

## **Head 11 - Finance Commission**

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### **1. Financial Statements**

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#### **1.1 Opinion**

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The audit of the financial statements of the Finance Commission for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 Finance Commission was issued to the Chief Accounting Officer on 26 May 2022 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report of the Commission was issued to the Chief Accounting Officer on 16 June 2022 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 financial position of the Finance Commission as at 31 December 2021 and its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Opinion**

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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 on Financial Statements**

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Preparation of financial statements in a manner that reflects a true and reasonable position and determines the internal control required to enable financial statements to be prepared without inadequate false statements that may result from fraud and error in accordance with Generally Accepted Accounting Principles and the provisions of Section 38 of the National Audit Act, No. 19 of 2018 is the responsibility of the Chief Accounting Officer. As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Finance Commission 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.

The Chief Accounting Officer shall ensure that an effective internal control system is maintained for the financial control of the Finance Commission in terms of Sub-section 38 (1) (c) of the National Audit Act and it should be periodically reviewed the effectiveness of the system and make any necessary changes to keep the system running efficiently.

#### **1.4 Auditor's Responsibility on Audit of Financial Statements**

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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 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 furthermore;

- Appropriate audit procedures were designed and implemented to identify and assess the risk of possibility of quantitative misrepresentations occurred in financial statements due to fraud or errors in providing a basis for the expressed audit opinion. More than the impact of quantitative misrepresentations due to misrepresentation, the effect of fraud is strong because of malpractice, forgery, intentional evasion, misrepresentation, or evasion of internal controls can lead to fraud.
- Although it is not intended to express an opinion on the effectiveness of internal control of the Commission, obtained an understanding of internal control in order to plan appropriate audit procedures occasionally.
- Evaluated the appropriateness of the accounting policies followed, fairness of accounting estimates and related disclosures made by Management.
- Evaluated whether the transactions and events underlying the structure and content of the financial statements are appropriately and fairly consisted in and presentation of financial statements including disclosures as a whole.

The Chief Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

## 1.5 Report on Other Legal Requirements

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I declare 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) The recommendations made by me regarding the financial statements furnished for the preceding year had been implemented.

## 2. Financial Review

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### 2.1 Expenditure Management

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<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
<p>-----</p> <p>Due to the failure to prepare the expenditure estimates properly in accordance with Financial Regulations 50 and due to the cost minimization because of the Corona epidemic situation, the total net allocation amounting to Rs. 600,000 had been saved in one recurrent expenditure object and the total allocation of Rs.600,000 for 02 capital expenditure objects had saved. In another capital expenditure object, 97 per cent of the total allocation, that is Rs. 970,908, had saved.</p>	<p>-----</p> <p>Although the provision has been made for overseas opportunities while preparing estimates for the year 2021, the net provision of the object 1102 has saved.</p> <p>According to the instructions given by the government for public financial management, non-essential expenses had to be postponed. Further, due to the limited use of machinery and buildings, the entire allocation of the expenditure objects 2001 and 2002 have saved.</p>	<p>-----</p> <p>Expenditure estimates should be properly prepared.</p>

Due to the inability to hold many of the training programmes planned in the year 2021 due to the epidemic situation in the country, the provisions of 2401 has saved.

**3. Operating Review**

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**3.1 Failure to Perform Tasks**

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
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<p>(a) It had been stated that the making recommendations to the President regarding the policies of distribution of funds awarded to the provinces annually and the matters referred by the President regarding the financial affairs of the provinces as the functions of the Commission in terms of 154(r)(4) of the Constitution of the Democratic Socialist Republic of Sri Lanka. Accordingly, although the Commission should decide its rules of procedure in terms of 154 (r)(6) regarding those tasks, it had not been prepared as such.</p>	<p>A procedure has been prepared for the perform of the functions assigned to the Finance Commission by the Constitution. The Commission performs its functions according to the order of operations by making the changes set annually.</p>	<p>It should act in accordance with Article 154 (r) (6) of the Constitution.</p>

- (b) The preparation of the Commission Act, which was commenced in 2018, had not been completed even by the end of the year under review.
- The idea of the new Chairman is that it can be considered after the constitutional amendment that may happen in future and until then, it is possible to continue in the manner of the things have been done within the provisions of the Constitution for the preceding 30 years.
- The activities on preparation of Act should be carried out.

#### 4. Human Resources Management

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
<p>There were 02 senior level vacancies, 02 tertiary level vacancies, 07 secondary level vacancies and 08 primary level vacancies in the year under review and the Commission had failed to fill those vacancies.</p>	<p>Even though the several requests has been made to the Ministry of Public Administration to fill up the senior level and secondary level vacancies, officers have not been sent for that and it is a matter that beyond our control. Seven officers have been sent for training by the Multipurpose Development Task Force for primary level vacancies and it has been informed that after completing the relevant training, they will be assigned to this institution by that Force.</p>	<p>Arrangements should be made to fill the vacancies of essential posts.</p>