

Head 238 – Department of Fiscal Policy

1. Financial Statements

1.1 Unqualified Opinion

The audit of the financial statements of the Department of Fiscal Policy for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 the Department of Fiscal Policy was issued to the Accounting officer on 16 June 2021 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 was issued to the Accounting Officer on 16 August 2021. 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, the accompanying financial statements give a true and fair view of the financial position of the Department of Fiscal Policy as at 31 December 2020, 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 Unqualified 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 and Accounting Officer for the Financial Statements

The 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 as the 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.
- It is not intended to express an opinion on the effectiveness of the Department's internal control in order to design audit procedures that are appropriate in the circumstances.
- 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 (1) (d) of the National Audit Act, No. 19 of 2018.

- (a) The financial statements presented is consistent with the preceding year.
- (b) All the recommendations made by me pertaining to the financial statements related to the previous year had been implemented.

2. Financial Review

2.1 Revenue Management

Audit Observation	Comments of the Accounting Officer	Recommendation
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There was an outstanding balance of Rs. 64,630,699 under the Social Responsibility Tax under the Revenue Code of 1002.10.00, which is under the supervision of the Department. A sum of Rs.15,838 had been recovered within the year under review and it was 0.025 per cent of the total amount to be recovered.	Reports on revenue in arrears have been continuously submitted to the Audit Department half yearly and the Inland Revenue Department and the Customs Department have been instructed to provide such reports as per time analysis. I will send it to you once I receive it and I will also send a reminder in this regard.	The requirement of collecting arrears of revenue without delay in terms of FR 128 (e).

2.2 Expenditure Management

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) Provision amounting to Rs.1,700,000 had been allocated for capital expenditure in the year under review and the actual expenditure for the year was Rs. 113,000 and as a result, provision saved had been 93% (93 percent) of the net provision.	The saving of 93% of capital expenditure was due to incurring a minimum level of expenditure under the Object of Foreign Travel due to the Covid-19 pandemic.	The requirement of preparing annual estimates realistically and effectively.

- (b) Provision amounting to Rs. 9.8 million had been made for 11 Objects and provision of Rs.4.4 million out of the provision made had been saved. Savings were in the range of 15 per cent to 99 per cent of the net provision.
- Overall, 90% (90 per cent) of the provision allocated has been incurred. However, provision was saved in large amounts under the Objects of 238-1-1-0-1102 and 238-1-1-1-1302 due to the suspension of participation in overseas training and conferences by the officers of the Department and as there was no need in carrying out repairs due to the COVID-19 pandemic.
- Do -

2.3 Non-compliance with Laws, Rules and Regulations

Reference to Laws, Rules and Regulations -----	Audit Observation ----- Non-compliance -----	Comments of the Accounting Officer -----	Recommendation -----
(a) The Financial Regulations of the Democratic Socialist Republic of Sri Lanka ----- FR 570	Action had not been taken in terms of FR 570 in relation to the deposits as the balance of the deposit account amounting to Rs.41,400 as at 31 December 2020 has been existing for a period of 02 years.	Agreed with your observation. It was the tender guarantee deposit for cleaning the office and the deposit amount has been carried forward annually in the General Deposit Ledger and only the annual increments have been deposited in the relevant year. Action has been taken to rectify this in recording new tender deposits for the year 2021.	Taking action in accordance with FR 570.

(b) Public Finance
Circulars

Paragraph 10.1 of the Public Finance Circular No. 2/2020, Paragraph No. 6 of the Guidelines issued by the Department of State Accounts	Even though the cash flow statement should be prepared on gross basis, it was prepared on cash basis. Accordingly; (i) Although the value of personal emoluments and operating expenses under operating activities during the year was Rs. 46,420,608 in accordance with the departmental books, a difference of Rs. 3,242,277 was observed in the net cash flow due to mentioning it as Rs. 43,178,331 in the cash flow statement.	Departmental books include personal emoluments and operating expenses and expenses made through cross entries by paying money and the cash flow statement records only money payments. Therefore, the balance as per the departmental books and the balance as per the financial statement are not the same.	Financial statements should be prepared as per the guideline.
	(ii) A difference of Rs.1,853,430 was observed in the net cash flow as non-revenue receipts was indicated as Rs. 348,493 in the cash flow statement although it was Rs.2,201,923 as per the departmental books.	The amount of Rs.2,201,923 stated as non-revenue receipts was consisted of receipts in cross entries amounting to Rs.2,172,573 and Rs.29,350 received from the auction of goods. Accordingly, only receipts in cash are shown under the cash flow generated from the investment activities in the cash flow statement.	-Do-
	(iii) Although the expenditure incurred for other Expenditure Heads was Rs.462,685 according to the departmental books, a difference of Rs.232,500 was observed in the net cash flow as it was stated as Rs.230,185 in the cash flow statement.	This is a balance of the distress loan obtained by a female officer retiring from the Department and it has been correctly debited to the Expenditure Head of the Department of Pensions and credited to the Advance B Account of the Department.	-Do -

(iv) Even though receipts and payments of advances were Rs.2,367,195 and Rs.1,880,986 respectively as per the departmental books, a difference of Rs.2,119,695 in the receipts of advances and a difference of Rs.699,040 in the payment of advances were observed as they had been stated as Rs. 247,500 and Rs.1,181,946 respectively in the cash flow statement.	The difference in the receipt of these advances was due to the settlement of the loan balance of the advance B account of the officers transferred from this Department by the relevant institutions through cross entries.	-Do-
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(v) Although the receipt of deposits were Rs. 26,367 and the payment of deposits were Rs.26,367 according to the departmental books, the receipt of deposits was understated by Rs. 17,088 and payment of deposits was understated by Rs. 1,125, owing to stating receipt of deposits as Rs. 9,279 and payment of deposits as Rs.25,242 in the cash flow statement.	Receipts and payments in cash had been recorded as receipts and payments of deposits in the cash flow statement and all deposit receipts and payments (including payments and receipts made through cross-entries) were indicated in the Treasury Accounting Statements.	-Do-
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2.4 Operating Bank Accounts

Audit Observation	Comments of the Accounting Officer	Recommendation
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Although two cheques amounting to Rs.21,125 issued to the National Insurance Trust Fund had been issued for nearly one year, they were carried forward within the cheques that were not presented. It was observed that action had not been taken in that regard in terms of FR 296 and FR 394 (b).	Action has been taken in that regard. I submit them as Annexures 2 and 3 herewith.	Action should be taken in terms of the relevant Financial Regulations.

3. Operational Review

3.1 Performance

3.1.2 Non-performance of Roles

Audit Observation	Comments of the Accounting Officer	Recommendation
Although the procurement plan had been prepared to purchase home appliances under an estimated budget of Rs.1,112,000 for the year 2020, only one item of office equipment worth Rs. 18,000 was purchased.	Ninety-eight (98) per cent of the allocated provision was saved due to inability to function in accordance with the procurement plan as time required for calling for bids from the institutions and carrying out procurement processes was not sufficient owing to isolation of the country for a longer period in the year due to the Covid-19 pandemic prevailed in the country during the year 2020.	Taking action to duly achieve the goals mentioned in the procurement plan.

4. Human Resource Management

4.1 Expenditure for staff attached, actual staff and personal emoluments

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) There are 56 approved posts in the Department and the actual staff was 50. Accordingly, there were 06 vacancies and it was 11% (11 per cent) of the approved staff and there were 04 vacancies in senior level posts within the vacancies.	According to the new staff, the vacancy for the post of Director of the Department has already been filled. There are 06 approved Deputy Director / Assistant Director posts in the Administrative Service under the new staff and 04 of them have already been filled. As the preliminary work for the construction of office rooms has already been commenced, I will take steps to fill these vacancies as soon as the office rooms are constructed.	Taking action to duly maintain the required cadre for the Department according to the exigencies of the service.

(b) It was observed that there is a vacancy for the post of Translator (English/ Sinhala) in the tertiary level for nearly 04 years.

As the preliminary work for the construction of office rooms has already been commenced, I will take steps to fill these vacancies as soon as the office rooms are constructed.

Taking action to fill the relevant vacancies as required.