

## **Head 251 - Government Valuation Department**

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Government Valuation Department – Head 251 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 statements 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 Government Valuation Department was issued to the Accounting Officer on 22 May 2022 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 of 2018 and the Annual Detailed Management Audit Report relating to the Department was issued to the Accounting Officer on 30 June 2022 in terms of Section 11 (2) of the National Audit Act, No. 19 of 2018. 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, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Government Valuation Department 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 Qualified Opinion**

My opinion is qualified based on the matters described in paragraph 1.6 of this report. 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 qualified opinion.

#### **1.3 Responsibility of Chief Accounting Officer and the Accounting Officer for the Financial Statement**

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 such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 of the Department.

As per 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 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 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 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.
- 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 the Department's internal control.
- 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 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 Requirements

As required by Section 6 (1) (d) of the National Audit Act, No. 19 of 2018, I state the followings.

- (a) The financial statements are consistent with the preceding year.
- (b) The recommendations made by me relating to the financial statements of the preceding year, had been implemented.

## 1.6 Comments on Financial Statements

### 1.6.1 Non-compliance of Financial Statements with Circular Provisions

The following observation is made.

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer/ Accounting Officer</b>	<b>Recommendation</b>
(a) According to the instructions in paragraph 7.8 of the State Accounts Guideline, the value of “Net Assets to Treasury” under Net Assets/Equity of the Statement of Financial Position should be calculated by deducting the value of Deposit Accounts from the value of Imprest Accounts, but in the statement of financial position, after deducting the deposit account value of Rs.2,155,346 from the advance account value of Rs.86,322,026 the difference should be Rs.84,166,680, but by showing it as Rs.83,866,680, there is an inconsistency of Rs.300,000 in the value of “net assets to treasury” Was observed.	The correct value of the property, plant and equipment is Rs.430,183,481/- and in showing the reserve value, it has been transposed by a late error. However, I kindly inform you that the total liability value will be shown correctly as this difference will change the calculation of the value shown as net assets to the treasury.	Should act according to the instructions of the Director General of State Accounts.

## 1.6.2 Accounting Deficiencies

### (a) Receipts of Revenue

The following observation is made.

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer/ Accounting Officer</b>	<b>Recommendation</b>
(i) According to the information in the arrear income statement (ACA – 1(i)) included in the 2022 financial statements, the arrears income written off is Rs.20,878,937 and the arrears recovery related to previous years is Rs.101,538,604, but according to the arrear income report of the year 2022, it was observed that, Rs.4,070,381 and Rs.118,347,160 respectively.	During the year 2022, the income actually credited to the income head on 09.02.2022 is Rs.101,538,604 and the amount has been included in the ACA-1(i) form.	Financial statements should be prepared based on correct and accurate data.

### (b) Recurrent Expenditure

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer/ Accounting Officer</b>	<b>Recommendation</b>
It was observed that the personnel salary and operating expenses were Rs.514,405,063, but it was overstated as Rs.515,380,194 in the cash flow statement, therefore the net cash flow generated from operating activities was understated by Rs.975,131.	This difference has arisen due to mistaken adjustment of an expenditure incurred from other departments to the capital expenditure which should have been adjusted to the recurrent expenditure. This difference is adjusted when the expense is treated as a whole in the statement of cash flows.	The guidelines issued by the department of State Accounts should be followed.

**(c) Capital Expenditure**

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer/ Accounting Officer</b>	<b>Recommendation</b>
In the statement of cash flow, a cash outflow of Rs.7,078,033 has been shown under investment activities as " purchase or Construction of physical assets and acquisitions of other investment", but according to the trail balance it was Rs.8,053,162, Therefore the investment out flow in the statement of cash flow had been understated Rs.975,129.	This difference has arisen due to mistaken adjustment of an expenditure incurred from other departments to the capital expenditure which should have been adjusted to the recurrent expenditure. This difference is adjusted when the expense is treated as a whole in the statement of cash flows.	The guidelines issued by the department of State Accounts should be followed.

**(d) Deposits**

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer/ Accounting Officer</b>	<b>Recommendation</b>
It was observed that the valuation fees of Rs.822,362 related to the year 2021 and Rs.541,400 related to the year 2022, totaling Rs.1,363,762, had been retained in the deposit account without adjusting the income account.	These deposits, which were deposited directly into the bank account of department, but the depositor could not be identified, have been entered into the general deposit account as unidentified receipts in the year 2022, and those deposits are retained in the deposit account without crediting to miscellaneous incomes, and further attempts are made to identify the depositor. When identified later, the deposit will be credited to	A system should be introduced to identify income accurately and keep accounts.

the valuation income head and the deposits whose depositor is difficult to identify will be credited to miscellaneous income.

**(e) Property, Plant and Equipment**

The following observations are made.

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer/ Accounting Officer</b>	<b>Recommendation</b>
<p>(i) In the year under review the purchase of machinery and equipment was Rs.3,226,345 but as per the treasury computer printout SA 82 the purchase of machinery and equipment was Rs.3,045,283. It was observed that the difference was due to the fact that the value of 02 air conditioners amounting to Rs.181,062, which had been paid for during the year was adjusted to the opening balance without accounting as purchases in the year under review.</p>	<p>The adjustment to the opening balance is correct due to this amount is the expenditure incurred in the year 2021 for the installation of two air conditioners which purchased from the State Trading Corporation. Its furnished and fixed during the year 2021 but payment was made in the year 2022 because the voucher for the cost of installation was submitted on 15.03.2022. This expenditure should be capitalized and adjusted to the opening balance as it is a capital expenditure relating to an asset purchased in the previous year. Such capitalizations are adjusted to the opening balance using the facilities provided in the CIGAS program. Accordingly Rs.3,226,345 capital expenditure incurred in the year 2022 is shown in two parts in SA 82 form Rs.3,045,283 new purchases and adjustment to opening balance Rs.181,062/-.</p>	<p>Assets should be properly accounted</p>

(ii) In the statement of financial position, under non-financial assets, property, plant and equipment was shown as Rs.430,183,481, but in the same statement, under net assets/equity, property, plant and equipment reserve was shown as Rs.430,483,481, Therefore a difference of Rs.300,000 was observed.

The correct value of property, plant and equipment is Rs.430,183,481/- and it has been transposed in the reserve value due to typographical error. However, I would like to inform you that the value shown as net assets to the treasury is different with other values in the calculation, Therefore the total liability value is shown correctly.

The preparation of financial statements should be done in a formal manner based on accurate figures.

## 2. Financial Review

### 2.1 Revenue Management

The following observations are made.

Audit Observation	Comment of the Chief Accounting Officer/ Accounting Officer	Recommendation
(a) According to Finance Regulation 85(1)(c), the estimates should be prepared as realistically and accurately as possible by the State Revenue Accounting Officers, but the estimated revenue for the year under review was Rs.83 million, the actual revenue collection was Rs.133.1 million, it was observed that there are 60 percent quantitative variations between the actual income and the income estimate, while last year it was 31 percent.	Under normal circumstances, estimates are prepared as accurately as possible based on predictable information, but this overshoot occurs due to unexpected and large value assessments, and the receipt of fees. For an example, up to June 2022, income was Rs.30,923,960. However, this estimate for the year 2022 was exceeded due to the receipt of an valuation fee of Rs.84,056,400 related to the valuation work carried out suddenly in July for the lease of a terminal at Colombo Port.	The estimates should be Prepared correctly by following the Financial regulations.

- (b) According to the Bank Reconciliation Statement as on 31st December 2022, a total of Rs.379,674 relating to 34 cases of unrecognized receipts and unrecognized receipts of Rs.1,363,762 as per the General Deposit Account, a total amount of Rs.1,743,436 had not been accounted as income during the year under review.
- The duties of the department are carried out by 19 valuation offices which are spread across the island wide but the bank account is maintained only at the head office. Accordingly, from any People's Bank branch across the island, facilities have been provided to deposit into the department's bank account in cash or by cheque. Receipts for deposits will be issued after receiving the documents related to the deposit at the head office and checking the bank account. These unrecognized receipts occur due to delay in receiving the documents by post at the head office and to avoid this situation a new deposit slip with 4 copies has been introduced from January 2023. Accordingly, it is expected to resolve the problem of delay in revenue recognition.
- A method of accurately identifying and accounting for income should be introduced.
- (c) It was observed that Rs.583,464,653 or 81 percent of the arrear valuation fee income of Rs.719,500,478 as at December 31, 2022 is outstanding within a period from 01 to 14 years.
- Regular reminders are issued to recover outstanding loan balances and reminders issued by the legal department, that have not shown sufficient compliance have also been informed from the ministry level to recover the balances
- Urgent steps should be taken to recover the arrears.



- (d) During the reviewed year, it was observed that only Rs.118,347,160 or 16.8 percent of the outstanding revenue of Rs.705,882,194 at the end of the previous year had been recovered, so it was observed in the audit that there is no significant progress in recovering the arrears of revenue. All outstanding fees will be recovered through regular reminders and follow-up actions. Actions should be taken to recover arrears without delay.
- (e) According to the arrears income report submitted on December 31, 2022, it was observed that the arrears income from eight institutions is Rs.651,335,659 which is 90% of the total arrears income. Out of these, the matters related to the amount due from the S.W.R.D. Bandaranaike Foundation are maintained by the Legal Affairs Division of the Ministry of Finance and since it is not possible to file a lawsuit against the government institutions, it is requested to the ministries in charge of these institutions to settle these arrears by the Legal Department. Actions should be taken to recover arrears without delay.
- (f) According to Note No. 06 of the arrears income report submitted on December 31, 2022, Rs.664,839 of the income to be collected from fee-free institutions was shown as arrears income. The committee appointed to investigate the deficiency of income had examined only 233 files and submitted its recommendation. In addition that, following the instructions of the Audit and Management Committee of ministry, 20 balances worth Rs.3,059,905.20 were included in the balances that were identified as non-commercial entities by the provincial offices and sent to be removed from the arrears income account. After a formal investigation, settlement action should be taken and a system should be introduced to avoid such situations.

- (g) According to the Departmental Circular No. 2020/02 for levy of fees, there are two lists as commercial and non-commercial establishments and only commercial establishments are able to call valuation fees. In relation to the year under review, it was observed that 06 institutions were not mentioned in both the lists and it was not observed that there is an internal control system to identify commercial and non-commercial institutions and correctly account for the arrears of valuation income.
- The list of commercial and non-commercial entities is updated from time to time by the State Enterprises Department of the Treasury. Only commercial institutions are able to collect valuation fees. Organizations are added and removed from this list time to time. Due to ignorance and inattention, the provincial offices recognize that the charges should not have been charged and make the necessary corrections. Based on the audit observation, I have noted to inform the provincial offices that the list of commercial and non-commercial institutions and their revisions from time to time should be taken into consideration and the remaining problems should be resolved by consulting the head office.
- The list of institutions should be updated periodically and a system should be introduced to streamline the collection of fees.

## 2.2 Non-compliance with Laws, Rules and Regulations

The following observation is made.

Reference to Laws, Rules and Regulations	Observation Value	Non-compliance	Comments of the Chief Accounting Officer/Accounting Officer	Recommendation
Departmental Circular No. 2015/019 dated 23 December 2015	Rs.	In getting advance for financial valuation works, 0.5 per cent of assumed	Cabinet approval has also been received to adopt a new system based on the recommendations of a committee appointed with the participation	The Valuation fee collection process should be streamlined.

market value or Rs.10,000 of officers from various departments of whichever is the treasury and the lower should officers of the be taken as valuation department advance. In involved in this case of advance process in order to for rent resolve the existing valuation, 0.5 deficiencies in the per cent of the valuation fee assumed rental collection process. In value or the future, the new Rs.5,000 system will be whichever is introduced after the lower should relevant circular is be taken as issued by the Finance advance. It has Department. been observed that there are cases of non-payment by the respective clients because the large variation between the advance and the actual valuation fee due to the fact that the client is not informed about the assumed assessment value while getting these advances.

**3. Operating Review**  
**3.1 Non- performance of Functions**

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer/ Accounting Officer	Recommendation
(a) According to the performance report submitted in relation to the year 2022, it was observed that there are general valuation and rating assessment files respectively 11,867 and 8,793. Those were not be completed by the valuation department in the year 2022.	There are 451 vacancies for the positions of Assistant valuer, Valuer and Senior valuer in the field for valuation work. That is 59% of the total staff of 760 who should be in those positions. Field duties are limited due to this ongoing shortage of field officers and the fuel crisis that had been until mid-2022. Because of that there is large number of incomplete files. As a result of a major effort in the midst of the suspension of recruitment by the government, the recruitment of 145 assistant valuers from April 2023 will reduce this number significantly.	The necessary methods Should be introduced to carry out the valuation work without delay and should strengthen the control systems.
(b) As at December 31, 2022, out of 836 appeals received by the Legal Division, only 276 had been heard, which was only 33 percent of the total number of appeals received, and the number of pending appeals was 560 or 67 percent.	The Legal Division shall only deal with matters related to appearing, giving facts, consulting the Attorney General, obtaining the assistance of the Attorney General, representing the Acquisition Officer/ Divisional Secretary in the proceedings of the Land Acquisition Review Board and related matters.	Efforts should be made to minimize delays.
	Kindly let me know that every step to be taken by the Legal Division of the	

Government Valuation Department in relation to the said proceedings has been efficiently followed and that the proceedings which have not been completed on various issues are beyond the control of the Legal Division and that the necessary steps have been taken regularly for matters where the Legal Division can directly contribute.

**4. Human Resource Management**

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) Four hundred and eighty five posts or 43 per cent of the approved cadre were vacant as at 31 December 2022. Out of those vacancies, 331 posts or 68 per cent had been posts of officers of Tertiary Level performing the functions of valuation.	<p>Recruitments are made in terms of the approved service minute,</p> <ul style="list-style-type: none"> <li>• 62 officers have been recruited to the post of Valuer based on the service experience and skills.</li> <li>• The examination notification related to the recruitment under the limited stream for the post of valuer has been published in the gazette dated 21.04.2023.</li> <li>• Kindly informed that 145 Assistant valuers have been appointed on 24.04.2023 through the open competitive examination for the posts of Assistant valuer, Grade II, Class II, field/ Officer Category 2.</li> </ul>	The steps should be taken to fill the vacancies in a formal manner.

- (b) At the end of the year under review, it was observed that there was an excess of 97 secondary level development officers over the approved carder. Development Officers recruited under the Unemployed Graduates Employment Program 2020 were assigned to ministries and departments regardless of vacancies. Out of these officers, apart from the officers recruited as assistant valuers of the department from 24.04.2023, other officers will be included in the permanent cadre of the department as per the instructions of the Management Services Department. The management services department should be consulted and dealt with properly.
- (c) There is no approved cadre for the post of office assistant included in the primary level. But it was observed that there are 03 officers employed. By Gazette No. 2187/27 issued on 09.08.2020, the Ministry of Economic Policy and Planning was placed under the Ministry of Finance due to the change in the scope of the ministries. Three officers who attached to that ministry, work have been assigned to this department by the Secretary of the Ministry of Finance based on the service requirements of the office workers in this department. I would like to inform you that currently those 03 employees also have been assigned in to the approved cadre of 76 positions of office employment service in this department. Arrangements should be made to engage staff under formal approvals.