

Head 130 - Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government

1. Financial Statements

1.1 Qualified Opinion

Head 130 - The audit of the financial statements of the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government 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 Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government was issued to the Chief Accounting Officer on 29 May 2023 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report relevant to the Ministry was issued to the Chief Accounting officer on 31 May 2023 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. This report of the Auditor General in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 10 of the National Audit Act, No.19 of 2018 is presented to Parliament.

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 Ministry 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 responsibility for the financial statements is 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 the Chief Accounting Officer and the Accounting Officer for the Financial Statements

The Chief 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 Section 16(1) of the National Audit Act, No.19 of 2018, the Ministry 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 Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Ministry 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 judgment and maintain professional skepticism 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 Ministry'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 Chief Accounting Officer regarding, among other matters significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5 Report on Other Legal Requirements

I express the following matters in terms of 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 of the preceding year had been implemented.

1.6 Comments on Financial Statements

1.6.1 Accounting Deficiencies

(a) Revenue Receipts

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
Instances were observed in audit that building rental income collected by certain institutions from government assets were not credited to state income under the related income code. Accordingly, the Department of Ayurveda had collected a sum of Rs.1,298,432 from circuit bungalows and hostels in the year 2022 and instead of crediting it to the state income under the income code number 20.02.01.01, it had been credited to the state income under other income codes.	The Department of Ayurveda has informed that the income collected from circuit bungalows and hostels will be credited and corrected to the income code 20.02.01.01 in future.	Actions should be taken to credit the government building and house rent income to the state revenue under the correct income code.

(b) Capital Expenditure

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
Three "Nila Piyasa" Government quarters in Colombo, Monaragala and Kandy which was constructed at a cost of Rs.1,311,795,048 and allocated for residency during the period June - October 2021 was not capitalized under buildings and shown as work- in- progress in the financial statements.	It was informed to the Treasury to capitalize.	Buildings that are utilizing after completion of construction should be properly accounted for.

(c) **Reconciliation Statements on Advances to Public Officers Account**

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
(i) Although the balance as per control account of Advance B Account to Government Officers as on 31 December 2022 is Rs.1,802,048,070, according to the treasury computer printout, the balance was Rs.1,801,972,683 and according to the individual balance list, the loan balance due on that day was Rs.1,805,321,977, thus it was observed differences of Rs.75,387 and Rs.3,273,907 respectively.	Action has been taken to correct the difference of Rs.75,387. I agree that the difference between the balance as per treasury printout and as per individual balance due list is Rs.3,273,907.	Balances as per departmental books should be continuously compared with treasury books and ensure that there are no discrepancies.
(ii) According to the consolidated trial balance, the advance recovery and advance payments by cash and cross entries were Rs.2,562,501,774 and Rs.2,572,631,983 respectively, but in the cash flow statement, the figures were shown as Rs.47,104,446 and Rs.57,234,654 respectively.	The effect of those journals has been removed as the values should be shown as per cash book while presenting advance recoveries and advance payments to the cash flow statement.	Advance recoveries and advance payments by cash and cross entries in the consolidated balance sheet should be shown in the cash flow statement under advance recoveries and advance payments.

2. Financial Review

2.1 Revenue Management

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
(a) Although the revenue estimates should be prepared accurately and realistically following the measures mentioned in paragraph 03 of the Fiscal Policy Circular No. 01/2015 dated 20 July 2015, as per the revised estimate, the expected rental income to be collected from government buildings in the year under review was Rs.1,300,000,000, but the actual income collected was	Actual income increased by Rs.204,677,796 over the revised income estimate due to re-allocation of closed quarters and provision of quarters to officers under new housing schemes in the year 2022.	Revenue should be accurately forecasted in circular manner.

Rs.1,504,677,796, therefore there was a favorable variance of 16 percent or Rs.204,677,796 between the estimated income and the actual income.

- (b) As per paragraph 4 (b) of the Fiscal Policy Circular No. 01/2015 dated 20 July 2015, the Accounting Officers should take immediate measures to collect the arrears of revenue and to prevent further accumulation of the arrears of revenue to be collected, the arrears of building rent income to be collected from 29 institutions on 31 December 2022 was Rs.341,748,077, out of which the arrears of income to be collected from the years before 31 December 2019 was Rs.194,578,337. An increase of Rs. 18,901,344 was observed in this arrears of rental income compared to last year's figures. 22 percent or Rs. 74,210,789 of the rent arrears was to be collected from the government bungalows, circuit bungalows and quarters under the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government and arrears rent income from 110 government bungalows and quarters was Rs.72,108,339. The following observations are also made in this regard.
- i. Rent arrears of Rs.4,590,791 had to be recovered by 74 Ministers and Members of Parliament as at 31 December 2022 and in that balance, there were 19 balances of Rs.1,406,586 continuing from the year 2015.
- Requests have been made to the Public Finance Department regarding certain irrecoverable house rent arrears, and other recoverable arrears of revenue will be dealt with as per F.R.113, after taking action to recover it in all possible ways.
- Actions should be taken according to circulars and immediate action should be taken to recover the arrears of income.
- Efforts have also been made to inform the heads of relevant institutions and the Director (Finance) of the Parliament of Sri Lanka to take immediate steps to collect the arrears, to call the phones of the arrears lessees and to send letters to their personal addresses.
- Urgent action should be taken to recover house rents and prevent further accumulation of rent arrears.

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| <p>ii. The arrears of rent due on 31 December 2022 from 48 summit houses was Rs.4,131,259, of which 45 balances of Rs.2,468,657 were outstanding balances related to the period from 2012 to 2021. Also, the arrears of Rs.8,897,555 due on 31 December 2022 were not collected from 18 officials who resided in the Jayawadanagama houses during the period from 2012 to 2021.</p> | <p>An amount of Rs.1,305,548 has been collected by 17.05.2023 from 30 beneficiaries of 14 Summit houses. Out of the 45 balances of Rs. 2,468,657 for the period 2012-2021, an amount of Rs.271,916 has been recovered by 16.05.2023. Arrangements have been made to call the phone numbers of the relevant officials and send letters to private addresses to collect the arrears of house rent in Jayawadanagama houses. It has also been observed that monthly house rents have been collected from some of the officials' offices, but due to non-proper reporting, they have been recorded as arrears.</p> | <p>- Do -</p> |
| <p>iii. A balance of Rs.36,042,000 due from the year 2012 from a bungalow allotted to the Land Reform Commission and a balance of Rs.14,798,387 due from a house given to the Chronic Kidney Disease Prevention Research Secretariat from 2015 to 2020 was existing continuously without settlement.</p> | <p>Further steps are being taken to recover the arrears income.</p> | <p>Follow-up should be done regularly and action should be taken to recover arrears.</p> |

2.2 Expenditure Management

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
<p>The total allocation of Rs.45,237,900 which had been transferred under Financial Regulation 66 for 05 recurrent expenditure objects and Rs.7,045,846 of</p>	<p>The transfer of these allocations is done through a data system operated through the Treasury and all transfers requiring the approval</p>	<p>Action should be taken to prepare estimates as accurately as</p>

the allocation which had been transferred for 04 recurrent expenditure objects had not been utilized. Furthermore, out of the amount of Rs.181,723,000 that had been transferred for 03 capital expenditure objects, a total of Rs.156,737,488 had been saved without utilizing.

of the Deputy Secretary of the Treasury as per F.R. 66, the transfer of the relevant system shall be done automatically on receipt of the Treasury's approval.

possible in terms of Financial Regulation 50 (ii) and to proceed in circular manner.

2.3 Incurring of Liabilities and Commitments

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
(a) According to notes iii of the financial statements, the liability balance on 31 December 2022 was Rs.2,720,644,374 but according to the treasury computer printout, the liability balance on that day was Rs.2,713,281,897, therefore a difference of Rs.7,362,877 was occurred.	These liabilities are not included in the CIGAS program as they relate to vouchers received after the 2022 accounts closing process.	Liabilities must be accurately identified and reported to the Treasury before the due date.
(b) A sum of Rs.680,000,000 had been paid in the year under review for the expenses related to the previous years of the "Let's Awake Polonnaruwa" program, which had not been accounted under liabilities as of 31 December of the previous year.	Due to the lack of provision in the years 2020 and 2021 for the outstanding bills in hand, arrangements have been made to settle the vouchers with the amount of the provision received in the year 2022.	Accounts payable must be made to account for as liabilities.

3. Operating Review

3.1 Foreign Funded Projects

Following observations are made.

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
(a) Although aggregating a sum of Rs.240,000,000 was provided, as Rs.200,000,000 through foreign grants and Rs.40,000,000 under the foreign financing expenditure object under a capital expenditure object, in order to introduce a software system to operate a business centre for Incubator in Jaffna, the entire provision was saved.	The respective MoU and grant could not be activated due to various practical reasons; therefore, the provision made for this was saved.	Actions should be taken to utilize the provision made by foreign and domestic funds in a planned manner at optimum level.
(b) Although an allocation of Rs.600,000,000 has been made by the European Investment Bank (EIB) loan and Rs.50,000,000 under the foreign financing expenditure object, under a capital expenditure object, for the implementation of the Greater Colombo Water and Wastewater Management Improvement Programme Phase 03, the project was not executed as planned due to non-awarding of the contract. However, the a sum of Rs.477,700,000 of the provision made under the above EIB loan was transferred to phase 02 of this programme and the entire amount was spent.	Due to the delay in the award of the contract, the provision made for the year 2022 could not be utilized. Accordingly, due to the insufficient provision made for the year 2022 for the contract to monitor the condition of the sewage channels under the same scope, the provision made for the above purpose has been transferred under the relevant financial regulations and expenses have been incurred.	-Do -
(c) A sum of Rs.110,151,712 which was 55 percent of the allocation of Rs.200,000,000 made under the Asian Development Bank (ADB) loan for the implementation of Section 03 of the Greater Colombo Water and Wastewater Management Improvement Investment Programme,	The provision made for the year 2022 had saved, because of to stop the relevant constructions as the reduction in funds utilization due to the contractor suspending work in the middle of the year due to the lack of related plans and excessive price increases for the contract of upgrade	-Do-

a sum of Rs.576,429,501 which was 58 percent of the allocation of Rs.1,000,000,000 made under the Asian Development Bank loan for infrastructure development of this programme and a sum of Rs.157,358,855 which was 79 percent of the provision of Rs.200,000,000 which was made under the object of foreign financing expenditure was not used for the intended purpose. A sum of Rs.8,302,600 of the provisions made by the foreign financing expenditure object had been transferred to other expenditure objects and spent.

the waste water pumping station and pipe system in Kirulapana area, the work of the Wellawatta Wastewater Treatment Plant proposed to be implemented under this programme was delayed due to the public opposition during the acquisition of land and the relevant loan funding period ended in October 2022.

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| (d) | Although allocations of Rs.1,900,000,000 under the World Bank loan, Rs.1,400,000,000 under grants, and Rs.50,000,000 under the foreign financing expenditure object have been made for the implementation of the Local Development Support Project, 56 percent or Rs.777,562,462 of the allocations made under the World Bank grants were saved. | As the amount estimated for the price variation of the sub-projects was not enough, it was necessary to get an agreement from the World Bank to pay the price variation. It was not possible to award the contracts on the scheduled dates due to the time it took to complete these works, the scarcity of raw materials in the market, and the difficulty of finding suitable contractors for the construction works after following the existing procurement methods. | Actions should be taken to utilize the provision made by foreign and domestic funds in a planned manner at optimum level. |
| (e) | Although 69 percent of the provision of Rs.300,000,000 made under the Netherland government loan for the development of the infrastructure of the rural bridge project was spent, there was still a provision of Rs.7,628,461 which was 64 percent of the provision of Rs.12,000,000 made under the foreign financing expenditure object had been saved. | Although the Phase V Contract Agreement of the Rural Bridge Project was signed on 22 February 2019, the requirements to be met for the contract to come into effect were completed on 27 July 2021. According to the contract agreement, the iron bridges were to be imported from the Netherlands in January/February 2022. At that time, with the outbreak of war in Ukraine, the contractor could not import these iron bridges. | -Do- |

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| (f) | Although allocations of Rs.10,000,000 was made under JICA grants for the Dairy Development Project in the Northern Province and Rs.50,000,000 was made under the United Nations Development Project grants for Enhancing Local Government, those projects were not implemented in the year under review. | Due to the severe restriction of imports by the government because of the bad economic situation in the country in 2022, it was not possible to implement the Dairy Development Project in the Northern Province.

Due to the poor economic situation in the country in the year 2022, allocations made for the Local Government Enhancement Program was saved. | -Do - |
| (g) | A sum of Rs.270,000,000 had been allocated under the German government grants and a sum of Rs.5,000,000 had been allocated under the foreign financing expenditure object for the implementation of the project of adding value to the waste, but the entire allocation was saved as the project had not been commenced. | Due to the non-starting of projects because of the poor economic situation in the country in the year 2022, the project of adding value to the waste could not be implemented, and therefore the provision has been saved. | -Do - |

3.2 Implementation of Projects under Domestic Financing

Following observations are made.

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
Out of the provision of Rs.750,000,000 made for the E-Grama Niladhari project, only Rs.3,320,382 was spent and 99.6 percent or Rs.746,679,618 was saved. Suspension of procurement after signing the contract with the supplier, delays in the implementation of the procurement process, delays in sending cabinet memorandum etc., were cited as reasons for not implementing the project as planned from the year 2017	After having formally contracted to get the devices at a price of Rs.731,339,000 (without tax) to the company which was selected as the qualified supplier for competitive local procurement by a Cabinet Procurement Committee in 2017 and 2018, it was decided to suspend the said process by the CAPC appointed later. As per the said CAPC decision, the referral was somewhat delayed, and arrangements were made to keep sufficient provision out of the 2022	The provision made should be utilized for the purpose in a planned manner.

revised project allocation of Rs.750 million for the said award or for the proposed alternative schemes.

An estimated amount of Rs.309 million was initially allocated for procurement for collection and scanning of filled household/citizen data sheets in 7,000 Grama Niladari divisions, as both bidders were not qualified for the procurement on technical grounds and no contract was awarded, therefore, the identified project allocation was saved.

3.3 Assets Management

Following observations are made.

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
(a) The Secretary to the Ministry, who was transferred on 31 December 2022, had taken the Toyota Land Cruiser V8 vehicle belonging to the Ministry, but the vehicle had not been formally handed over to the Ministry of Transport and Highways or returned.	The vehicle has been notified to be handed over to this ministry, but it has not been handed over so far.	Actions should be taken to confirm the existence and ownership of public assets.
(b) 17 rooms on the ground floor of the Kataragama resort and 03 rooms of the Polonnaruwa resort had become unusable due to various defects.	Necessary steps are being taken regarding water leakage in Kataragama resort and due to the high cost of repairing air conditioners; it was temporarily stopped with the economic crisis in the country.	Urgent measures should be taken to ensure the existence and security of public assets and the assets should be used with full utilization.

Notifications have been made to take necessary immediate action regarding the fault in the electrical wiring system.

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| (c) | Although Rs.322 million had been given in 2008 to demolish the Summit houses on Kappetipola Mawatha and build a new housing complex, the project had not been implemented. Furthermore, 11 summit houses on Kappetipola Mawatha, which had been designated for demolition for more than 15 years from 2008 until now, were given to the Presidential Security Division officers on a temporary basis from 2009 until now, and the administration of these houses remained out of the control of the Ministry. | It has been noted to take further action for this. | The Ministry should own the construction of new official housing complexes and all housing administration. |
| (d) | The assessed value of the land on which the “Nila Madura” building was built was accounted as Rs.458,900,000 but the process of taking over the land to the Ministry had not been completed. | A reminder letter has been sent regarding land acquisition activities dated 04.04.2023. | Arrangements should be made to take over the ownership of the land. |
| (e) | The acquisition of 35 circuit bungalows and their lands under the Home Affairs Division and their assessment and inclusion in the financial statements had not been completed. | Letters have been sent to the relevant district secretariats and divisional secretariats for taking action to take over the circuit bungalows to the Ministry. At present, the necessary steps are being taken by those offices. | Actions should be taken to confirm the ownership of the assets. |
| (f) | Although 08 vehicles owned by the Home Affairs Division were given to other departments and ministries, the said vehicles were not formally handed over to the relevant institutions or taken back and 04 vehicles were not in use. | It has been discussed in the Audit and Management Committee meeting held on 02.05.2023 that it is appropriate to hand over the 08 vehicles which were given to other institutions at that time due to the need of service, and accordingly further work is being done. | Expedite the handover and ensure the existence and security of the assets and effectively utilize the assets. |

3.4 Uneconomic Transactions

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
Sixty three Epson L 800 type toners purchased before the year 2018 were expired and in unusable conditions and were piled up in the main warehouse of the Home affairs division as at 23 April 2023.	The district secretariats and divisional secretariats belonging to the Ministry have inquired about the need and the further work of providing them to those offices is currently being carried out.	A formal investigation should be conducted in relation to purchases beyond the requirements and action should be taken as per the provisions of the Establishment Code.

3.5 Management Weaknesses

Following observations are made.

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
(a) Although, according to the National Budget Circular No. 118 dated 11 October 2014, the loan balances must be settled within 03 months, there were 09 balances of Rs.1,781,752 that have been outstanding for more than a year from the transferred officers of 07 district secretariat offices of the home affairs division.	Not answered.	As per the circular instructions, steps should be taken to settle the loan balances promptly.
(b) Out of 09 loan balances of Rs.1,070,790 due from the deceased officers of public administration and home affairs division, the outstanding balance for more than 05 years was Rs.224,187. Furthermore, out of 28 loan balances amounting to Rs.3,013,074 to be collected from the officials who left the service of the Public Administration, Home Affairs, Provincial Councils and Local Government divisions of the Ministry, there were 09 loan balances amounting to Rs.1,142,762 which have been outstanding for more than 05 years.	Actions such as taking legal action, filing lawsuits, taking action to recover from the guarantor, starting investigations due to misplaced files of the loan amount have been taken. Also, a sum of Rs.91,244 due from one officer who left the Ministry of Public Administration has been recovered from the guarantor.	Immediate action should be taken to recover the loan balance.

Also, there was a loan balance of Rs.143,200 from an officer who was suspended from work in the Provincial Council and Local Government Division due for more than 05 years.