

Head 102 – Ministry of Finance

1. Financial Statements

1.1 Unqualified Opinion

The audit of the financial statements of the Ministry of Finance 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 Ministry of Finance was issued to the Chief Accounting officer on 22 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 Ministry was issued to the Chief Accounting Officer on 25 October 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 Ministry of Finance 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 for the Financial Statements

The 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 as the Chief 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 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 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 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 Ministry'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 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

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 Imprest Management

The following observations are made.

Audit Observation

Comments of the Chief Accounting Officer

- (a) Although the total imprest that should be applied as planned for the year 2020 was Rs.7,156.83 million, only a sum of Rs.2,304.04 million out of that amount had been applied. Therefore, the imprest applied was a total of Rs.4,852.79 million or 68 percent less than the imprest planned to be applied.

Due to the Covid - 19 pandemic prevailed in the country in the year 2020, imprest has only been applied on the requirement of expenditure.
- (b) Although the Ministry had applied a total of Rs.2,304.04 million as imprest in the year 2020 for the accomplishment of the relevant functions as scheduled, the Treasury had provided only a total of Rs.1,391.26 million and as a result, imprest received was a total of Rs. 912.78 million less than the imprest applied.

Expenditure had been incurred only on the imprest provided.

2.2 Incurring Liabilities and Commitments

Audit Observation

Comments of the Chief Accounting Officer

Recommendation

The credit value totalling Rs. 940.69 million mentioned in the Treasury Printouts (SA 92) in the year 2020 had not been stated in the statement of commitments and liabilities submitted with the financial statements.	Agreed with the observations.	All liabilities related to the year should be stated in the statement of liabilities.
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2.3 Expenditure Management

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) The total net provision amounting to Rs.5,050,000 allocated for 10 Objects was fully saved.	Agreed with the observation.	It is required to prepare annual estimates realistically and effectively.
(b) Although provision totalling Rs.87,850,000 had been made to 04 state institutions for incurring capital expenditure during the year under review, a total of Rs. 61,293,207 or 70 percent out of the provision made was saved by the end of the year..	Agreed with the observation.	-Do-

2.4 Payment and Settlement of Advances

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) The total loans that have been outstanding for a period exceeding one year, out of the loan balances of public officers, which were in arrears by 31 December 2020, was Rs. 920,110.	Loans that cannot be recovered have been referred to the Department of Public Finance for obtaining the approval for waiving them in terms of FR 113 and the loan file of one officer has not been found and the remaining amounts of the loans has been referred to the Department of Legal Affairs for the recovery of loans.	Investigating in to the matters pertaining to loan arrears and taking further action that is necessary in that regard without delay.

- (b) The total outstanding loan balances prevailing over 04 years and that should be recovered from 54 officers in the Economic and Policy Development Division was Rs.3,334,459. These loan balances were applicable to the advance account maintained at then Economic and Policy Development Division and action will be taken in the future to identify the workplaces, where the persons, from whom these loan balances should be recovered, are employed and to recover the loans or else to write off the loan balances, that cannot be thus recovered in terms of FR 113 (3). -Do-

2.5 Irregular Transactions

The Advisory Committee on Procurement appointed by the Joint Cabinet Memorandum approved on 17 July 2018 to sell the shareholding of the Hilton Hotel and Grand Hyatt Colombo has recommended the selection of Lazard Asia of Singapore, a subsidiary of the MTI Consulting of Bahrain and Sri Lanka, as consultants.

The following observations are made in this regard.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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(a) Although it had been agreed to finalize the relevant functions under four milestones as per the Agreement entered in to by the Secretary of the Ministry of National Policies and Economic Affairs with the aforementioned consultancy Institute on 27 September 2018, the time period for the completion of the work had not been specified in the Agreement.	Agreed with the observation.	Action should be taken to prepare the agreement properly.
(b) Lazard Asia and MTI Consulting had finalized two milestones on 07 May 2019 and submitted invoices amounting to Rs.13,032,986 (USD 68523) and Rs.4,628,607 respectively to the Ministry of Finance. However, the aforesaid total amounting to 17,661,593 had been paid to the relevant Consultancy Institutions by making supplementary provision amounting to Rs. 17,500,000 after 19 months on 31 December 2020.	Agreed with the observation.	Taking action to commence the projects and to make payments properly after duly allocating provision.

- (c) However, it was observed that the above work was stopped halfway and Selandiva Investment Limited was set up to develop the Grand Hyatt Hotel and the Hilton Hotel notwithstanding the fact that money had been spent as mentioned above. Has been agreed. Implementation of projects to derive maximum benefits to the Government from state resources in accordance with the policies of the Government.

3. Operational Review

3.1 Delays in the Execution of Projects

Observation identified is as follows.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
Although net provision totalling Rs.580,100,000 has been made in the year 2020 for 02 projects implemented under the Ministry using local funds / foreign loans, provision totaling to Rs.472,754,269 or 81 percent out of the provision made was saved as the performances of those projects were slow.	Delay in achieving project objectives due to legal and practical reasons. Provision made was saved due to delays in carrying out procurement activities, delays in recruitment of staff, delays in operational activities and non-commencement of projects.	Efficient utilization of provision and resources to achieve the planned objectives of the projects.

3.2 Asset Management

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Although there were 115 vehicles owned by the Ministry of Finance at the end of the year under review, a vehicle survey for the year 2020 had not been carried out and reports in that regard had not been submitted to the Auditor General.	The final report will be submitted to the audit as soon as possible.	Carrying out an annual vehicle survey and submitting reports in relation to the survey.

(b) Thirty (30) vehicles owned by the Ministry had been handed over to other institutions without transferring those vehicles systematically.	Comments had not been made.	Action should be taken to transfer the relevant vehicles systematically or take them back to the Ministry.
(c) Ten (10) vehicles had been obtained to the Ministry from other institutions without transferring those vehicles systematically.	Comments had not been made.	action should be taken to transfer the relevant vehicles systematically or to return them to those institutions.

3.3 Management Weaknesses

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
It was observed in the audit that only one committee could meet in the meeting hall of the Tax Appeals Commission at a time and the process of resolving tax appeals could not be carried out efficiently due to non-provision of building facilities required for that purpose although three committees had been appointed under the Tax Appeals Act.	According to the new plan, it has been scheduled to establish 02 meeting halls. It is anticipated that 3 Committees will be meeting in one day in the future.	Taking action to remove the existing obstacles for the committee meetings.

4. Human Resource Management

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) There were a total of 34 vacancies or 10 per cent out of the approved cadre at the end of the year under review and 11 out of those vacancies were the vacancies in the senior level. It was about 33 per cent when it is compared with the approved cadre.	The Ministry of Public Services, Provincial Councils and Local Government has been informed to transfer the officers to fill the existing vacancies and the performance of the Ministry has not been adversely affected as the officers have been assigned duties on the basis of acting basis / attending to the duties of a post until those requirements are met.	Steps should be taken to fill those vacancies if they adversely affect the performance or to revise the approved cadre if there is no such an impact.

- (b) the Ministry of Finance had released 07 officers by the end of the year under review for serving in other institutions on the payroll. Officers have been released at the request of the institutions. Action should be taken to control the use of resources for the functions extraneous to the Institution.