

## **Head 250 – Department of State Accounts**

### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the financial statements of the Head 250 - Department of State Accounts for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023, the statement of financial performance and cash flow statement for the year then ended and notes relevant to the financial statements including the information relevant to the material Accounting policies 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 Department of State Accounts was issued to the Accounting Officer on 29 May 2024 in terms of Section 11(1) of the National Audit Act, No.19 of 2018. The Annual Detailed Management Audit Report was issued to the Accounting Officer on 19 July 2024 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. This report is tabled in Parliament 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.

In my opinion, the financial statements give a true and fair view of the financial position of the Department of State Accounts as at 31 December 2023, and its financial performance and cash flows 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 responsibility for the financial statements are 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 Department 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 Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department 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 Department'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.

## 2. Financial Review

### 2.1 Management of Expenditure

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) The variance between the initial expenditure estimate and the revised expenditure estimate for the year under review had been varied in a range from 37 percent to 151 percent compared to the initial expenditure estimate.	Increased overseas training and conferences than expected, increased repairing cost of photocopiers, and having to enter into an emergency service agreement for the New Cigas Server, increased operating lease premium and rapidly increasing prices of vehicle spare parts in the market had caused for these variances.	The annual expenditure estimates should be prepared as accurately as possible as per F.R. 50.
(b) Over provision had been made for 5 recurrent objects and 4 capital objects and as such, a provision totalling Rs.40,032,321 had been saved as at 31 December 2023 and it ranged from 20 per cent to 100 per cent of the net provision made for each object.	According to the Budget Circular 01/2023 dated 27.01.2023, tidying up the allocations under the 6 percent cut in recurrent allocations, limitation of overtime and holiday pay of officers, limitation of travel expenses due to holding meetings and discussions between government institutions online, carrying out only essential repairs, limiting purchases, conducting most of the training programs under online mode, not achieving the purpose as expected due to non-receipt of approval for Customized Accounting Standards for Government institutions relating to the interim period, had caused for the savings in these allocations.	-Same as above-

## 2.2 Incurrng of Liabilities and Commitments

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
----- Liabilities and commitments totalling Rs.65,266 relevant to the year under review and paid in the months of January, February and March 2024 had not been stated in the statement of liabilities and commitments in the financial statements.	----- It was an error occurred when preparing the list of liabilities.	----- A formal system should be introduced to be able to identify all commitments and liabilities related to financial statements.

## 2.3 Issuance and Settlement of Advances

### 2.3.1 Miscellaneous Advance Account

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
----- (a) The outstanding balance of the Miscellaneous Advance Account as at 31 December 2023 comprised a balance of Rs.124,317,823 remainig over a period of 05 years and 88 per cent of that balance was recoverable from the District Secretariats of Polonnaruwa, Anuradhapura and Ampara. The Department had failed to recover those outstanding values of advances even during the year under review.	----- The steps taken to settle the outstanding balances are as follows. <ul style="list-style-type: none"><li>• Polonnaruwa District Secretariat - It has been submitted to the Department of Public Finance; to write off the amount of Rs. 19 million by the Food Commissioner's Department, since that amount receivable from the Ministry of National Policies and Economic Affairs cannot be recovered,</li><li>- to write off the loss of Rs.2.9 million identified as having occurred due to the sale of rice at a lower price than the cost,</li></ul>	----- Adequate future action should be taken to settle the outstanding balances by formalizing the follow up action.

- Anuradhapura District Secretariat
  - It had been submitted for approval as per F.R.109 to write off the amount of Rs. 2 million at the Agricultural Development District Office of Anuradhapura as the accused has been penalized for arrears.
  - The Miscellaneous Services Cooperative Society at Nochchiyagama is being liquidated and the liquidator has been informed in writing to complete the liquidation proceedings promptly and settle the related amounts.
  - The Eppawala Miscellaneous Services Cooperative Society has agreed to pay Rs.30,000 monthly from the interest of an investment amount owned by the society and Rs.500,000 annually from the profit of the seed project.
  - Further action will be taken after completion of the legal proceedings regarding the amount of Rs. 18 million of Agricultural Service Centers and the Miscellaneous Services Cooperative Society.
- Ampara District Secretariat
  - Instructions have been given to expedite the disciplinary investigation regarding the value of Rs.16.7 million.
  - Further action will be taken after the completion of the legal proceedings regarding Rs.21.4 million.

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| (b) The advance of Rs.6,321,785 released in terms of F.R.106 for settling the loss occurred due to a financial fraud taken place on 02 March 2019 in the Anurahapura Teaching Hospital had not been settled even by the date of audit despite an elapse of over 03 years.  | Further action will be taken regarding the amount of Rs.6,321,785 to be settled after the completion of the investigation conducted by the Anuradhapura Police Station.  | -Same as above- |
| (c) Magistrate's Court at Maligakanda has informed the Ministry of Health that the case filed in relation to the salary robbery that occurred on 02 December 2002 at the Colombo Dental hospital has been labeled C 3 on 26 July 2022. Even though the Ministry of Health has submitted 'General 285' applications on 23 September 2022 to write off this amount, action had not been taken to write off these amounts or take any other action even by the date of audit. | The Ministry of Health has submitted applications to the Department of Public Finance to write off the relevant loss and the Department of Public Finance has requested a detailed information report from the Secretary to the Ministry of Health to consider the relevant writing off. | -Same as above- |

**2.4. Non Financial Assets**

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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Even though a value of Rs.1,718,656 had been shown as capital expenditure under cash flows generated from investing activities in the cash flow statement for the year ended 31 December 2023, that value for the year under review was amounted to Rs.88,125 and as a result, the net cash flow generated from investing activities had been overstated by Rs.1,630,531. It was further observed that the cost of rehabilitation and improvement of capital assets and the cost of capacity building were included in this overstatement.	As the capital expenditure is classified in accordance with the expenditure classifications included in the annual budget estimates in Form ACA-C (cash flow statement) of the financial statements, the cash flow statement of the Department of State Accounts is prepared accordingly.	Cash flows should be classified according to the accounting principles when preparing the cash flow statement.

### 3. Operating Review

#### 3.1 Non-achievement of expected Outcome

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) The introduction of an integrated treasury management information system (ITMIS) to automate treasury operations had been commenced in the year 2010, and the estimated cost of the total investment in this reard was amounted to US\$ 60 million equivalent to Rs. 7,920 million. As at 31 December 2023, 13 years had elapsed approximately and as per the information received to audit, the 13 basic main activity areas expected to be implemented by this system had not been fully developed and implemented despite an expenditure of Rs.5,647 million been incurred. However, according to the information submitted to the audit, it was observed that, according to the agreements entered regarding the ITMIS system as at 31 December 2023, a sum of Rs.43,887,382 and US\$ 989,103 were still remained payable to the service providers as at 31 December 2023.	ITMIS has been introduced by the Financial Management Efficiency Project (FMEP) since the year 2010. The approval of the Cabinet of Ministers had been received in July 2019 for the expansion of the main functional areas of the system. By that time, the FMEP project had already completed the expansion of the system's budget planning and activities related to budget allocation. The circumstances occurred after the Easter bomb attack in the 2019, the curfews and country lockdowns due to the spread of the COVID pandemic in the years 2020 and 2021, and the political and economic crisis in 2022 distracted the expansion activities of the ITMIS system. In the first half of the year 2023, the expansion of the system could not be done due to the project evaluation work done by the ministries. Accordingly, expansion of the ITMIS system could not be done properly for about 4 years.	Since, it has been delayed already, prompt action should be taken to fully develop and implement the system.
(b) In the year 2016, another payroll management system called e-Payroll had been introduced only to the Ministry of Finance without installing and implementing the salary management activity area which was expected to be implemented since the beginning of the ITMIS system, and an expenditure amounting to Rs.5,704,871 had been incurred for that as at 31	The Ministry of Finance had identified the need for a payroll management activity system for the entire public sector by the year 2016. The payroll management process that was to be introduced only for the Ministry of Finance through the above ITMIS system was limited and it was not appropriate to	Implementation of a payroll management system for the entire public sector should be expedited with special attention to economy and efficiency.

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apply for the entire public sector. Further, expansion of that process through the ITMIS system in such a background is also disadvantageous from the economic point of view. Therefore, according to the decision to obtain another software for payroll management for the entire public sector in the policy meeting of the Ministry held in April 2016, the e-payroll salary management system is currently being implemented.

- (c) Even though according to the government financial statements as at 31 December 2023, the balance of advances (8493) of the government officers of the central government was Rs.30,720 million, according to the age analysis submitted to the audit, it was amounted to Rs.30,516 million. Accordingly, a difference of Rs.204 million was observed.
- We check the annual age analysis reports of all institutions, follow up regularly and coordinate with the relevant institutions and inform them to maintain the balances correctly. Action is being taken to analyze old information available in the department regarding the inactive balances and reasons for the inactive balances are being identified accurately and resolved.
- Prompt action should be taken to settle the balances and improve the existing system.
- (d) According to the age analysis of advances (8493) of government officers submitted as at 31 December 2023, the balance between 5 and 10 years to be recovered from officers who have transferred to the institutions of provincial councils, officers who have been permanently released for corporations, boards and provincial councils, dead officers, retired officers, suspended officers, officers who left/terminated the service, officers employed on secondary basis, officers on expatriate/domestic leave and others, was amounted to Rs.112,939,218 and the receivable balance over 10 years was amounted to Rs.277,066,082.
- It is the responsibility of the Chief Accounting Officers and Accounting Officers of the respective institutions to follow the provisions in the Establishment Code, financial regulations and existing circulars and settle these loan balances. Follow up actions are being taken regularly by calling the progress of those institution on a quarterly basis, checking the recovery progress of loan balances and providing necessary technical advices.
- Same as above-



#### **4. Human Resource Management**

##### **4.1 Assigned Cadre and Actual Cadre**

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
<p>-----</p> <p>Out of the 44 vacancies in the Department as at 31 December 2023, 12 posts in the senior level, 02 posts in the tertiary level, 27 posts in the secondary level and 03 posts in the primary level existed. The department had not taken action to fill the relevant posts or conduct a cadre analysis and suppress the unnecessary posts during the year under review.</p>	<p>-----</p> <p>The Secretary to the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government had been informed by the the Secretary to the Ministry of Finance to assign officers to the vacant positions in the senior level, and officers have not been present up to now.</p>	<p>-----</p> <p>Action should be taken to fill the vacancies or to revise the cadre.</p>