

Head 238 – Department of Fiscal Policy

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Department of Fiscal Policy-Head 238 for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 including my comments and observations on the financial statements of the Department of Fiscal Policy was issued to the Accounting officer on 16 June 2022 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. As per Section 11 (2) of the Audit Act, the Detailed Annual Management Audit Report related to the Department was issued to the Accounting Officer on 05 August 2022. 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 accompanying financial statements give a true and fair view of the financial position of the Department of Fiscal Policy as at 31 December 2021, and of its financial performance and its 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 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 opinion.

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

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 the Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Sub-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.

As per 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 the summary report of the Auditor General 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:

- 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 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 accordance with Section 6 (1) (d) of the National Audit Act, No. 19 of 2018.

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

2. Financial Review

2.1 Income Management

The following Observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) A revenue of Rs.20 billion had been estimated through the preliminary revenue estimate for the year 2021 under the profit revenue code No 20.05.01.00 of the Central Bank. Following the preparation of the preliminary revenue estimate unrealistically, this estimate had been increased by another Rs. 5 billion revising it to Rs.25 billion. A sum amounting to Rs. 15 billion had been collected under that revenue code in the year under review. Accordingly, since the revenue estimate under that revenue code had not been projected realistically and correctly, it was possible to collect only 75 per cent of the expected revenue estimated through the preliminary estimate.	The prevailing economic condition of the time is taken into consideration when revenue estimates are prepared. A sum of Rs.30 million had been remitted to the General Treasury in February 2022 as Central Bank profits for the year ended on 31 December 2021. The profits have been given after the accounts of the Central Bank of Sri Lanka closing on 31 December 2021. When it comes to preparing the revenue account, the revenue is calculated on cash basis and accrued revenue cannot be considered.	Estimates should be prepared Realistically and correctly.

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| (b) | It had been mentioned that a sum of Rs. 64,598,346 as Social Responsibility Levy- revenue code 1002.10.00 was outstanding in the financial statements. 0.01 per cent or Rs. 5,820 of revenue out of that outstanding amount had been collected in the year under review. Further, a sum of Rs. 1,449,239 of that outstanding revenue had been written off, and revenue of Rs.63,143,287 under that revenue code had been outstanding even by the end of the year under review. | Inland Revenue Department and the Customs Department, being the institutions collecting the tax revenue under revenue code 1002.10.00-Social Responsibility Levy, should also be responsible for collecting the related outstanding revenue. This Department has taken steps to send frequent reminders and appoint the related committees and give instructions to such committees on collecting outstanding revenue without delay. | Action should be taken to immediately collect the outstanding revenue. |
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2.2 Management of Expenditure

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Provision made becoming fruitless	Even though a net provision of Rs. 1,000,000 had been made for the Object 238-1-1-1102, that total provision had been saved due to non-utilization of it in the year under review.	A provision of Rs. 3,000,000 has been made for the Object 238-1-1-0-1102 for the year 2021, and out of that amount, progress has shown related to Rs. 2,000,000 of provision. And also, the remaining provision was not utilized due to the cancellation of participation of the Departmental officers in foreign training and seminars owing to the Covid-19 pandemic.
		That the preparation of annual expenditure estimate should be done correctly and realistically in term of financial regulation 50.

(b) Making over provision

Over provision totaling Rs.25,598,373 had been made for 05 Objects in the year under review and out of that amount, Rs.15,488,341 had been utilized. Accordingly, provision of Rs. 10,110,032 had been saved. That saving ranged from 16 per cent to 75 per cent of the net provision made for each Object.

Provision had been saved due to Non-carrying out of repairs as planned, the decrease of value of payment of interest due to decrease of interest rates, limiting of officers being called for duties due to covid-19 pandemic and preparation of annual reports and budget reports at the cost of the Ministry of Finance.

Preparation of annual expenditure estimate should be done correctly and realistically in term of financial regulation 50.

2.3 Non-compliance with Laws, Rules and Regulations

The following are the instances of non-complying with laws, rules and regulations.

Audit Observation	Reference to Non-Laws, Rules and Regulations	Non-compliance	Comments of the Accounting Officer	Recommendation
(a)	Guideline 2021/03 of the Department of State Accounts dated 26 November 2021.	No Due to non-preparation of cash flow statement on gross advance receipts and payments in the cash flow generated from operational activities had been understated by Rs. 2,749,698 and Rs. 2,513,761 respectively.	Do not agree with the audit observation. Only changes occurred in the cash flow are shown in the cash flow statement and if values of transactions done through cross-entries are included, the actual cash inflows and outflows of the Institution are overstated in the cash flow statement. The expenditure indicated in the cash flow statement is the values obtained after adjustment of transactions to the gross expenditure through cross entries.	Preparation of financial statements by following the guidelines of the Department of State Accounts should be streamlined.

(b)	Financial Regulation and 110	104	A full or preliminary report had not been prepared and submitted regarding the damage caused to a vehicle of the Department, and this loss had not been indicated in the record of losses.	Agreed with the audit observation. Although the approval had been obtained through the relevant file for the reported damage, it is informed that action will be taken in future to indicate it in the record of losses and submit the preliminary report.	Action should be taken as per the financial regulations.
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3. Human Resource Management.

The following observation is made.

Audit Observation	Comments of the Accounting Officer.	Recommendation
16 out of 62 approved posts of the Department remained vacant. There were 06 senior level posts in those vacant posts.	It was not possible to fill the vacancies in 06 senior level posts due to the inadequacy of existing office rooms. A letter has been sent to the Ministry of Public Administration requesting to attach an officer for the post of Administration Officer. There are currently only 07 vacancies to be filled in other posts.	Action should be taken ether to fill the vacancies or to revise the cadre.