

Heading - 243 Department of Development Finance

1. Financial Statements

2. Opinion

The audit of the financial statements of the Head 243 - Department of Development Finance for the year ended 31 December 2023 comprising the statement of financial position, statement of financial performance and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information 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 28 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 28 August 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 2023 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

| Audit Observation | Comments of the Accounting Officer | Recommendation |
|--|--|--|
| (a) A total amount of Rs.6,789,112,090 had been increased by transfers of provisions under Financial Regulations 66/69 in a range of 2 to 257 percent due to insufficiency of estimated provisions of 10 objects. | Agreed. | Measures should be taken to prepare accurate estimates as per Financial Regulation 50. |
| (b) Provisions had been reduced by a total of Rs.6,874,992,990 or a range of 3 percent to 51 percent of the initial estimated provision through transfers under Financial Regulation 66/69 due to non-utilization of the initial estimated provisions for 14 objects. | Agreed. | -do- |
| (c) Object No. 243-1-1-45-1501-11 Food Security Program for Low Income People and Object No. 243-1-1-51-1504-11 for the payment of interest subsidy to the State Banks related to the provision of loans for small and medium scale paddy mill owners by the State Banks for the Yala season. Provision of Rs.84,756,000 had been made by the Financial Regulations during the year under review without making the initial estimated provision. | Agreed. Since it had been implemented in the last half of the year according to a Cabinet decision taken on 14 August 2023, it had not been included in preparation of estimates. | -do- |

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| (d) | It was observed that only 5.38 percent had been written off even though a minimum amount of provision equal to 06 per cent of the total provision for all other recurrent expenditure excluding the provision allocated for the objects specified under paragraph 02 (a) of the Budget Circular No. 01/2023 dated 27 January 2023 of the Secretary to the Treasury should be written off. | Agreed. | Measures should be taken in terms of the relevant circular. |
| (e) | The total net provision amounting to Rs. 50,168,500,000 allocated in the year 2023 for 05 objects had been left unutilized. | Agreed. The Asian Development Bank loan amount had not been released as agreed due to that debt restructuring was done through the International Monetary Fund in this year. | Measures should be taken to prepare accurate estimates in terms of the Financial Regulation 50. |
| (f) | Rs.1,089,437,365 out of the net allocation of Rs.1,666,861,200 allocated in the year 2023 for 13 objects to carry out the planned tasks remained unutilized. It had taken a considerable range of 50 per cent to 99 per cent of the total net provision out of those objects. | Non-payment of the interest subsidy applications by participating financial institutions within the relevant period as expected. | -do- |

2.2 Public Officers' Advance Account

| Audit Observation | Comments of the Accounting Officer | Recommendation |
|---|--|---|
| (a) Even though an irrevocable Promissory Note should be obtained for conversion of pension in disbursement of distress loans as specified in Appendix 23 according to section 14:11 of Chapter xxiv of the Establishment Code, it was observed that the above statement had not been obtained when making disaster loan payment of Rs. 1,469,440 during the year under review. | The above statement had been obtained only from officers who have no future service period to recover the loan amount in hundred installments ,and noted to get the above statement from all officers in due course. | Actions should be taken to proceed according to the relevant clauses of the Establishment Code. |

3. **Operational Review**

3.1 **Procurements**

| Audit Observation | Comments of the Accounting Officer | Recommendation |
|---|--|--|
| <p>It had been informed that registration of public procurement entity, registration of coordination officers, registration of suppliers, submission of annual procurement plan, and publication of procurement notices should be done by public institutions using the shopping method through e-procurement system in terms of the Public Finance Circular No. 05/2018 dated 23 October 2018 and No. 08/2019 dated 17 December 2019 regarding the introduction of the public e-procurement system to government institutions. However, procurement items totaling Rs. 1,584,599 had been procured by the department on 06 occasions in the year 2023 without proceeding in terms of the above circular.</p> | <p>It was not possible to conduct procurement through the system in the year 2023 since the training for the public e-procurement system had been conducted in the latter part of the year 2023.</p> | <p>Circular provisions should be followed.</p> |

4. **Human Resource Management**

4.1 **Approved and Actual Staff**

| Audit Observation | Comments of the Accounting Officer | Recommendation |
|---|---|---|
| <p>10 posts out of the 59 approved posts of the department had been remained vacant. Out of them there were 05 senior level posts, 02 secondary level posts and 03 primary level posts.</p> | <p>One of the two vacancies at secondary level has been filled, and two out of the three primary level vacancies have been filled. A letter of vacancy has been issued for one available driver vacancy and measures are being taken to fill the vacancy. I have once again informed the relevant departments regarding senior level vacancies and made a note to fill those vacancies as soon as possible.</p> | <p>Proper measures should be taken to fill up the vacancies or revise the approved cadre.</p> |