

Head 250 - Department of State Accounts

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Department of State Accounts 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 containing my comments and observations on the financial statements of the Department of State Accounts was issued to the Accounting Officer on 08 June 2021 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report of the Department was issued to the Accounting Officer on 08 June 2021 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, the financial statements prepared give a true and fair view of the Department of State Accounts as at 31 December 2020 and its financial performance and cash flow 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 responsibility for the financial statements are further described in the Auditor's Responsibilities 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 the Accounting Officer on 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 the determination of the internal control that 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 the preparation of annual and periodic financial statements.

In terms of Sub-section 38(1)(c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department 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 summary 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 and its materiality depends on the influence on economic decisions taken by users 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the 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.
- Evaluate the overall presentation, structure and content of the financial statements including 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 terms of Section 6 (1) (d) of the National Audit Act No. 19 of 2018.

- (a) The financial statements are in consistent with those of the preceding year.
- (b) Recommendations made by me regarding the financial statements of the preceding year had been implemented .

2. Financial Review

2.1 Expenditure Management

Audit Observation -----	Comments of the Accountng Officer -----	Recommendation -----
(a) The entire net provision of Rs. 2,000,000 allocated for recurrent expenditure object and two capital expenditure objects had remained unspent during the period.	As the office work was disrupted because of the Covid-19 epidemic, it was impossible to perform maintenance and asset rehabilitation works as expected.	It is needed to control the making of over-provisions through Annual Estimates.
(b) Due to the overprovisions made available for 03 recurrent expenditure objects and 02 capital expenditure objects, there was a savings of Rs.14,905,977 after utilization during the year and it was observed that it had taken a percentage ranging from 23 per cent to 60 per cent of the net provision.	Payments have not been made as scheduled because of the matters such as not driving outside the Colombo District for official duties, not holding Departmental Meetings with external parties and stopping external parties from the cleaning of the premises, cancellation of staff training programmes, lack of the completion of works	It is needed to control the making of over-provisions through Annual Estimates.

submitted by the technical instructor at the desired level to match with the requirements of the Department.

2.2 Non-compliance with Laws, Rules and Regulations

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>Although the Cash Flow Statement (ACA - C Form) should be prepared on a draft basis in accordance with Guideline No. 6 issued by the Department of State Accounts in accordance with Paragraph 10:1 of Public Finance Circular No. 02/2020, it was observed that the cash flow statement submitted for audit had not been prepared in such a manner. Accordingly, the following observations are made.</p>	<p>Although there was a problem in presenting the cash flow statement it does not affect the end result. Further the necessary arrangements are being done to give necessary instructions for preparing the final accounts of all government institutions as prescribed by correcting the relevant circular in future.</p>	<p>Need to issue accurate, specific instructions and Guidelines.</p>
<p>(a) Although the recovery of advances during the year was Rs . 6,084,175, thus it was shown as Rs.2,988,659 under the cash flow generated from the investment activities in the cash flow statement, a difference of Rs. 3,095,516 was observed.</p>		

- (b) Although the advance payment was Rs.5,428,048, the advance payments had been shown as Rs. 3,482,304 in the cash flow statement. Therefore, the cash outflows had been understated by Rs. 1,945,744 .

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2.3 Reconciliation Statement on Advances to Public Officers' Account

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) The loan balance due as at 04 December 2013 from an officer held the post of Research Assistant who had issued the resignation notice on that day was Rs. 132,846 and thus it had elapsed 07 years since he left the service the Department had failed to recover this balance even by the end of the year under review.	The Attorney General's Department has filed a case under Case No. 309/2018 / DMR in the Colombo District Court in respect of the recovery of this balance of Rs. 132,846.	Adequate further steps should be taken to recover or settle the arrears.
(b) The arrears due from an officer held a post of public management and passed away on 17 December 2008 was Rs. 164,953 and although 12 years had elapsed after his death, the money had not been recovered.	Because of the refusal of responsibility by both institutions of the Sri Lanka Insurance Corporation, where the property loan insured at the time of obtaining the loan, and later the National Insurance Trust Fund, which had the same loan security insurance , the recovery of the deceased officer's outstanding debt balance was questionable.	Adequate further steps should be taken to recover or settle the arrears.

2.4 Non-commercial Advance Accounts

2.4.1 Sundry Advance Account

Audit Observation	Comments of the Accounting Officer	Recommendation
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<p>(a) The arrears balance of sundry advance accounts as at 01 January 2020 amounting to Rs. 160,584,098 had been Rs. 160,106,800 by the end of the current year. Accordingly, out of that arrears balance, a sum of Rs. 477,299 or only 0.30 per cent had been received during the year.</p>	<p>A sum of Rs. 477,298.72 has been collected from the relevant arrears in the year 2020 and it is accurate to state that it is 0.30 per cent of the arrears.</p>	<p>Adequate further actions should be taken to recover the outstanding debt balances by formalizing the follow-up actions.</p>
<p>(b) The total outstanding advance balance of the sundry advance account submitted in respect of 10 District Secretariats, Ministries and Departments as at 31 December 2020 was Rs. 160,106,800 and out of that, it was observed that the outstanding balance of Rs. 153,785,015 has been in existence for more than 05 years in 09 District Secretariats and Departments.</p>	<p>The General Treasury has provided advances directly to the District Secretaries for the purchase of paddy and sub-advances had been provided by the District Secretariats to the other institutions.</p> <p>The Department of State Accounts acts only as an intermediary and I would like to state that it has to face practical problems such as inability to recover arrears due to non-completion of legal proceedings, misplacement or destruction of files that required for recovery of advances, abolition of certain institutions, maintenance with financial difficulties etc.as well in the process of recovering these advances.</p>	<p>-do-</p>

- (c) Actions had been taken to recover the balance of Rs. 2,183,000 remained from the money released by the Matale District Secretary to Laggala Multipurpose Co-operative Society for the purchase of paddy in the year 2004/2005 in monthly installment of Rs. 10,000 from October 2020 . It was observed that if such a recovery is made, it would take about 18 years to recover the aforesaid arrears. However Rs. 75,000 or only 9 per cent of that had been recovered in the year 2020.
- The Matale District Secretary has informed me that the General Manager of the Laggala Multipurpose Co-operative Society has informed that it is operating due to financial difficulties by now .
- Similarly, F.R. 109 applications have been submitted for the recommendation of the Chief Accounting Officer to write off the loss of Rs.1,464,642.00 occurred due to the reasons outside the control of the Laggala Multipurpose Co-operative Society.
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- (d) Only a sum of Rs. 1,793,880 had been received as at 31 December 2020, out of the arrears of Rs. 12,560,031 remained in the year 2014 from the advances given to the Department of Agrarian Development to purchase of paddy in the year 2006 . Accordingly, outstanding balance was Rs. 10,766,155 furthermore and no money whatsoever was charged during the year under review.
- Providing the advances have been done by the Department of Agrarian Development to the District Agrarian Development Offices and we have been informed that, many companies have been filed cases for non-receipt of money from those institutions and also it was impossible to recover the money till the end of those cases.
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- (e) The Department had not yet taken actions to recover the loan balance which had remained before 2008 amounting to Rs.349,475 related to the Kurunegala District Secretariat.
- The relevant institution has been notified to settle the amount of Rs. 349,477.50.

- (f) A sum of Rs. 6,321,785 was stolen from the safe of the Anuradhapura Teaching Hospital under the Ministry of Health, Nutrition and Indigenous Medicine on 02 March 2019 and due to the fact that the investigation had not been completed by the end of the year under review, the amount had remained as an arrears balance furthermore. The relevant institution has been instructed to conduct a formal investigation promptly into the matter and take actions to recover the money from those responsible and to make necessary arrangements to submit a full report to this Department after the investigation process. -do-
- (g) Out of the arrears to be received with regard to the Anuradhapura District Secretariat for the year 2015 amounting to Rs.38,097,815, the arrears as at 31 December 2020 was Rs. 34,033,861 and the recoveries by the end of the year 2020 were Rs. 4,063,954 or 11 per cent. Accordingly, a decline in the process of recovery of the arrears was observed in audit . The amount to be settled from Anuradhapura District Agrarian Development Office and Multipurpose Co-operative Societies to the Anuradhapura District Secretariat were Rs. 12,971,207 and Rs.21,062,654 respectively. It is informed you that the arrears can be recovered only after receiving the relevant court decisions for the Agrarian Development Centers and Multipurpose Co-operative Societies where the legal actions have been taken . -do-
- (h) The arrears balance remained as at 31 December 2020 in Polonnaruwa District Secretariat was Rs. 55,927,666 and it had been the highest percentage as 35 percent out of the total arrears balance of the year under review. Even though it had been informed that the actions were taken in terms of Financial Regulation 109 and 113 and sent to the Ministry of Home Affairs in The Polonnaruwa District Secretariat has forwarded applications to the Chief Accounting Officer to write off the loss for functioning the paddy mill of the Paddy Marketing Board from the books amounting to Rs.769,428 and a report containing information relevant to obtaining approval to write off the loss incurred in issuing rice to the Food -do-

respect of the losses occurred for functioning the rice mill at Kuruppu Junction of the Paddy Marketing Board in the year 2018 amounting to Rs. 769,428 and for issuing of rice to the Food Commissioner amounting to Rs. 13,018,114 out of that, actions had not been taken even by 31 December 2020 .

Commissioner amounting to Rs.13,018,114 has been requested from the Polonnaruwa District Secretariat in writing.

- (i) Actions had not been taken even by 31 December 2020 to recover or to write off the advance balance of Rs. 2,408,460 given to the Director, General Hospital – Colombo in connection with the robbery of the salaries that took place on 22 January 2002 at the Dental Institute of the Colombo General Hospital.

A case is being heard in Maligakanda Court under case number B / 67/02 in connection with the robbery of the salaries at the Colombo Dental Institute and since 5 per cent of the amount charged from the salary of the accused officer has been credited to the government revenue as per the disciplinary orders, advices have been given to withdraw the amount and to credit it to this advance account.

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- (j) It had been informed that the CWE did not have the financial capacity to settle the arrears of Rs. 1,652,917 of the Trincomalee District Secretariat remaining from the year 2016 . Similarly, it was observed that the actions had not been taken to comply with Financial Regulation 109 to write off the relevant balance.

The Trincomalee District Secretary has informed that the necessary documents are being collected in respect of the receivables from CWE.

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(k) The arrears balance of the Ampara District Secretariat as at 31 December 2020 was Rs. 45,499,095 and it was 28 per cent of the total arrears. The Department had failed so far to recover these arrears balances.

It is kindly informed that, the legal actions have been taken against the defaulted Agrarian Development Centers and it is expected to recover the money through filing cases.

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The Department of Food Commissioner has been instructed to take actions without delay and I took notes to take relevant follow up actions on that.

The approval has been received to write off the receivables from the CWE and the necessary provisions have been requested from the Department of National Budget.

(l) Out of the arrears of Rs. 1,441,687 remained in the Kandy District Secretariat as at 01 January 2020, only a sum of Rs. 390,000 or 27 per cent had been recovered as at 31 December 2020 .

It has been agreed to settle the amount receivable from the Kandy District Secretariat valued at Rs. 30,000 each due to the financial difficulties of maintaining the relevant Multipurpose Co-operative Society. However, advices have been given to increase this monthly installment to a considerable amount.

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2.4.2 Approved Advance Account for Other Governments

Audit Observation

Comments of the Accounting Officer

Recommendation

The total pensions value amounted to Rs. 1,310,875 as a sum of Rs 1,242,947 paid for the British Government and a sum of Rs. 67,928 paid for the Government of Malaysia had not yet been reimbursed by 22 February 2021 as per the reply letter submitted to the audit dated 23 February 2021 .

We have been informed by an e-mail that the approval for the reimbursement of Rs. 61,744 relating to the year 2020 has been submitted to the Malaysian Treasury .

Reimbursement should be expedited.

3. Operating Review

3.1 Failure to Obtain the Desired Output Level

Audit Observation

Comments of the Accounting Officer

Recommendation

- (a) The main function of the Department was to open general deposit accounts, advise on accounting and close down as per the Action Plan of the Department for the year 2020 . Accordingly, taking actions to settle the existing debit balances in the deposit accounts had been identified as output. The following observations are made in this regard.

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| (i) | There were debit balances totalled to Rs. 10,943,683 relating to 04 Deposit Accounts of the District Secretariat (6003) and one Deposit Account of the Ministries/ Departments (6000) in the general deposit accounts. | Actions will be taken to write off these balances. | Arrangements should be made to obtain the desired output through the main functions of the Department. |
| (ii) | It was decided to be zero the deposit accounts in category 6003 in terms of State Accounts Circular No. 243/2015 dated 24 June and it had been instructed to carry out such activities from the year 2016 through the Annual Estimate. Nevertheless a total balance of Rs. 10.003 Million remaining from several years in 2 Deposit Accounts under No. 6003 were being brought forward without being settled. | The Report of the Committee appointed by the Secretary to the Ministry of Home Affairs to settle the debit balance of the Colombo District Secretariat has been sent to the Secretary, Ministry of Public Administration on 17.05.2019 and actions will be taken to settle this debit balance after obtaining the approval of the Department of Public Finance. | -do- |
| | | The Department of Treasury Operations has been informed to check on the debit balance in another general deposit account which was brought to accounts by the Department in the year 2008 and to settle in future. | |
| | | The debit balances of 02 accounts amounting to Rs. 2,970 and Rs. 11,700 are being brought forward for a long time and since the institution or the Head number related to that balance cannot be found, | |

provisions will be made to the Department of State Accounts in the year 2021 and actions will be taken to write off from the books.

- (iii) Similarly, providing advises on taking actions as per the Financial Regulations regarding deposits for more than 02 years had been identified as an another output under this. Nevertheless, it was observed that the deposit account balance of 125 deposit accounts at 46 institutions selected on sample basis had remained from 02 years to more than 05 years and the total of those accounts was Rs. 2,854,732,825 . Relevant institutions have been instructed to make arrangements to analyze the balances over 02 years in accordance with F.R. 570 and on the deposits inconsistent to that as per the F.R. 570 according to the annual reconciliation statements and age analysis reports sent to the Department of Public Accounts by the Ministries, Departments and District Secretariats. Likewise, it has been planned to follow up on balances for more than 02 years based on annual reconciliation reports on deposit accounts as at 31.12.2020 . -do-
- (iv) The opening balances of 108 deposit accounts totalled to Rs.1,937,815,718 remained within the net balance of the above general deposit accounts had remained same even by the end of the year 2020. Follow-up on balances that have been inactive for several years has been done by this Department. I also made notes to follow up on other balances. Likewise, it was noted to follow up on other balances. -do-

- (b) Monitoring the advance “B” accounts was a major function of the Department as per the Action Plan for the year 2020 and the desired outcome from that was identified as setting up an efficient payment and recovering system. However, there were unrecoverable balances totalled to Rs.841,163,699 in advance "B" accounts for many years belonging to 102 institutions applicable to retired, deceased, suspended, transferred and the officers who had left the service as revealed at the audit test check. It was not observed at the audit whether the instructions were given in recent times to recover the arrears except for the instructions given by the State Accounts Circular No. 262/2017 dated 29 December 2017 issued by the Department in this regard to recover the debts receivable from the officers who had retired from 01 January 2018 onwards and deceased officers.
- Ten Institutions selected by the Department for supervision of advance "B" accounts in relation to the Action Plan for the Year 2020 have been convened and meetings were held to discuss future course of actions to be taken and it was advised to resolve existing issues regarding recovery of arrears.
- Advances to Public Officers' "B" accounts as at 31.12.2020 have been received from all except 10 institutions and the report of those institutions has been prepared by now and as it is impossible to call for meetings at the prevailing situation, it has been planned to provide necessary instructions for that sending letters separately as institutions if there are any problems in recoveries accordingly.
- (c) (i) A net balance of Rs. 15,783,074,603 was shown under advance accounts to Government Departments under financial assets included in Government Financial Statements for the Year 2020 and debit balances totalled to Rs. 16,081,884,989 included in it. Likewise, net balances totalled to Rs.1,353,073,051 remaining unsettled for more Allocation Limits for Advance Accounts in Government Ministries are determined by the Department of National Budget through the Appropriation Act. Only the opening of the account numbers provided by the relevant Appropriation Act is done by the Department of
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than many years had included State Accounts .
within that balance.

- (ii) Within that net balance, credit balances relating to 06 accounts remained unsettled totalling to Rs. 19,940,017 has been bringing forward for many years. It is kindly informed that the actions will be taken in future to follow up with the relevant agencies on the balances mentioned and to provide advises to take necessary steps to close down in accordance with F.R. 518 . -do-

- (d) According to the Budget Proposals for the year 2018, resolutions had been passed to prepare the financial statements on an accrual basis within the next 10 years and the approval of the Cabinet of Ministers was granted on 02 October 2018 for that. Nevertheless, timeframe for the activities included in the Road Map submitted with the approval of the Cabinet of Ministers had been amended by the Department without formal approval. The following matters are further observed in this regard.

- (i) It had been expected to complete the functions related to identification, measurement and disclosure of state assets which were expected to be completed as per the Basic Road Map in the year 2020 and according to the Revised Road Map in the year 2022 to be completed in the year 2022 . A quantitative progress is shown in identifying, measuring and disclosing state assets and accordingly, the value of non-financial assets stated in the financial statements at the end of the year 2019 was Rs. 1,355 Billion and its value in the year 2020 was Rs. 1,776 Billion . Accordingly, even at the situation of the epidemic in 2020, assets of Rs. 421 -do-
- Accordingly, under this, it had focused only on lands and buildings and it was informed to

audit that the 214 central government institutions with lands and buildings and 60 of them did not have lands and buildings and, only 10 of them had been fully assessed and finalized .

Billions could be accounted for. Accordingly, as per the revised Road Map, this work is expected to be completed by the end of the year 2022 .

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| <p>(ii) The task of identifying, measuring and disclosing liabilities that were proposed to be completed by 2020 according to the Basic Map had been delayed by the Revised Map until 2022 and only the preliminary work under that had been commenced by now.</p> | <p>Responsibility identification functions included in the Road Map have been commenced and during the Covid epidemic occurred in the year 2020, those works had to be extended until 2022 to be completed. Likewise, activities in identifying the payable items included in the Road Map has not yet been commenced and the task is expected to begin in the year 2021 .</p> | <p>-do-</p> |
| <p>(iii) Identify, measure and disclose revenue and expenditure expected to be completed by 2021 as per the Basic Road Map had been delayed beyond 2026 by the Revised Map .</p> | <p>Identify, measure and disclose revenue and expenditure on accrual basis as per revised Road Map is expected to be implemented on a fully accrual basis at the accounting period after 2026 .</p> | <p>-do-</p> |
| <p>(iv) Although the progress should be reported to the Cabinet one month after the end of each year as per the above Cabinet Memorandum, a single progress had not been reported so far .</p> | <p>It is accepted that the progress of the process has not yet been reported and it was noted at the end of this year to report the progress accordingly.</p> | <p>-do-</p> |

(e)

Collection of government financial information formulated by the Department, government finance statistics, collection and implementation of plans to integrate the financial information of Central Government, Provincial Councils and Local Government Institutions and all Public Sector Enterprises for 4 years from 2015 to 2018 and should have been done starting from the year 2020 as per the Action Plan 2020 provided by the International Monetary Fund Technical Assistance Mission 2019 . Nevertheless, even though such activities have been initiated by the Central Government, Provincial Councils and Local Government Institutions it was not observed that such activities pertaining to local government have been commenced.

The Action Plan provided by the International Monetary Fund is for 2020, was not only given for the year 2020 and due to the epidemic situation in the country in the year 2020 it was practically difficult for the local government bodies to commence work.

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