

Head 011 – Finance Commission – 2024

1. Financial Statements

1.1 Opinion

The audit of the financial statements of Head 011 – Finance Commission for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the 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 Finance Commission was issued to the Chief Accounting Officer on 30 May 2025 in terms of Section 11(1) of the National Audit Act No.19 of 2018. The Annual Detailed Management Audit Report relevant to the Commission was issued to the Chief Accounting Officer on 09 June 2025 in terms of Section 11(2) of the Audit Act. 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, the financial statements give a true and fair view of the financial position of the Finance Commission as at 31 December 2024, 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 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 Emphasis of matter - Basis of preparation of financial statements

The attention is drawn to Note 1 to the financial statements, which describes the basis of preparation of these financial statements. The financial statements have been prepared for the use of the Finance Commission, the Treasury and the Parliament in accordance with Government Financial Regulations 150 and 151 and Public Accounts Guideline No. 06/2024 dated 16 December 2024, as amended on 21 February 2025. Accordingly, these financial statements may not be suitable for other purposes. My report is intended only for the use of the Finance Commission, the Treasury and the Parliament of Sri Lanka. My opinion in this regard is not modified.

1.4 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Financial Statements

The Chief Accounting Officer are responsible for the preparation of financial statements that give a true and fair view In accordance with Government Finance Regulations 150 and 151 and Public Accounts Guideline No. 06/2024 dated 16 December 2024 as amended on 21 February 2025 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 Commission 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 Commission 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

1.5 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 scepticism 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 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.

2. 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.

3. Financial Review

3.1 Expenditure Management

Following observations are made

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) The entire net provision of Rs. 300,000 provided for a capital object had remained unutilized.	Although funds were requested for capital vehicle repairs for the year 2024, it has been stated that all vehicle repairs carried out during the year were of a recurring nature.	Annual expenditure estimates should be prepared accurately and realistically in accordance with Financial Regulation 50.
(b) As there were shortfalls in the allocation for 03 objects, additional allocations totaling Rs. 8,245,000 had been made under F.R. 66. The range of each object was from 22 percent to 127 percent of the original estimated allocation.	It has been stated that during the year, allocation transfers were made from objects where allocation savings occurred to cover unforeseen expenses during the preparation of estimates due to various reasons.	Annual expenditure estimates should be prepared accurately and realistically in accordance with Financial Regulation 50.

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| (c) | Since over-allocations had been made for 04 objects, a total of Rs. 2,885,000 had been transferred from those objects to other objects under F.R. 66. The transfer ranged from 20 percent to 80 percent of the original estimated allocation for each object | It has been stated that due to the fact that only essential expenses were incurred due to the implementation of Budget Circulars 01/2024 and 05/2023, the remaining provisions were transferred to objects for which provisions were insufficient under F.R. 66. | Annual expenditure estimates should be prepared accurately and realistically in accordance with Financial Regulation 50. |
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3.2 Advance issuance and settlement

Following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) It took between 13 and 48 days to settle the sub imprest of Rs. 170,000 given to officers on three occasions in the year 2024, in violation of the amended Financial Regulations 371(5).	It has been stated that instructions have been given to the relevant officials to prevent such omissions from taking place in the future when obtaining and settling advances.	Actions should be taken to settle imprest in accordance with Financial Regulation 371(5).
(b) Although imprests should not be obtained for specific and unnecessary tasks, it was observed to the audit that 03 cases where imprests were received and held for a period of 31 to 88 days without completing the relevant task and then reimbursed.	It has been stated that instructions have been given to the relevant officials to ensure that such incidents do not occur when obtaining and paying advances in the future.	Advances should be obtained only for specific and essential tasks.

4. Operational Review

4.1 Planning

The following deficiency was observed in the preparation of the Annual Action Plan in accordance with paragraph 03 of Public Finance Circular No. 02/2020 dated 28 August 2020.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
The Annual Action Plan, had not been prepared to include the matters in Guideline Nos. 12(a), 12(c), 12(e) and 12(f) as per Guideline No. 12 mentioned in Public Finance Circular No. 02/2020 dated 28 August 2020,	It has been stated that actions will be taken to include the matters to be included in the Annual Action Plan from the year 2025, in accordance with Guideline No. 12 of Public Finance Circular 02/2020 dated 28 August 2020.	Actions should be taken to prepare the annual action plan in accordance with the guidelines mentioned in the circular.

4.2 Non fulfilling the functions

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
Although the Finance Commission approves the proposed development plans under capital grants and provides funds to the Provincial Councils for their implementation in accordance with the provisions of the Constitution, it was observed that there is currently no mechanism for monitoring, reviewing and following up on the investment of those funds and evaluating the outputs and results specified in the plan by an independent institution or party entrusted with the responsibility and the recommendations to be made in this regard were not mentioned in the report submitted to the President for the year under review.	Although it is beyond the constitutional mandate of the Finance Commission to directly monitor the development programs of the Provincial Councils, the Finance Commission regularly provides the necessary guidelines to the Provincial Councils to implement the existing monitoring mechanism and evaluation methodology in a more robust and efficient manner.	Actions should be taken to develop a methodology for reviewing and following up on the utilization of funds and to include relevant recommendations in the report on recommendations submitted to the President.

4.3 Failure to achieve the expected output level

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
It is observed that although budget allocations have been made for provincial development programs based on the recommendations of the Finance Commission, the Treasury has not released sufficient funds, making it impossible to implement provincial development programs as planned and the objective of achieving balanced regional development is not being achieved.	It is noted that the entire amount of provisions allocated in the budget is not released to the Provincial Councils in some years considering the financial situation of the General Treasury and the Finance Commission has also mentioned this in its annual recommendations submitted to the President from time to time.	Actions should be taken to release the sufficient imprest from the treasury.

4.4 Procurements

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
Although the Public Finance Circular No. 08/2019 (ii) dated 06 February 2024, which was issued regarding the implementation of the Public Electronic Procurement System in Sri Lanka, with reference to No. 08/2019(i) dated 19 April 2023 and No.08/2019 dated 17 December 2019, had stated that procurement of goods under the Shopping Method should be carried out through the e-GP system in 2024, procurement of goods totaling Rs. 905,765 was done without using the e-GP system on 06 occasions.	It has been stated that it was necessary to go to the market to inspect the goods and select and purchase materials that suited the needs on several occasions during the year 2024 and except for those occasions, all other procurements have been carried out using the e-Gp system.	Actions should be taken to use the e-GP system for the procurement of goods under the Shopping Method as per the circular.

4.5 Asset Management

Following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) It was observed that there was a difference of 399 assets in relation to 45 asset items when comparing the inventory book and the BOS Report under Fixed Assets in the CIGAS computer system as at 31 December 2024.	It has been stated that entering some of the items in the CIGAS system and stock book under other names and entering low-value items in the consumables list are among other reasons which have contributed to this.	Actions should be taken to revise and update the fixed asset records entered in the inventory books and CIGAS computer system.
(b) The reports obtained through the CIGAS system could not be compared with the inventory book due to the mismatch between the asset item nomenclature in the CIGAS software and the stock book.	It has been stated that this is being investigated and actions will be taken to correct it in the future.	The asset codes generated by the CIGAS software should be updated in the relevant assets and inventory books.

5. Human Resource Management

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
Although the approved cadre of the Commission as on 31 December 2024 was 86 and as the actual cadre was 70, there were 16 vacancies of officers out of which 06 were senior level vacancies, which was 37 percent of the approved number. It is observed that if the existence of such vacancies adversely affects the performance of the Commission, the vacancies should be filled immediately or if fails to do so, the approved cadre should be revised.	It is stated that 04 senior level posts have already been appointed and the Ministry of Public Administration has been informed to take actions to fill the Class II/III vacancies in the Sri Lanka Administrative Service.	Actions should be taken to fill vacancies promptly or to revise the approved cadre.