3.2 Delays in Performing Activities

The Tax Appeals Commission was established by the Tax Appeals Commission Act No. 23 of 2011 and anyone who is dissatisfied with any decision given by the Commissioner General of Inland Revenue on any matter relating to any tax, fee or penalty may appeal to the Commission. Such appeals should be examined and determined by the Appeals Commission. Accordingly, the following matters were observed in relation to the appeals submitted to the Commission from 2011 to 31 December 2019 and their decisions.

Audit observation	Recommendation	Comments of the Chief Accounting Officer
(a) According to the information provided to the audit, the Commission received about 923 tax appeals from 2011 to 31 December 2019 and out of these, only 385 appeals had been heard and decisions were given as at 31 December 2019.	The requirement to expedite the activities of hearing of tax appeals.	Agree with observations.
(b) It took 365 days to 2,920 days to give decisions for 385 appeals that were heard and decided.	-do-	Only one (01) committee had prevailed from 2011 to March 2019.
(c) Although there were appeals received to the Appeals Commission from 2016 to 31 December 2019 and commence the hearings, 177 appeals with controversial taxes and fines amounted to Rs.24,699,101,553 had prevailed without giving the decisions even as at end of the year.	-do-	-do-
(d) There were 361 tax appeals without commence hearing as at 31 December 2019 out of the appeals received to the Appeals Commission as at 31 December 2019.	-do-	-do-
(e) According to the Section 4.1 (a) of the Tax Appeals Commission Amendment Act No. 20 of 2013, it was specified that a non-refundable amount equivalent to 10 per cent should be paid into a special imprest account opened and maintained by the Commission for the specific purpose. Accordingly, it was observed that a total amount of Rs.63,084,563 equaling 10 percent	The requirement to take action to bring the 10 percent non-refundable deposit into government revenue in a timely manner	It will be held in an independent account until finish the hearing.

non-refundable cash deposit charged in accepting tax appeals to the Commission in 21 instances were held in General Deposit Account without remitting to the Island Revenue Department until giving decision by hearing the tax appeals.

3.3 Procurements

 The following observations are made.

(a) Printing of the Budget Speech 2019

A sum totalling Rs.22,865,875 had been spent by the Ministry of Finance as Rs.22,755,027 (including taxes) to print 1000 copies of the Budget speech to be presented to the Parliament on 05 March 2019 in three languages of Sinhala, Tamil and English and Rs.110,848 (including taxes) for the supply of 300 CDs with data storage and 200 CDs without data storage. The following observations are made in this connection.

Audit observation -----	Recommendation -----	Comments of the Chief Accounting Officer -----
(i) According to Sections 4.3.1 (a) and 4.3.2 of the National Procurement Guidelines 2006, a Total Cost Estimate including all associated costs should be prepared by the procurement entity and sanctioned by the relevant authority. However, before bidding for the above book printing, it was agreed with the price furnished by the contractor without preparing a cost estimate.	The requirement to act to prepare estimates.	Preparing estimates are difficult in practice, as decisions about the contents of the budget speech, the number of pages, the paper used, the printing materials and the number of printed copies are often decided at the end of the budgeting process.

- | | | | |
|-------|---|--|--|
| (ii) | According to the bids submitted for the bids for printing of the 2019 budget speech through the Government Press, it was observed that the cost per book does not exceed Rs.1,876 including taxes. Accordingly in accordance with Financial Regulation 632, If this printing work had been done by the Government Press, the Government could have saved a total sum of Rs.20,879,000 for 1000 copies by Rs.20,879 each per one book. | The requirement of doing the printing through the Government Press in accordance with Financial Regulation 632 at a Low Cost. | It is practically a difficult task to print the government budget speech within a very short period and very confidently through the Government Printer. |
| (iii) | It was observed that incurred a very high cost of Rs.22,755 for one copy when considering the total expenditure with tax of Rs.22,755,027 with the number of copies printed. When compared with the cost of Rs.4,691 for a copy in the year 2016, the cost per copy had increased in the years 2017, 2018 and 2019 as Rs.18,083, Rs.20,628 and Rs.18,064 respectively. | The requirement to do so under the least cost in a way that more advantage to the Government of Sri Lanka when incurring expenditures. | If there is a step that can be taken to reduce the cost of printing the budget, appropriate action will be taken in the future. |

(b) Printing of Annual Reports

A total sum of Rs.3,011,880 had been paid for printing purpose by select the bidder who was bided lowest price of Rs.2,900,100 (including VAT) among the bidders who were invited as open competitive bidding for the printing of 3,500 copies of the 2018 Annual Report of the Ministry of Finance in three languages such as Sinhala, English and Tamil.

Audit observation	Recommendation	Comments of the Chief Accounting Officer
(i) According to the Section 4.3.1 (a) and 4.3.2 of the Procurement Guideline for Goods and Works 2006, although a Total Cost Estimate including all associated costs should be prepared by the procurement entity and sanctioned by the relevant authority, the cost estimates had not been prepared and approved accordingly.	Requirement to prepare cost estimates in accordance with the Procurement Guidelines for Goods and Works.	Agree with the observation and a cost estimate could not be prepared by mistake and it had been recorded to prepare a cost estimate at the commencement of printing of the Annual Report for the year 2019.
(ii) Although the copies of Annual Reports submitted to the Department of Fiscal Policy after print by the contractor should be included the dates of received and issue the Goods Received Notes and documented properly, it had not been done so. According to the 10 dispatch orders of the printing contractor, it was observed that 15 copies had received less due to 3485 copies only were received.	Requirement to document by issue Goods Received Notes after receipt of goods.	Eventhough the Goods Received Notes were not issued, the quantities delivered and the dates of delivery are stated in the contractor's bill.
(iii) The audit observed that it had been decided to print the annual report in one language without identifying the number of copies to be printed in each language. According to the information provided to the audit as at 31 December 2019, the remaining number of copies were 418.	The requirement to act to estimate the number of copies required as accurately as possible.	The annual report for 2019 is expected to be further distributed until issue at the end of May 2020.

3.4 Irregular Transections

Audit observation	Recommendation	Comments of the Chief Accounting Officer
<p>A sum of Rs.9,101,453 had been spent as usage charges for domestic flights used for participate for various local meetings and festivals by the Ministry officials / Ministerial staff with the Minister of Finance in the year 2019. However, it was not disclose to the audit regarding information about circulars or instructions issued to public representatives / government officials on the use of flights for domestic travel.</p>	<p>It was not disclosed to the audit regarding information about circulars or instructions issued on use of domestic flights by the Minister with the Ministry officials/Ministerial staff. Hence the requirement to focus on that.</p>	<p>It is practically difficult to travel long distances on roads when consider the role of the Hon. Minister of Finance and Mass Media. These visits are very urgent and very important and it is very important that the Hon. Minister and other senior government officials arrive in Colombo as soon as possible considering the urgent duty conditions. Therefore action had been taken to facilitate these trips from Helitours (Pvt) Ltd which is a subsidiary of the Sri Lanka Air Force.</p>

3.5 Management weaknesses

Audit observation	Recommendation	Comments of the Chief Accounting Officer
<p>It was fail to obtain the relevant report as at end of the year under review by check whether the technical performance is unfavorable to the body of the baggage scanner and body inspection machines obtained to the Ministry for safety of the officers and clients working in the Treasury premises. Nevertheless, this machine has been in operation since October 2019.</p>	<p>Requirement to check whether the technical functionality of the machines is in an unfavorable condition to the body and obtaining the relevant report expeditiously.</p>	<p>The report from the Sri Lanka Atomic Energy Regulatory Council had not yet been received.</p>

4. Human Resource Management

Audit observation

The 81 of the total staff of the Ministry or 20 percent of the approved number were vacant at the end of the year under review and there were 14 vacancies at the senior level in it. It was about 35 per cent of its approved Cadre.

Recommendation

The requirement to fill the vacancies if the existence of staff vacancies adversely affects the performance or to take steps to revise the approved cadre of employees if such is not the case.

Comments of the Chief Accounting Officer

That the duties will be covered on an acting basis until senior level vacancies are filled and these vacancies should be filled as soon as possible in order to perform the duties of the Ministry efficiently and effectively.