Head-249- Department of Treasury Operations

1. Financial Statements

1.1 Opinion

The audit of the financial statement of the Department of Treasury Operations for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance and cash flow statements 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. In terms of Sub-section 11(1) 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 Treasury Operations, was issued to the Accounting Officer on 31 May 2020. The Annual Detailed Management Audit Report relevant to the Department was issued to the Accounting Officer on 09 December 2020 in terms of Section 11 (2) of the Audit Act. This report is presented to 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 prepared in terms of provisions of the State Accounts Circular No.271/2019 of 03 December 2019, give a true and fair view of the financial position of the Department of Treasury Operations as at 31 December 2019, 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 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 the Chief Accounting Officer and the Accounting Officer for the Financial Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and in terms of Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as the Chief Accounting Officer and the Accounting Officer determine 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 to be prepared of the Department.
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 system and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibility for the 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 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, 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:

- 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 the Department's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- 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.

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

As required by Sub-section 6(1) (d) and Section 38 of the National Audit Act, No.19 of 2018, I state the followings:

(a) that the financial statements are consistent with the preceding year,

(b) that the recommendations made by me on financial statements of the preceding year had been implemented.

2. Financial Review

2.1 Revenue Administration

Revenue Code	Original Estimated Revenue	Actual Revenue as at 31 December 2019	Excess/(Shortfall) Compared to the Original Estimate	Excess/(Shortfall) as a Percentage of the Original Estimate
	Rs.Millions	Rs.Millions	Rs.Millions	%
20.02.01.99	2,350	956.29	(1,393.71)	(59.31)
20.02.02.01	7,000	6,700.06	(299.94)	(4.28)
20.02.02.99	3,000	7,119.16	4,119.16	137.31
20.03.01.00	170	116.69	(53.31)	(31.36)
20.03.02.99	10,000	6,688.93	(3,311.07)	(33.11)
20.03.03.02	1,700	1,778.99	78.99	4.65
20.03.05.00	880	1,700.35	820.35	93.22
20.03.99.00	47,500	10,483.99	37,016.01	(77.93)
20.05.99.00	4,000	3,141.34	(858.66)	(21.47)
20.06.04.00	28,000	18,271.35	(9,728.65)	(34.75)
30.01.01.00	13,000	7,909.40	(5,090.60)	(39.16)
	117,600	64,866.55	(52,733.45)	(44.84)

The following observations are made on information in the above table.

Audit Observation	Recommendation	Comments of the Accounting Officer
According to above information, a shortfall from 04 per cent to 78 per cent relating to 08 revenue codes and excesses from 05 per cent to 137 per cent relating to 03 revenue codes were observed in relation to the original revenue estimate. Nevertheless, action had not been taken to revise the revenue estimates.	Revenue forecasting and maintenance of records should be formalized to make correct policy decisions and to decide the manageable level of public spending, to decide the budget gap and for the purpose of monitoring and to support policy analysis.	As the criteria based for revenue collected, are not specific, differences would practically occur between the actual revenue and estimates.
Further, the following observations are made regarding the above revenue accounts.		
(a) **Revenue Code 20.02.01.99 - Other Lease Rents**		
(i) <u>Pugoda Textiles Lanka Ltd. and Ramona Private Limited</u> The agreement entered into between above institutions for renting out the premises located at Nos.223 and 227, Main Street, Colombo 11, had been extended only by letters and accordingly, the monthly rent during the period from 01 June 2014 to 31 May 2019 had decreased. Moreover, it was observed that the revenue receivable to the Government had decreased due to failure in entering into proper agreements from 31 May 2011 up to now.	Agreements should be properly entered into.	As this matter comes under the scope of the Department of Public Enterprises, enquiry was forwarded to the said Department.
(ii) <u>China Bay Oil Farm</u> In terms of the agreement entered into between the Government and the above institution from 07 February 2003 to 35 years, it had been mentioned that the said agreement should be revised	Proper agreements should be entered into.	As this matter comes under the scope of the Department of Public Enterprises, enquiry was forwarded to the said Department.

	automatically once in 05 years based on the cumulative rate of inflation of the United States for the proceeding 05 years and that the rental should be adjusted according to the production capacity. Moreover, as per Clause 1.2 of the Memorandum of Understanding, a lease agreement for stores facilities and the tenure of the land should have been entered into within 06 months and in case of implementation of the said lease agreement, payment of relevant lease rentals should be updated as per the said Memorandum of Understanding. However, neither entering into the relevant lease agreement nor adjusting the relevant lease rentals could be carried out as per the Memorandum of Understanding up to now. Accordingly, it was observed that the revenue receivable to the Government is deprived of due to failure to update the said agreement from which revenue of US$ 100,000 is received, failure in taking action in terms of Conditions specified therein and failure to make use of assets to the maximum.		
(iii)	<u>Lanka Milk Foods Limited (Pattipola and Ambewela)</u>		
	It was observed that lease rentals are not received as a lump sum due to recovery of rentals at 02 installments without being recovered as a lump sum for the year as specified in the agreement.	Lease rentals should be recovered in terms of conditions of the agreement.	The said institution has agreed to pay the lease rental for the land as at the contractual date every year. The total lease rent for the year 2019 has been paid.

(b)	**Revenue Code 20.02.02.01 – Granting Loans – Interest**		
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	i. The arrears of interest balance as at 31 December 2019 had been Rs.2,368,167,107 due to failure in taking proper measures for the recovery of arrears of interest balances.	Action should be taken to recover/settle the arrears.	A sum of Rs. 564,199,381 remained outstanding for a long period relating to the Urban Development Authority has been recovered in the year 2019. Further action necessary for writing off remaining arrears, is being taken.
	ii. In terms of paragraph 04(b) of the Fiscal Policy Circular No.01/2015 of 20 July 2015, prompt action should be taken to arrest accumulation of arrears. However, it was observed that the outstanding balance of Rs.2,368,169,107 remained as 31 December 2019 contained balances remained unrecovered since before the year 2016.	-Do-	Sri Lanka Rubber Manufacturing and Export Corporation – As this institute is inoperative at present, there is no possibility of recovery of moneys. SANASA Society and Sarvodaya Economic Enterprise Development Services (Guarantee) Ltd.- The Attorney General has been referred to for taking legal action. Ceylon Fisheries Corporation- As liabilities of about Rs.960 million are available with the Department, it has been decided to obtain the approval for waiving the interest. National Livestock Development Board and Milco Private Ltd.- Further action required to waive the interest has been taken.
(c)	**Revenue Code 20.03.02.99 – Sales and Charges-Administrative Charges and Payments – Sundry**		
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	An outstanding balance of Rs.1,089,385 had remained as at 31 December 2019 and it was observed that the said balance contained balances brought forward since before the year 2016. Further, action had not been taken in terms	Action should be taken in terms of circular instructions and moreover, it should be monitored that action is taken accordingly.	Ministries and Departments concerned, should take action to recover outstanding balances. Instructions required therefor are specified in the Treasury Operations Circular No.05/2018.

	of Circular mentioned in paragraph (b) (ii) above pertaining to the said loan balance.		
(d)	**Revenue Code 20.05.99.00 – Current Transfers – National Lotteries Board and Other Transfers** **---------------------------------------**		
	i. Proceeds from lotteries totalling Rs.4,572,986,527 relating to 08 various Funds during the year under review had not been made use of for objectives of the establishment of the relevant Fund.	Proceeds should be made use of for relevant objectives and proper commitment should be made to the contribution of lottery buyers.	Provisions are made from the Annual Budget for special Funds. As such, there is no need to utilize the total amount collected for Funds.
	ii. It was observed that a sum totalling Rs.8,245,138,360.87 received from 07 lotteries is not made use of for any institution/fund.	Proceeds should be utilized for relevant objectives and proper commitment should be made to the contribution of lottery buyers.	Proceeds from lotteries are not allocated to a specific fund or an institution. Nevertheless, those are allocated to all institutions through crediting to the Consolidated Fund.
(e)	**Revenue Code 20.06.04.00 – Recovery of Loans** **---------------------------------------**		
	An outstanding loan balance of Rs.10,047,406,028 recoverable from 06 institutions had remained as at 31 December 2019 and it was observed that the said balance contained balances brought forward since before the year 2016. Action in terms of circulars had not been taken with regard to the said outstanding balances.	Action should be taken to recover the outstanding loan balances.	Sums of Rs.50,000,000 and Rs.8,676,923 granted to the National Paper Company Ltd. and to the Ceylon Ceramics Corporation respectively on the approval of the Cabinet of Ministers had been written off in the year 2019 and a sum of Rs.275,578,711 that remained unrecovered over a long period relating to the Urban Development Authority had been recovered in the year 2019. Even after being notified to settle the remaining loan balances, the relevant institutions had failed to settle the same.

(f)	**Revenue Code 30.01.01.00 – Foreign Grants** **--------------------------------------**		
	i. A sum of Rs.44,726,524 received as grants at the beginning of the year under review had been retained in 14 general deposit accounts and those moneys had remained so even by the end of the year without being made use of for relevant objectives.	Coordination and regulation should be strengthened on utilization of foreign grants for relevant objectives so as to ensure grantors' confidence.	Utilization of relevant grants as per a proper plan is carried out in coordination with the Chief Accounting Officer/Accounting officer of institutions from which grants are obtained and the Director General of External Resources.
	ii. A sum of Rs.40,757,312 received as grants had been credited to the Government revenue during the year without being made use of for relevant objectives.	Coordination and regulation should be strengthened on utilization of foreign grants for relevant objectives so as to ensure grantors' confidence.	As relevant projects are at an inoperative level, the said money had been credited to the Government revenue.
	iii. Foreign grants received from foreign institutions and Governments for each project had been retained in the general deposit account without being utilized for the said purposes and as such, a sum of Rs.19,213,698 received relating to 06 projects had been returned to grantors during the year under review.	Attention should be drawn towards the maximum utilization of foreign grants received.	Relevant moneys have been sent by relevant Ministries / Departments by which those projects are implemented as per the request made to remit the remaining money to the grantor.
	iv. A sum of Rs.10,625,104 received through PIV in the year under review had been saved without being made use of even by the end of the year.	Appropriate utilization of foreign grants for relevant objectives should be monitored.	Relevant Ministries/Departments are notified that foreign grants should be made use of.
	v. Foreign grants had been received on 31 December 2019 for the Project of Strengthening Enforcement of Law Access to Justice & Social Integration through the Deposit Account No.6000-0-0-10-0-1116. The said amount totalling Rs.1,923,158 had been retained in the Deposit Account without being made use of.	-Do-	It appears that the said amount has not been utilized. Utilization of the said amount is carried out in coordination with the Chief Accounting Officer / Accounting Officer of institutions from which grants are obtained and the Director General of External Resources.

	vi. Out of provision received for the Project of World Health Organization Grants through the Deposit Account No.6000-0-0-10-0-71, a sum of Rs.2,899,935 had been returned to grantors in 03 instances.	-Do-	It appears that the said amount has not been utilized. Utilization of the said amount is carried out in coordination with the Chief Accounting Officer / Accounting Officer of institutions from which grants are obtained and the Director General of External Resources.
(g)	**Revenue Code 20.03.99.00 – Sales and Charges- other Receipts** **---------------------------------------**		
	In terms of Financial Regulation 128(02), it is specified that the Revenue Accounting Officer is responsible to take adequate steps to ensure that returns are obtained from other departments and offices in which any portions of the Revenue for which he is responsible are collected, and are incorporated in the Estimates of Revenue. However, in terms of the Fiscal Policy Circular No.01/2015(v) of 30 December 2016, it is specified that in the case of different Ministries or Departments collecting revenue which cannot be assigned to a specific Ministry or Department, the accounting of such revenue should be carried out by the Heads of the revenue collecting Ministry/Department/Agency on behalf of the Revenue Accounting Officer. As such, documents required in auditing the revenue account were not available with the Department of Treasury Operations.	Information on revenue accounts should be maintained accurately and correct instructions, guidance and regulation should be strictly carried out.	Necessary instructions therefor have been specified by the Treasury Operations Circular No.05/2018.

(h)	**Non-revision of Revenue Estimates** --------------------------------------- It had been estimated to collect revenue of Rs.117,600,000,000 in the year under review relating to 11 revenue codes and out of that, only a sum of Rs.65,735,634,334 had been collected by the end of the year under review, representing only 56 per cent from the estimated revenue. Moreover, revenue had been collected exceeding the revenue estimated for 03 revenue codes and thus, it ranged between 105 per cent and 238 per cent of the estimated revenue. However, the Department had failed even by the end of the year under review to revise the said revenue estimates.	Maximum effort should be made to take action so as to ensure the financial control of Parliament.	A draft Appropriation Act including the budget estimate for the year 2020 has not been presented to Parliament at the end of the year 2019. As such, the Director General of Fiscal Policy has informed by his letter No.FP/RVN/01/100/05/01 dated 10.02.2020 that a revised revenue estimate relating to the year 2019 has not been passed by Parliament.
(i)	Revenue of Rs.12,428,196,376 relating to 07 revenue codes had been in arrears by the end of the year under review. Out of the said arrears of revenue, sums of Rs.1,761,038,608, Rs.3,139,403,882 and Rs.7,527,753,886 had been brought forward over a period of 01 year, 02 years and 03 years respectively.	Maximum effort should be made to collect revenue in arrears and attention should be drawn towards settlements.	A sum of Rs.12,415,674,134 out of the total arrears of revenue amounting to Rs.12,428,196,376 is the arrears of loans and interest thereon of the amount granted as sub-loans to the Sri Lanka Rubber Manufacturing and Export Corporation, SANASA Society and Sarvodaya Economic Enterprise Development Services (Guarantee) Ltd, Ceylon Fisheries Corporation, National Livestock Development Board and Milco Private Ltd. As all these institutions are inoperative or fail to settle loans, it is impossible to recover the said outstanding sub-loans and interest thereon. It is kindly informed that necessary further action is being taken to write off the said outstanding amounts.

2.2 Imprest Adjustment Account

A credit balance of Rs.1,946,034,961,930 had been indicated according to the Statement of Financial Performance whilst according to Departmental books, the said balance had been Rs.824,983. The following differences were revealed in the Imprest Adjustment Account prepared in terms of the State Accounts Circular No.271/2019 of 03 December 2019.

	Audit Observation	Recommendation	Comments of the Accounting Officer
(a)	Even though the Department had spent a sum of Rs.500,165,200 for other Expenditure Heads, it had been indicated as Rs.500,000,000 in the Adjustment Account, understating by Rs.165,200.	Accounts should be prepared in terms of circulars.	As per circular instructions issued by the Department of Pensions, action had been taken to settle the loan balance of Rs.165,200.00 through cross entries, of an officer of the Department who had retired. As such, it was decided not to include the said amount in the Imprest Adjustment Account. However, it was recorded to submit in future by holding discussions with the Department of State Accounts regarding your observation.
(b)	According to the consolidated detailed trail balance submitted by the Department, receipts and payments of advances had differed by Rs.796,479 and Rs.414,407 respectively as compared with values mentioned in the Final Treasury Accounting Statements. Those differences had been indicated as Rs.5,900,984 and Rs.5,353,712 in the Imprest Adjustment Account.	Accounts should be prepared in terms of circulars.	The Imprest Adjustment Account has been prepared including receipts and payments of cross entries not made by cash relating to advance accounts of our Department and transactions brought to account

		erroneously, by other departments had not been taken into consideration.

2.3 Management of Expenditure

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Excess provision of Rs.1,193,539,031 had been made for 08 Objects and as such the savings, ranging between 26 per cent and 89 per cent out of provision made as at 31 December 2019, were observed. Accordingly, as significant variances were observed between the budgeted and the actual expenditure of the Department for the year under review, it was observed in Audit that the annual budget had not been made use of as an effective instrument of management control.	Making of excess provisions by annual estimates should be controlled.	After the utilization of provisions of Objects indicated below by you, reasons for further savings of provisions by the end of the year under review, were as follows. **Object** - **Reasons for Differences** 249-1-1-0-1102/11 - Not getting opportunities for travel abroad and according to the letter of instructions of the Secretary to the President dated 19.11.2019, management of expenditure should be carried out economically under these Objects. 249-1-1-0-1503/11 - Out of monies provided to the Treasury by the National Lotteries Board, release based on requests made by relevant institutions and considering the financial situation of the Treasury 249-1-1-0-2001/11 - Failure in incurring expenditure for improvement of buildings as planned, on instructions received to save 15 per cent from

			capital provisions and to save a further 10 per cent from capital savings.
		249-1-1-0-2003/11	Non-occurrence of vehicle maintenance expenditure as expected and disposal of a car older than 10 years.
		249-1-1-0-2102/11	Non-purchase of office equipment as due
		249-1-1-0-2401/11	Control of expenditure as per instructions of budget circulars of the year 2019
		249-1-1-1-1505/11	Non-payment of contributions as expected
		249-1-2-0-3001/11	Failure in submitting of payments during the year as planned
(b) In terms of paragraph 05 of State Accounts Circular No.255/2017 of 27 April 2017, the balance to be paid further for goods and services procured properly and contractual works certified as completed, has been defined as liabilities. In terms of paragraph 2(d) of the circular, all liabilities should be settled within the said year and no liabilities should be carried forward to the next year with the objective of settling during that year. However, liabilities of Rs.1,318,115 had been indicated in Note (iii) to the financial statements.	Action should be taken in terms of circulars.	Officers had to be engaged in duties in December 2019 for essential duties of the Department outside office hours. As such, payments made for the allowances of those officers and payments made for bills in December 2019 relating to obtaining communication and drinking water required for the Department, have been indicated as liabilities. Adequate provision had been made therefor in the said instance.	

2.4 Financial Assets

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) According to instructions of the State Accounts Circular, figures indicated in the statement of financial position, should have tallied with the figures indicated in the Final Treasury Accounting Statements. As such, even though the balance of the imprest account should be Rs.824,983, it had been indicated as Rs.654,896, understating by Rs.170,087.	Action should be taken in terms of circulars.	In terms of circular instructions, the closing balance of Rs.170,087.00 in the cash book as at 31/12/2019 had been settled to the Treasury. However, as the said balance had not been indicated in the Treasury print outs under 31/12/2019 itself, this difference had occurred and action has been taken to prepare the statement of financial position as per the transactions entered into by the Department.
(b) Imprest payment of Rs.654,896 of the balance of the imprest account unsettled as at 31 December 2019, had been indicated in current assets as imprest receivable.	Correct information should be included in accounts.	As the allowances paid for officers engaged in election duty have not been reimbursed by the Elections Office, the sum of Rs.654,896 receivable further, has been indicated as cash and cash equivalents under current assets. However, action has been taken at present to settle all imprest balances which remained unsettled as at 31.12.2019 and bring them to account.

3. Operating Review

3.1 Non-achievement of expected Level of Output

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Management of Treasury cash flows and assessment, prioritization and release of funds to spending agencies were among the main functions of the Department. According to information relating thereto, made available to Audit, limits of imprest totalling Rs.2,009.48 billion comprising Rs.1,400.34 billion for provision of Rs.2,416.74 billion made for recurrent expenditure and Rs.609.14 billion made for capital provision of Rs.3,428.19 billion, had been fixed. However, various institutions had applied for imprests totalling Rs.2,437.63 billion comprising Rs.1,530.78 billion for recurrent expenditure and Rs.906.85 billion for capital expenditure exceeding the said amounts. However, the Treasury had released imprests totalling Rs.1,734.03 billion to institutions comprising Rs.1,338.31 billion for recurrent expenditure and Rs.395.72 billion for capital expenditure, even less than the minimum imprest limit without issuing out of imprests so applied. Accordingly, imprests totalling Rs.405.89 billion comprising	Management of cash flows and assessment of fund requirements of spending agencies and maximization of release of funds	Attention is drawn to the following matters in releasing imprests by the Treasury to ministries and departments for capital and recurrent expenditure. i. Considering the annual imprest limit computed under each ministry/department based on the amounts of provision made for the relevant year from the annual Appropriation Act. ii. Application for imprests made daily/monthly by each ministry/department and considering the recommendations made by the Department of National Budget thereon. iii. Considering the daily/bank/cash balances remaining in official bank accounts of each ministry/department. iv. Considering the position of monies under the

	Rs.192.47 billion representing 12.57 per cent for recurrent expenditure and Rs.213.42 billion representing 53.93 per cent for capital expenditure applied for by institutions respectively, had not been released by the Treasury. Nevertheless, according to the list of commitments and liabilities indicated in Schedule III of the financial statements of the Government, liabilities totalling Rs.164.57 billion comprising Rs.73.06 billion for recurrent expenditure and Rs.91.51 billion for capital expenditure had been indicated.		Consolidated Fund v. Considering the priorities to be given based on the said national requirements as per instructions of the top management. vi. Priority should be given to public debt payments.
(b)	Government borrowings and accounting of debt payments is one of the main functions of the Department. According to financial statements presented to Audit, the public debt balance payable by the Government as at 31 December 2019 was Rs.12,187,858 million. However, according to the information appearing below, it was observed during the audit test check that the said debt balance had been understated in accounts by Rs.701,152 million. Liabilities — Value of Liabilities as at 31 December 2019* (Rs.Millions) Loans not accounted for in the financial statements - Loans obtained for	Government borrowings and accounting of debt payments should be formalized.	• The projects of construction of the Hambantota port (Loan Nos.-2007044, 2012032, 2012033 and 2013014) have been assigned by the Sri Lanka Ports Authority under a lease agreement. Nevertheless, the ownership of the said asset is still under the Sri Lanka Ports Authority and the loan obtained for the construction thereof is a responsibility of the said Authority. • Provision of Rs.318 billion should be made for accounting the price

construction of the Hambantota Port not included in accounts	172,717	below par of bonds issued before 2016 in Treasury bonds. However, making such a large amount of provision, will practically result in the increase of the budget deficit. As such, steps have been taken to adjust the price below par of bonds issued before 2016 in the year of maturity of the said bonds and to disclose the face value of those bonds as notes to financial statements until then.
-Understating the balance of Treasury Bonds in accounts	318,246	
-Foreign borrowings not accounted for	210,189	

Total	701,152	
	=====	• Despite having made inadequate provision in the annual Appropriation Act of the year 2019, certain disbursements submitted for accounting, could not be accounted due to matters such as incurring of disbursements in foreign funded projects implemented in certain ministries beyond the control of the Treasury, not presented for accounting at the time of closing of accounts for the year 2019 even with the availability of provision and inability of getting an opportunity for obtaining Parliamentary approval for the Bill planned to be submitted to increase the limit of annual borrowings.

(c) Facilitating for process of accounting the foreign aid accounts is one of the main functions of the Department. However, according to information obtained from a sample test, foreign grants of Rs.2,026 million had been directly obtained by the relevant institutions for 77 projects by 24 institutions in the years 2018 and 2019 without making the Treasury aware of it and the details on these grants had not been included in the reports of the General Treasury. Moreover, it was observed that the General Treasury was not equipped with a system to ascertain whether such grants have been received to other ministries/departments.	The process of obtaining and accounting of foreign aid should be formalized, regulation should be strengthened and strict measures should be taken relating to deviation from circular provisions.	Instructions are given to Secretaries of the line Ministry to take action as follows, relating to Government institutions obtaining foreign aid directly without considering paragraph 2.0 revised by State Accounts Circular No.30/94 and provisions in Chapter XI of the Financial Regulations and without sanction of the Department of External Resources. (i) Prompt action to be taken to properly account the direct foreign aid obtained without considering the circular provisions. (ii) Action should not be taken to obtain foreign grants in future for whatever reason without the sanction of the Department of External Resources and the Department of National Budget.
(d) Seven relief letters valued at Rs.8,476 million and 04 relief letters valued at US$10 million (Rs.1,816.34 million) issued to 02 commercial banks and an institution by the General Treasury had expired by 31 December 2019.	The process of issuing bank guarantees and relief letters should be carried out in a proper and updated manner.	**Lanka Sathosa** Approval had been granted by the Cabinet on 25.06.2019 for the General Treasury to pay to the Bank of Ceylon and the People's Bank, a sum totalling Rs.9.8 billion comprising loans and interest payable thereon and to make provisions required therefor, obtained under three relief letters issued on behalf of Lanka Sathosa Limited in accordance with Cabinet Memorandum No.19/1659/108/147 of 30.05.2019, at an annual interest rate of 11 per cent by

converting into a current loan. As such, further action will be taken to cancel these relief letters once the General Treasury commences settlement of the said loans.

Cooperative Wholesale Establishment

The Department of Development Finance, Ministry in charge of the relevant subject and Sathosa had been notified to take action to settle monies relating to paddy obtained under 2 relief letters valued at Rs.880 million issued for obtaining paddy stocks from the Paddy Marketing Board by the Cooperative Wholesale Establishment (Sathosa) and Sathosa had informed that the said loans will be settled after receiving monies to Sathosa from Lanka Sathosa by sale of stocks remaining presently at the Institute. The unsettled balance thereof had decreased to Rs.689.6 million by now.

Mihin Lanka

The Department of Public Enterprises had been notified to extend the validity period of the six relief letters issued to the Bank of Ceylon and the People's Bank on behalf of Mihin Lanka and necessary action is in progress.

(e) In terms of Financial Regulation 373 of the Democratic Socialist Republic of Sri Lanka, balances of imprest accounts in ministries and departments should be settled as at 31 December of each year. Nevertheless, accounts balances totalling Rs.324 million of 3 ministries and departments, had not been settled so.	Supervision should be carried out continuously.	The relevant ministries and departments have been briefed to reconcile and settle the imprest accounts which were still unsettled as at 31.12.2019. Accordingly, this Department is involved only in the supervision of settling relevant balances.