

Head 240 – Department of National Budget

1. Financial Statements

1.1 Opinion

The audit of the financial statement of the Head-240, Department of National Budget for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 National Budget was issued to the Accounting Officer on 31 May 2023 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 of 2018 and the Detailed Annual Management Audit Report relating to the Department in terms of Sub-section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Accounting Officer on 28 June 2023. This report will be tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution 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 National Budget as at 31 December 2022, and its financial performance and 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 responsibility for the financial statements are further described in the Auditor's Responsibilities Section. 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 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 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 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 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 effective internal control system for the financial control of the Department of

National Budget 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'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 judgement and maintain professional scepticism 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 Department's 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, significant audit findings, any significant deficiencies in internal control and other matters that I identify during my audit.

1.5 Report on Other Legal and Regulatory 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 are consistent with the preceding year.
- (b) The recommendations made by me on the financial statements relating to the preceding year had been implemented.

2. Financial Review

2.1 Revenue Management

Audit Observation	Comment of the Accounting Officer	Recommendation
The initial payment for the motorcycles which was made related to the programme for providing motorcycles to the field officers as per a budget proposal 2015 had been brought to account by the Department under the Revenue Code No. 2003.04.00 as a non-taxable income, and all the motorcycles thus provided should have been transferred to the personal possession of the respective officer by the end of the year 2020. However, a net income of Rs.909,850 had been received even in the year 2022 as the initial payment related to that programme. Accordingly, despite being completed the implementation of the relevant budget proposal, accounting process had not been concluded by giving related formal instructions.	Investigations are further in progress separately relating to the Heads of Institutions/ District Secretariats for expeditious settlement of this issue.	Since this is a budget proposal of the year 2015, action should be taken to recover the revenue in outstanding, if any, while giving formal instructions and guidelines.

2.2 Expenditure Mngement

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
Due to making overprovision for 6 recurrent objects and 03 capital objects during the year under review, there were savings ranging from 22 per cent to 70 per cent of the net provision after the utilization of that provision.	The reasons such as prioritization of planned activities/ postponement of certain expenditure in compliance with the Circular No.03/2022 issued by the National Budget Department for the public finance management and strict expenditure control amidst the unfavourable and unexpected economic condition prevailing in the country; non-utilization of provisions as expected for the payment of lease installments and interests due to	Estimates should be realistically prepared for the objects in terms of Financial Regulation 50.

changing the due date for the payments of the vehicles purchased under the financial leasing method; subsequent transfer of the officers who obtained loans during the preparation of the budget; despite the commencement of procurement process after making plans for the purchase, suspension of the relevant purchase; provision of internal instruction for strict control of expenditure upon the difficulty to secure imprest, had attributed to this saving of provisions.

2.3 Advance Accounts

2.3.1 Advances to Public Officers Account

Audit Observation	Comment of the Accounting Officer	Recommendation
The loan balance of Rs.150,119 due from an officer who vacated the service from 23 September 2015 had not been settled even by 31 December 2022.	The relevant officer was reported to be in very low economic level and after several discussions, he has agreed to settle the loan in installments. Accordingly, action has been taken to recover the amount in 03 installments of Rs.5000 each.	All the necessary measures should be taken to recover the outstanding balances.

2.4 Non-compliance with laws, rules, and regulations

Reference to laws, rules, and regulations	Observation	Comment of the Accounting Officer	Recommendation	
Paragraph 10 of the Public Finance Circular No.02/2022 dated 28 August 2020 and Section 16(2) of the National Audit Act, No.19 of 2018.	Non-compliance	Although the annual performance report should also be submitted to the Auditor General along with the annual financial statements, National Budget Department had not submitted the annual performance report of the year 2022 by 28 February 2023.	The annual performance report has been submitted to the Auditor General at present.	Action should be taken in accordance with the circular provisions.

3. Operating Review

3.1 Performance

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) There were instances where the following described limits approved by Parliament for the advance activities stipulated under the third schedule of the Appropriation Act, No.30 of 2021 had not been complied with in accordance with the Treasury book. Although those limits should have been revised after presenting to Parliament by 31 May 2023 in terms of Section 8(1)(b) of the Act, no evidence had been submitted to the audit to confirm that the aforesaid limits had been revised even by 19 May 2022.		
(i) Expenditure totaling Rs.602,888 had been incurred in excess of the maximum expenditure limit related to 02 advances activities of the public officers.	These entities had not made request to revise the limits. It has been informed that these exceeding of limits has been recorded in Items Nos. 25301 and 32201 in the final Treasury printouts upon the correction of errors and revisions of limits are not required for that purpose.	Action should be taken to revise limits by taking measures in accordance with the provisions in the Appropriation Act.
(ii) A sum of Rs. 196,900,472 had been spent exceeding the maximum limit of the Item No.31002, Work Advance Account of the Department of Government Factory by Rs. 76,900,472.	The Cabinet approval has been received on 24.04.2023 to submit the proposal for the revision of relevant limits for Parliament approval. Accordingly, with the signature of the Minister of Finance, Economic Stability and National Policy, that proposal has been submitted for Parliament approval on 25.05.2023.	Action should be taken to revise limits by taking measures in accordance with the provisions in the Appropriation Act.

- (b) Particulars related to the performance as at 31 December 2022 of the Action Plan or the activities related to 117 institutions monitored by the National Budget Department had not been furnished to audit. Although it was limited carrying out the evaluation on the progress of the institutions by summoning the officers of the public enterprises due to the prevailing situation in the country, performance of a significant number of institutions were evaluated through online method and summoning the officers in every possible occasions. In relation to the delays occurred in the submission of annual reports of these institutions in Parliament, action has been taken to inform the Chief Accounting Officers of the relevant Line Ministries as well as the representatives of the Treasury in accordance with the instructions given by the Cabinet. Monitoring of the institutions coming under the purview of the Department should be carried out properly.

3.2 Providing assistance to the individuals who lost their jobs due to taking part in 1980 July general strike

Audit Observation	Comment of the Accounting Officer	Recommendation
<p>By the budget proposals, approval had been granted from the year 2013 to disburse an allowance to provide relief to the individuals attained 65 years of age who are lack of a permanent livelihood due to losing their jobs as a result of taking part in the 1980 July general strike. Accordingly, the budget proposals had been implemented to disburse such allowance at Rs.5,000 from the year 2013 to 31 December 2014, at Rs.6,000 from 01 January to 31 December 2015 and Rs.250,000 as a lump sum after 31 December 2015. However, the Department had not specifically identified the eligible persons for this purpose. Although the audit continuously pointed out this matter, no action has been taken thus far to take apparent step in this connection. However, the Department had taken measures to pay an amount worth Rs.17,250,000 at the one-time allowance of Rs.250,000 for 69 beneficiaries during the year 2022.</p>	<p>The basis of this budget proposal for the year 2013 has been made up with the information revealed at the discussions conducted by the then Ministry of Finance and the Ministry of Labour with the trade unions and accordingly, it has been reported that there are about 10,000 persons without a permanent livelihood due to the loss of employments in consequent to the 1980 July strike. In the disbursement of payments under this programme, it is the normal procedure to make such payments according to the recommendations of the Ministries in charge of the subjects such as the Ministry of Labour, Transport, Industry and Homes based on the recommendations given by the Divisional Secretaries for the requests of the individuals who lost their employments due to participating in the 1980 July strike.</p>	<p>Proper plans should be prepared and implemented for the achievement of the expected objectives of the budget proposals.</p>

3.3 Assets Management

The following observations are made.

		Audit Observation		Comment of the Accounting Officer	Recommendation
(a)	The memorandum submitted by the Ministry of Finance on 28 July 2021 had been approved by the Cabinet on 18 August 2021 and accordingly, 50 ambulances, 52 water bowsers, and 62 double cabs had been purchased under the finance leasing method in the year 2021. Accordingly, these 164 vehicles had been imported by the end of the year 2021 and out of which, 76 vehicles had been registered with the Department of Motor Traffic as at 31 December 2021, while 51 vehicles had been handed over to the institutions needing such vehicles. Details are as follows.			Out of these 164 vehicles purchased, 76 vehicles had been registered in the year 2021 and 88 had been registered in the year 2022. Fifty one vehicles had been handed over to the relevant institutions in the year 2021 and 113 vehicles had been handed over to the relevant institutions in the year 2022. Similarly, payments also have been initiated in the year 2022 according to the agreements. Although those vehicles had been accounted for in the year 2022 taking into account the above situation, it had not posed a significant impact on the information presented in the financial statements related to the year 2021.	Assets should be accounted in line with the realistic and the disclosure concept.
	Type of the Vehicle	During the year 2021 ----- No. of vehicles that completed the registration -----	Duration for which they were handed over to the institutions -----	During the year 2022 ----- No. of vehicles that completed the registration -----	Duration for which they were handed over to the institutions -----
	Ambulances	25	00	25	50
	Cabs	51	51	11	11
	Water Bowsers	00	00	52	52
	Total	<u>76</u>	<u>51</u>	<u>88</u>	<u>113</u>

In reporting fixed assets according to the realistic concept, the practical reality should be taken into account as the basis, irrespective of its legal right, if the asset generates economic benefits and when presenting financial reports in accordance with the disclosure concept, all information belonging to the relevant period should be disclosed to the parties using the financial reports. However, the total value of these 164 vehicles amounting to Rs.1,693,839,615 had been brought to account in the financial statements of the year under review as the assets purchased under the finance leasing method in the year 2022.

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| (b) | Although it has been informed that the Department took steps to hand over those vehicles to the needing institutions, 15 institutions did not submit written evidence to confirm the acceptance of those vehicles. | Most to the institutions that accepted the vehicles informed their acceptance in writing at the time of acceptance of such vehicles, while several other institutions so informed subsequent to their acceptance. | A formal control procedure should be introduced in transferring assets. |
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3.4 Supplementary Assistance Services and Urgent Requirements Liabilities Object

The following observations are made.

Audit Observation	Observation of the Accounting Officer	Recommendation
(a) Although the provisions issued to other expenditure heads in the year under review in relation to 81 institutions including the Ministries, Departments and District Secretariats under the Supplementary Assistance Services and Urgent Requirements Liabilities Object for the recurrent expenditure amounted to Rs.23,424,731,937, it had been stated as Rs.23,092,547,937 in the Format ACA-2(a)(ii). Accordingly, there was a difference of Rs.332,184,000 in the provisions made.	Observations are agreed upon.	It should be confirmed that the provisions issued under the Supplementary Assistance Services and Urgent Requirements Liabilities Object have been properly stated in the ACA Formats.

(b) When comparing the value of recurrent and capital provisions given under the Object of Supplementary Assistance Services and Emergency Requirements Liabilities according to the Formats ACA-2 (a) (ii) and ACA-2 (a) (iv) included in the financial statements with the supplementary estimates, differences were observed in the institutions for which the provisions were made. Details are as follows.

Institutions provided with provisions as per Format ACA-2 (a) (ii)	Institutions provided with provisions as per Supplementary Estimates	Provisions made (Rs.)	Supplementary Allocation No.
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Recurrent Expenditure			
• Ministry of Trade, Commerce and Food Security	Ministry of Plantation Industry	55,000,000	155
• Ministry of Trade, Commerce and Food Security	Ministry of Plantation Industry	314,312	175
Capital Expenditure			
• Sri Lanka Navy	Ministry of Urban Development and Housing	486,000,000	260

Observations are agreed upon.

Accuracy should be ensured when accounting for recurrent and capital provisions under the Supplementary Assistance Services and Urgent Requirements Liabilities Object.

(c) Under the Supplementary Estimate Supplementary Allocation No.123, recurrent provisions of Rs.3,000,000 and capital provisions of Rs. 5,000,000 had been provided for the Ministry of Trade, Commerce and Food Security. However, the recurrent expenditure had been stated as Rs.5,000,000 and the capital expenditure had been stated as Rs.3,000,000 in the Format ACA-2 (a)(ii) and ACA-2 (a) (iv) in the financial statements.

Observations are agreed upon.

Accuracy should be ensured when accounting for recurrent and capital provisions under the Supplementary Assistance Services and Urgent Requirements Liabilities Object.

3.5 Losses and Damages

Audit Observation	Comment of the Accounting Officer	Recommendation
Under the writing off from books and the recovery during the year under the F.R.109 mentioned in statement of writing off from books (Annexure ii) included in the financial statements presented during the year under review, the following information about damages caused in the following 3 instance during the year 2022 and the recoveries related to one instance had not been included.	As all the damages caused by vehicle accidents have been totally covered by the insurance, writing off from the book under F.R.109 relating to the year 2022 has not been reported.	Financial statements should be prepared in accordance with the circulars.

Date	Description	Expenditure for repairs	Recovered value	Recovered date
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		Rs.	Rs.	
2022.05.10	Accident caused to the van bearing No. NC-5410	42,000	42,000	2022.06.24
2022.07.01	Accident caused to the van bearing No. NC-5410	19,000	19,000	2023.01.26
2022.11.14	Accident caused to the van bearing No. NB-3230	39,700	39,700	2023.01.12

4. Human Resource Management

Audit Observation	Comment of the Accounting Officer	Recommendation
According to the information on the approved and actual cadre of the Department, the total number of vacancies of the Department as at 31 December 2022 stood at 23, including 08 positions of senior level, 09 positions of secondary level, and 06 positions of primary level.	Strict control of expenditure and various instructions issued on recruitment/filling of vacancies had attributed to this situation.	Action should be taken to fill the vacancies or carry out a cadre revision.