

Head 243 – Department of Development Finance

1. Financial Statements

1.1 Opinion

Head 243 - The audit of the financial statements of the Department of Development Finance 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 Development Finance was issued to the Accounting Officer on 24 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 23 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 Development Finance 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 Expenditure Management

2.1.1 Preparation of Estimates

The following observations are made..

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Due to estimated provision in 16 expenditure objects was not sufficient, the total amount of Rs. 6,523,285,207 that is, provisions ranging from 1 per cent to 1424 per cent had been increased by 66 transfers.	Since the requested amount of provision was not received and the interest subsidy related to the year 2021 was presented in the first quarter of 2022 and the payments for all the interest subsidies received were settled by Treasury Bonds, provisions pertaining to that should be made.	Preparation of estimates should be done accurately and realistically in terms of Financial Regulation 50 .
(b) Due to non-utilization of the initial estimated provision of 14 expenditure objects, the provisions totalled to Rs. 6,729,319,236 ranging from 1 per cent to 81 per cent had been decreased through F.R.66 .	Non-submission of relevant claims related to payment of subsidy in the estimate for the year through banks and submission of interest subsidy claims relating to last quarter of 2022 were being submitted in first quarter of 2023 and to be made the provisions to pay subsidies related to other Expenditure Heads which were to be settled through Treasury Bonds.	Preparation of estimates should be done accurately and realistically in terms of Financial Regulation 50 .

- (c) During the year under review, initial estimated provision had not been made for providing food security to the low-income people in expenditure object 243-1-1-45-1501-11 and the provision totalled to Rs. 293,058,678 had been made available as Rs.85,024,650 by Supplementary Estimates Provisions and Rs.208,034,028 by Financial Regulation 66/69 transfers.
- Additional provisions had to be made due to delayed receipts of claims to reimburse the price difference caused by the sale of essential food items at subsidized prices during the Covid-19 epidemic to our Department,
- Preparation of estimates should be done accurately and realistically in terms of Financial Regulation 50 .

2.2 Non- compliance with Laws, Rules and Regulations

	Audit Observation	Comments of the Accounting Officer	Recommendation
Reference to the Laws, Rules, Regulations etc.	Non-compliance		
Paragraph 7.10 of Department of State Accounts Guideline No. 2022/05 dated 13 December 2022	A sum of 12,356,010,353 which was the expenditure incurred by other institutions on behalf of the Department as per Account Statement No. SA-11 had been shown as Rs. 48,573,718,946 in the imprest reconciliation statement.	Although the expenditure borne by other institutions on behalf of the Department should be shown as Rs. 12,356,010,353 in the imprest reconciliation statement as per Account Statement No. SA 11, the reason for showing it as Rs.48,573,718,946 was the debit note of Rs.36,217,708,543 made by the Treasury Operations Department had to be adjusted in relation to the deposit account for the Indian Credit Facility.	It should accurately proceed in terms of State Accounts Guideline.

3. Operating

3.1 Performance

3.1.1 Performing of Tasks

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>The following institution and project indicated in the Action Plan of the year under review had not become operational level even at the end of the year under review.</p> <ol style="list-style-type: none">1. National Credit Guarantee Institution2. ADB Rooftop Solar Power Generation Project (Phase II)	<p>Comments had not been given.</p>	<p>Actions should be taken to implement the activities outlined in the Action Plan.</p>

3.2 Management Inefficiencies

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>The arrears of interest payable by the Department totalled to Rs. 1,902,415,907 for 17 financial institutions related to the 18 financial assistance loan schemes implemented on the intervention of the Department had not settled even by 31 December 2022 and the balance of the interest due from the relevant financial institutions had not been verified as at 31 December 2022 .</p>	<p>As the requested provision was not adequately provided according to the estimated balances ascertained while preparing the estimates for the year 2022 , the savings of provision of the year 2022 was insufficient to be recorded as a liabilities.</p>	<p>It should be settled verifying the balance from the relevant financial institutions in respect of the interest to be paid.</p>

4. Human Resources Management

Approved and Actual Staff

Audit Observation	Comments of the Accounting Officer	Recommendation
There were 08 vacancies in the Department as at 31 December 2022, and the number of Senior Level vacancies consisted in that was 04 .	The notification of the available vacancies has been done quarterly to the Ministry of Public Administration Provincial Councils and Local Government through the electronic online system. It was noted to fill these vacancies as soon as possible by making aware the relevant Divisions once again.	Steps should be taken to fill up vacancies or revise the approved number of employees in a formal manner.