

Head 238 – Department of Fiscal Policy

1. Financial Statements

1.1 Opinion

Head 238 - The audit of the financial statements of the Department of Fiscal Policy 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 containing my comments and observations on the financial statements of the Department of Fiscal Policy was issued to the Accounting Officer on 30 May 2023 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report pertaining to the Department was issued to the Accounting Officer on 30 June 2023 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 Department of Fiscal Policy as at 31 December 2022 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 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 evidences I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of the Chief Accounting Officer and Accounting Officer on Financial Statements

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 Accounting Officer.

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 annual and periodic financial statements to be prepared.

The Accounting Officer shall ensure that an effective internal control system is maintained for the financial control of the Department 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

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 exercised professional judgment and maintain professional skepticism 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of its internal control.
- Evaluate that the underlying transactions and events are appropriately and fairly included in the financial statements for the structure and content of the financial statements that include disclosures.
- 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.

The 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

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 of the preceding year had been implemented.

2. Financial Review

2.1 Revenue Management

2.1.1 Recovery of arrears

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>A Revenue Accounts Officer is responsible for the collection of arrears of revenue receivable to the Government without delay in terms of F.R. 128 (2). Accordingly, the total of arrears of tax amounting to Rs.63,527,426 including arrears of social responsibility tax of Rs. 63,143,287 as at the commencement date of 2022 and Rs.525,089 which was the outstanding amount related to the preceding years identified in the year 2022 had not been collected as at 31 December 2022 .</p>	<p>The relevant institutions have been informed to recover the arrears of income tax stated here and the Inland Revenue Department and the Sri Lanka Customs have been informed to carry out the necessary activities to write off the irrecoverable tax revenue subject to the relevant legal provisions.</p>	<p>Actions should be taken to collect the arrears without delay.</p>

2.2 Expenditure Management

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Provisions totalled to Rs. 3,335,000 ranging from 28 per cent to 44 per cent from the initial estimate had been increased for four expenditure objects through F.R. 66 transfers.	As a result of the increase of prices of office equipment, fuel and food and beverages very high on the prevailing inflationary situation, submission of telephone bills and internet bills mistakenly as Rs.500,331.46, additional provisions were allocated by F.R.66 due to the insufficient amount of approved provision.	Preparation of estimates should be done accurately and realistically in terms of Financial Regulation 50 .
(b) In addition to the initial estimate of Rs.500,000 for the expenditure object 238-1-1-1303, a sum of Rs. 634,000 had been transferred through F.R.66 and that was a 127 per cent increase from the initial estimate.	As less than the amount claimed for has been approved during the approving of the provisions and also an additional cost had to be incurred for the repair of the archive during that year, it had to apply additional provisions through F.R. 66 .	Preparation of estimates should be done accurately and realistically in terms of Financial Regulation 50 .
(c) A provision of Rs. 6,490,000 which was the sum of four expenditure objects had been reduced through the transfers of F.R.66 and it was in the range of 33 to 73 per cent as compared to the initial estimate.	Over-provisioning, failure to carry out of machinery and equipment repairs as expected, non-payment due to expiry of lease rent payments for vehicles and printing of budget reports as decided to be done internally by the Ministry of Finance and printing of	Preparation of estimates should be done accurately and realistically in terms of Financial Regulation 50 .

other reports was limited, it had to transfer under F.R.66 in order to efficiently manage the saved allocations.

- (d) Even though the provision totalled to Rs. 2,600,000 had been made available under F.R. 66 stating that the original estimate provisions were insufficient in relation to two expenditure objects, there was a total of Rs.2,221,191 savings in those expenditure objects.
- Additional provisions were made through F.R..66 due to insufficient approved provision because of expenditure limitation, telephone bill and misdirection of internet bill. But saving of provisions due to the re-correction of the bill, and extra provisions have been made by F.R.66 due to the increase in fuel prices.
- Preparation of estimates should be done accurately and realistically in terms of Financial Regulation 50 .

2.3 Non- compliance with Laws, Rules and Regulations

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>Reference to the Laws, Rules, Regulations etc.</p>	<p>Non-compliance</p>	
<p>Financial Regulation 104 and 110</p>	<p>A preliminary report and a full report were not prepared and submitted regarding the damage caused to a vehicle belonging to the Department in an accident and the loss had also not been recorded in the Register of Losses.</p>	<p>Agree with the observations made in the audit query.</p> <p>Actions should be taken in terms of the Financial Regulations on motor vehicle accidents.</p>

3. Operating Review

3.1 Performance

3.1.1 Planning

Audit Obsevation	Comments of the Accounting Officer	Recommendation
Although a time frame of the activities to be carried out during the year and the final Outcome/Output related to those activities should be mentioned as per Paragraph 03(b) of Circular No. 01/2014 dated 17 February 2014, adequate numerical information had not been presented in performance indicators for the year under review, enabling the examination of progress in relation to identifiable activities.	Numerical factor values are not included for the activities of the year under review and a specific performance indicator was identified and recorded in order to enter the information numerically for activities that can be identified in the Annual Action Plans to be prepared in the future years.	Sufficient information should be submitted to be able to check the progress against the plan submitted in terms of Public Finance Circular.

3.1.2 Performing of Tasks

Audit Obsevation	Comments of the Accounting Officer	Recommendation
It was identified as the main responsibility of the Department of Fiscal Policy to formulate and implement financial policies within the broad development framework of the government in consultation with the relevant stakeholders including the public and private sectors in order to achieve the desired socio-economic objectives and it had been identified that the Department was recognized to be responsible for the tax policy of the country by covering areas of analysis of domestic and global Macroeconomic Development.		
The Public Financial Management (Responsibility) Act No. 3 of 2003 primarily controls public financial operations and the progress of 2 indicators on the		

implementation of the government's strategies from 2019 to 2022 related to the achievement of the objectives of this Act was as follows.

Description	Year			
	2019	2020	2021	2022
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Budget Deficit – as a per cent of GDP	9.6	11.1	11.7	10.2
Public Debt – as a Per cent of GDP	81.9	96.5	100.1	113.8

The following observations are made on the above matters.

(a) Even though the Public Financial Management Act states that the budget deficit should not exceed five per cent of the GDP, it had been 10.2 per cent by the year under review.

Although the Public Financial Management Act, 2003 states that the budget deficit should not exceed 5% of GDP, as indicated by the audit query, it has been observed that the amount has exceeded 10% in the year 2022. Agree with that audit observation.

It should ensure that the budget deficit is maintained as specified in the Act.

(b) Although it was stated that the total liabilities of the government should be ensured not to exceed sixty per cent of the estimated gross domestic product for that financial year as per the amended Public Financial Management Act, 2013, it was 113.8 per cent in the year under review.

Public debt that is , total government debt as a percentage of gross domestic product has exceeded the 113% limit and due to the reasons such as changes in loan interest rates, deterioration of Sri Lankan Rupee in the year 2022 due to huge change in foreign exchange rate, drop of the gross domestic product to a very low level due to the

Actions should be taken to maintain the credit limit as prescribed in the Act.

contraction of economic growth by 7.8% resulted a severe impact on the Sri Lankan economy and also due to the suspension of repayment of foreign bilateral loans in the year 2022, not decreasing the total amount of foreign debt, the amount of public debt in the year 2022 as a percentage of the gross domestic product has taken a very high value .

However, it has been prescribed that the total public debt as a percentage of GDP should reach 60 per cent by 2030 Financial Management (Responsibilities) Act No. 3 of 2003 and amendments thereto namely, Financial Management (Responsibilities) (Amendment) Act No. 15 of 2013, Financial Management (Responsibilities) (Amendment) Act No. 13 of 2016 and No. 12 of 2021 Financial Management (Responsibilities) (Amendment) Act.

3.1.3 Establishment of a Credit Management Agency

Audit Obsevation	Comments of the Accounting Officer	Recommendation
Although it was mentioned in the Public Debt Management Report 2022 that about the establishment of	The preliminary works for the establishment of a Public Debt Management	To be Established the agency and reported its progress as shown

a Public Debt Management Agency (PDMA) to improve debt management and transparency, the establishment, functioning and progress of this institution was had not been reported.

Agency (PDMA) is currently being carried out. A joint delegation consisting of representatives of the International Monetary Fund and the World Bank held several rounds of discussions with stakeholders from the Central Bank of Sri Lanka, the Ministry of Finance and other institutions to discuss the theoretical and technical issues related to this. After that, the report drafted by this delegation has been forwarded to the relevant institutions for submission of observations. Likewise, it has been stated that the Central Bank of Sri Lanka will primarily work with the Department of External Resources.

in the Public Financial Management Report.

3.2 Management Weaknesses

Audit Obsevation	Comments of the Accounting Officer	Recommendation
<p>Even though it had been stated that the urgent steps should be taken regarding collection of arrears of revenue in terms of 4(b) of the Circular of the Department of Fiscal Policy No. 01/2015 dated 20 July 2015 relating to collection of revenue of and F.R. 128 (e) , and further, analysis of unpaid taxes and formulation of policy recommendations to reduce tax defaults as mentioned in sub-indicator (iv) of Performance</p>	<p>There is a majority of percentage of tax arrears and proceedings related to the manner of the calculation of taxes and it has been impossible to act on the related arrears of taxes until the cases are over.</p> <p>Similarly, the respective Revenue Officers have been informed from time</p>	<p>Actions should be taken to recover arrears of revenue.</p>

Indicator 06 of Action Plan 2022, the arrears of revenue to be collected by Revenue Accounting Officers by 31 December 2022 had increased to a high figure of Rs.843,975,852,935 (Taxable Income and Non-Taxable Income) as per the information revealed in audit.

to time to recover other recoverable arrears and actions have been taken to inform the responsible officers in the monthly cash flow management meetings (Cash Flow Management Meeting) in the Ministry of Finance. Likewise, it has been suggested the Inland Revenue Department to approach in all cases by suggesting the time taken so far to collect arrears (Age Analysis), the arrears of taxes, the amount of arrears that can actually be collected, and the measures to be taken to promptly resolve the cases related to the arrears and frequent follow ups are being carried out on this.

4. Human Resources Management

4.1 Approved Cadre and actual Cadre

Audit Obsevation	Comments of the Accounting Officer	Recommendation
<p>The approved cadre was 61, out of which 17 posts were vacant by 31 December 2022 . Out of that, 09 were Senior Level posts. Four officers were assigned to 03 Senior Level positions and 01 Primary Level positions which were in vacant by 31 March 2023 and moreover, the number of vacant posts in the Department was 13.</p>	<p>The Ministry of Finance, Economic Stabilization and National Policy and the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government have been requested on several instances to fill all these vacancies.</p>	<p>Steps should be taken to fill up vacancies or revise the approved number of employees in a formal manner.</p>