Financial Statements of the Government -2021

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1. Financial Statements

1.1 Qualified Opinion

The audit of financial statement of the Government for the year ended 31 December 2021 comprising the statement of financial position of the Treasury as at 31 December 2021 and the statement of financial performance, statement of Changes in net assets/equity and cash flow statement for the year then ended and notes to the financial statements including a summary of significant 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 in Section 15 of the National Audit Act, No. 19 of 2018. The report including my comments and observations on the financial statements was issued to the Chief Accounting Officer on 30 May 2022 in terms of Section 15 of the National Audit Act, No. 19. The Annual Detailed Management Audit Report relating to the financial statements of the Government in terms of Sub-section 11 (2) of the National Audit Act was issued to the Chief Accounting Officer on 22 September 2022. This report will be presented 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, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements of the Government give a true and fair view of the financial position of the Treasury as at 31 December 2021, and its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 for the Financial Statements

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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 such internal control as management 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 Treasury 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.

As per Sub-section 38 (1) (c) of the National Audit Act, the Chief Accounting Officer shall ensure that effective internal control system for the financial control of the Treasury 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 Responsibilities for the Audit of the Financial Statements

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, 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 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.

1.5 Report on Other Legal and Regulatory Requirements

I express the following matters in accordance with 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 following recommendations made by me on the financial statements for the preceding year had not been implemented.

Reference to the Paragraph	Audit Observation	Recommendation
1.6.1 (a) (i)	Accounting for foreign borrowings.	Borrowings made by the Government and debt servicing should be brought to accounts formally.
1.6.1 (a) (iii)	Accounting for foreign borrowings.	- Do.
1.6.1 (a) (xii)	Accounting for foreign borrowings.	- Do.
1.6.1 (b)	Methodology followed in accounting for the public debt.	- Do.
1.6.1 (c)	Accounting for foreign aid.	All the foreign aid received should be correctly shown in the financial statements of the Government.
1.6.1 (r)	Fuel Price Stabilization Fund.	Information shown in the financial statements should be accurate.
1.6.1 (s)	Preparation of financial statements under accrual basis.	- Do.

1.6 Comments on Financial Statements

1.6.1 Accounting Deficiencies

(a) Accounting for the Foreign Borrowings

The following observations are made.

	Audit Observation	Comment of the Management	Recommendation
(i)	Although debt servicing was being done by the Treasury, the balance of foreign borrowings	The said value was a liability that should have been mentioned in the	Borrowings of the Government and debt servicing information

	totaling Rs. 311,191 million shown under *CS-DRMS 2000+ Report 854 – 1* of the Department of External Resources as at 31 December 2021 relating to 08 loan agreements, had been eliminated from the financial statements of the Government.	financial statements of Government institutions implementing the relevant projects. As such, the value had not been shown in the financial statements of the Government.	should be formally brought to accounts.
(ii)	The loan balance of Rs. 589 million existed as at 31 December 2021 relating to an agreement entered into by the Government in the year 2021, had not been shown in the financial statements of the Government.	As information relating to the Project Code, 2021007 had not been included in the Report, No. 854-1 of the Department of External Resources, that balance had not been shown in the financial statements of the Government.	Borrowings of the Government and debt servicing information should be formally brought to accounts.
(iii)	A balance of Rs. 161,332 million remained payable out of the loans shown in 08 loan agreements mentioned in (i) above, obtained by the Government for constructing Port of Hambanthota. According to the Cabinet Decision, dated 04 August 2017, that loan balance had been accepted by the Treasury with effect from the date of the relief agreement, but the said loan balance had not been shown in the financial statements of the Government for the year 2021. Furthermore, the loan balance had been eliminated from the financial statements of the Ports Authority as at 31 December 2021. The debt servicing on this loan balance was being done by the Treasury.	The Chairman of Ports Authority has been instructed in this connection by the Secretary of the Treasury.	Borrowings of the Government and debt servicing information should be formally brought to accounts.

(iv)	The loan currency pertaining to 02 loan agreements mentioned in *CS-DRMS 2000+ Report 854 – 1*, has been considered as Euro, but the XDR and USD had been considered as loan currency in financial statements of the Government, thus using exchange rates for different loan currencies relating to the same loan balance. As such, the loan balance of the Government shown in the financial statements had increased by Rs. 340 million and decreased by Rs. 285 million.	Corrective measures will be taken in the preparation of final accounts for the year 2022.	Borrowings of the Government and debt servicing information should be formally brought to accounts.
(v)	According to the Report, No. *CS-DRMS 2000+ Report 854 – 1*, a value of Rs. 64,910.4 million had been realized during the year with respect to the Loan, No. 2021026. However, the said value amounted to Rs. 64,983.8 million as per the financial statements of the Government. As such, the value of loan had been overstated by Rs. 73.4 million in the financial statements.	This loan had been realized on 31 August 2021, and credited to the account of the Central Bank of Sri Lanka on 2021.09.01.The difference is attributable to the fluctuation in foreign exchange rates.	Borrowings of the Government and debt servicing information should be formally brought to accounts.
(vi)	When the loans granted to the Government of Sri Lanka by miscellaneous donors as per the financial statements of the Government and Report, No. 854-1 as at 31 December 2021 were compared with the confirmation of balances furnished to the Audit relating to those loan balances by the respective institutions, it was observed that 02 loan balances valued at Rs. US $ 1,800,227 equivalent to Rs. 360.82 million had not been shown in the financial statements of the Government.	Those returns had been entered into the information system after 19 January 2022.	Borrowings of the Government and debt servicing information should be formally brought to accounts.

(vii)	A loan balance of Rs. 240 million existed as at 31 December 2021 under the Loan, No. 2001042 shown in the source of foreign debt, being the Report, *CS-DRMS 2000+ Report 854 – 1*. However, that balance had not been shown in the financial statements of the Government.	Agreed with the observation. This difference had arisen due a technical issue in updating data for the years 2018 and 2019 in the CS-DRMS system.	Borrowings of the Government and debt servicing information should be formally brought to accounts.
(viii)	The negative loan balance of Rs. 1,481,264 pertaining to 02 loan agreements had been eliminated from the financial statements of the Government. Explanations as to how those balances had become negative and the reasons for eliminating those values from the financial statements, were not made available to the Audit.	The Loan, No. 2010109 had been settled in full in July 2019. The omission and the difference between the exchange rates of XDR and USD had been adjusted through the final installment. No balance existed since August 2020 under the Loan, No. 1970016.	Borrowings of the Government and debt servicing information should be formally brought to accounts.
(ix)	Information relating to Note, No. 29 (i) presented with the financial statements, had not been included in the *CS-DRMS 2000+ Report 854 – 1,* and sources to be used in verifying the value thereof, amounting to Rs. 20,247 million, had not been made available to the Audit.	The Note, No. 29 (i) contained information relating to the projects financed by domestic financial institutions. This was included in the Report, 854-1.	Borrowings of the Government and debt servicing information should be formally brought to accounts.
(x)	The balance of foreign borrowings totaled US $ 34,130,219,447 as at 31 December 2021. When adjusted to the exchange rate as at that date, being Rs. 200.4348, the value of that balance amounted to Rs. 6,841 Billion. As the exchange rate as at 30 May 2022 was Rs. 360.76, the value of foreign borrowings amounted to Rs. 12,313 Billion. The significant impact on the debt balance due to changes in	Not replied.	Borrowings of the Government and debt servicing information should be formally brought to accounts.

	exchange rates, had not been disclosed under incidents following the date of balance sheet in the financial statements.		
(xi)	According to the statement of financial performance, the value of foreign borrowings obtained in the year under review totaled Rs. 516,606 million whereas the value of loans settled in the year under review, totaled Rs. 530,507 million. As such, the value of loan installments paid in the year 2021 had increased by Rs. 13,901 million than the value of loans obtained in the year. As the value of repayment of foreign borrowings had exceeded the value of borrowings obtained in the year under review, a deficit of foreign exchange, amounting to Rs. 13,901, had resulted in.		
(xii)	According to the information made available to the Audit through the Letter, No. TO/S&A/03/08/05 of the Director General of the Department of Treasury Operations, dated 25 February 2022, the values of foreign borrowings as at 31 December 2021 not brought to accounts even by the end of the year 2021 despite being realized in the year 2021 , or 2020 or the years prior, amounted to Rs. 16,883.6 million and Rs. 21 million respectively.	This was attributable to the facts such as, lack of budgetary provision for the relevant Ministries for the year 2021, and failure of the projects to certify the expenses as at 2021.12.31.	Borrowings of the Government and debt servicing information should be formally brought to accounts.
(xiii)	According to Annexure 03 of the said Letter, the value of foreign borrowings brought to accounts in the year 2021 that had been realized in the year 2020 or the years prior, totaled Rs. 5,671 million. Thus, it was revealed	This was attributable to the facts such as, lack of budgetary provision for the relevant Ministries for the year 2021, and failure of the projects to certify the expenses as at	Borrowings of the Government and debt servicing information should be formally brought to accounts.

	that some of the foreign borrowings had continuously not been brought to accounts in the same year despite being realized in the relevant year.	2021.12.31.	
(xiv)	According to Letter, No. SA/MAA/02/02/03/VO(iii) of the Director General of State Accounts dated 21 April 2022, the value of loan installments paid in the year under review after being computed in accordance with the Note, No. 29 (ii), (iii) & (iv) on foreign borrowings, totaled Rs. 514,154 million. However, that value amounted to Rs. 530,508 million as per the statement of financial performance, thus revealing a difference of Rs. 16,354 million.	This difference is the settlement of loans made to the donor of loans for construction of Hambanthota Port.	Borrowings of the Government and debt servicing information should be formally brought to accounts.
(xv)	According to the Report, CS-DRMS 814-1 of the Department of External Resources printed on 19 January 2022, the value of foreign borrowings realized in respect of 19 loan agreements, totaled Rs. 15,207,702,960 and included in the financial statements of the Government for the year 2021. However, according to the Report, 814-1 printed on 19 May 2022, the value of foreign borrowings realized in the year 2021 relating to those 19 loan agreements, totaled Rs. 39,174,043,448. As such, the value of foreign borrowings realized in the year 2021, had been understated by Rs.23,966,340,488 in the financial statements.	All of those returns were updated into the information system after 19 January 2022 relating to the year 2021. The creditors had informed on several occasions relating to the delays of returns being received by the Department of External Resources.	Borrowings of the Government and debt servicing information should be formally brought to accounts.

	Audit Observation	Comment of the Management	Recommendation
(xvi)	According to the Report, 814-1 dated 31 December 2021 that had been printed on 19 May 2022, a negatively realized value of US $ 729,484.66 equivalent to Rs. 146,217,030 had existed under the Loan, No. 2016028; and, the repayment of balance out of the advance after completion of the project relating to the loan agreement, had been included therein, but that repayment had not been shown in the financial statements of the Government.	There were negative returns on 2021.10.05 relating to the Loan, No. 2016028, and that had been entered into the CS-DRMS system in February 2022. The balance out of the advance given to the project, was a repayment.	Borrowings of the Government and debt servicing information should be formally brought to accounts.

(b) The Methodology of Accounting for Public Debt/Government Borrowings
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The following observations are made.

Audit Observation		Comment of the Management	Recommendation
Due to sporadic changes in the accounting methods/bases followed by the Department of State Accounts to account the borrowings of the Government, instances were observed in which uniformity of the financial statements had lost.			
(i)	As the discount price of Treasury bonds had not been brought to accounts, a sum of Rs. 318,246 had been understated in the financial statements as at 31 December 2019. Nevertheless, provision amounting to Rs. 318 Billion should have been made in order for the discount price to be brought to accounts, but allocation of such an extensive amount of provision would have enhanced the budget deficit. As such, the Audit was informed by the Department of State Accounts that discount price of the bonds issued prior to 2016 would be adjusted in the year of maturity and the face value of those bonds would be disclosed in the financial statements until then. However, that value had been brought to accounts without obtaining	The discount price of Treasury bonds amounting to Rs. 291,166 million as at 2020.12.31 yet to become matured, had been brought to accounts. Once the bonds relating to the said discount price reach maturity, provision would be made thereon annually thus showing in the accounts.	Borrowings of the Government and debt servicing information should be formally brought to accounts.

	provision in such a manner as at 31 December 2020, and the balance had been shown in the financial statements of the year 2021.		
(ii)	The advance of the Central Bank had been classified as a domestic loan in the financial statements audited in the year 2020, and reasons had been given for doing so. However, the said Central Bank advance balance of Rs. 150.1 million had been eliminated from the classification of domestic loans, and shown as a separate entity in the year 2021.	In view of fair presentation of the financial statements, the Central Bank advance had been eliminated from the domestic loan category and shown as a separate entity.	Borrowings of the Government and debt servicing information should be formally brought to accounts.

(c) Accounting for Foreign Aid

According to the State Accounts Circular, No. 30/94 dated 20 April 1994, Director General of the Department of External Resources was responsible for all the transactions relating to foreign aid. The following observations are made in the audit test check conducted in that connection.

	Audit Observation -------------------------	Comment of the Management --------------------	Recommendation ---------------------
(i)	Foreign grants valued at Rs. 24.77 million had been directly obtained by 02 institutions for 07 projects in the year 2021 with the Treasury not being aware thereof. Nevertheless, those grants had not been shown in the financial statements of the Government.	Director General of the Department of External Resources was responsible for obtaining foreign grants in terms of the State Accounts Circular, No. 30/94. Nevertheless, the Department holds no authority either to perform transactions relating to foreign aid, or issue directives to the relevant statutory institutions.	All the foreign grants received should be correctly shown in the financial statements of the Government.
(ii)	In the wake of Covid-19 outbreak in the year 2020, financial and non-financial aid and donations the value of which had been assessed as Rs. 1,949 million in the years 2020 and 2021, had been granted by various foreign states, foreign or local institutions, organizations, persons, and local & foreign Non-	According to the said Circular, it is the responsibility of the Chief Accounting Officer and the Accounting Officer to obtain the foreign aid and donations only through the Director General of the Department of External	All the foreign grants received should be correctly shown in the financial statements of the Government.

	governmental Organizations to the Ministry of Health and hospitals & other health institutions functioning thereunder. Such donations had not been shown in the financial statements. Furthermore, the value of 162,465 items received from the said parties in the years 2020 and 2021, had not been assessed and brought to financial statements.	Resources. All the Chief Accounting Officers and the Accounting Officers have been informed in that connection. Furthermore, inventorying the donated items is their responsibility, and due to failure in doing so, those items had not been shown in the financial statements.	

(d) Capital Contribution of the State-owned Enterprises

The capital contribution of the state-owned enterprises amounted to Rs. 760,777.41 million as at 31 December 2021, and the following observations are made in that connection.

	Audit Observation	Comment of the Management	Recommendation
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(i)	A sub-loan granted by the Government had not been settled by the Milco Private Limited, and that loan had been written off by the Treasury without following the Financial Regulations. The income, so written off, had been shown in the financial statements as a Government contribution to the capital of that Company. The said transaction should have been performed by obtaining provision through the annual Appropriation Act though, information to the effect that it had been so done, was not made available to the Audit.	Provision had not been made in the year under review in order for the said contributions to be brought to accounts. As per the decision and Cabinet Paper, No.21/0199/323/012 of the Minister of Agriculture dated 2021.01.11, approval had been given to write off the sub-loan and the interest thereon.	Expenses which are an economic burden to the Consolidated Fund, should be formally brought to accounts.
(ii)	According to the direct confirmation of balances presented by 13 Government Corporations and state enterprises & companies, the capital contribution of those institutions totaled Rs. 439,639 million as at 31 December 2021 whereas the said balance amounted to Rs. 411,874 million as per the financial statements. As such, the capital contribution of the	Acknowledged. Corrective measures will be taken on the differences pointed out.	The capital contribution made to the state enterprises should be brought to accounts formally.

Government had been understated by Rs. 27,765 million in the financial statements as at 31 December 2021. The total value of capital contribution of the Government had not been mentioned in the direct confirmation of balances presented by 05 limited companies owned by the Government as at 31 December 2021; instead, the market value per share had been shown. Furthermore, the value of shares owned by those institutions had been recognized based on the nominal value of shares , thus showing the value of Rs. 48 million.

(e) Rent and Work Advances

The following observation is made.

Audit Observation	Comment of the Management	Recommendation
According to the financial statements of the Government, the balance of rent and work advances pertaining to the Head-290, Department of Fisheries and Aquatic Resources, amounted to Rs. 8,518,925 as at 31 December 2021. As per the financial statements of that Department for the year 2021, there existed no balance in the rent and work advance account.	Balance of the rent and work advance account has been shown in the financial statements of the Government.	Values shown in the financial statements should be reconciled with other relevant financial statements.

(f) Advances Authorized by the Treasury

A sum of Rs. 15,727,677,533 had been shown as the total of balances of the Treasury-authorized Advance Accounts as at 31 December 2021. Observations made in the audit test check conducted on those balances, are as follows.

	Audit Observation	Comment of the Management	Recommendation
(i)	Debit balances totaling Rs. 1,373 million and credit balances totaling Rs. 20 million had continued to exist over several years under the Treasury –authorized Advance Accounts as at 31 December 2021. Responding to the audit queries made in that connection continuously, it had been informed that action would be taken to close the accounts in terms of Financial Regulation 518. Balances in 03 of those advance accounts had been settled by closing the accounts in the year 2022 whereas the balance in the other advance accounts had not been closed even by 19 May 2022.	Accounts should be closed by the Ministry or the Department that maintained the account in terms of Financial Regulation 518. As the hard copies containing information relating to the years prior to 2004 had destroyed, retrieving such information remained difficult. Three accounts had been closed by April 2022, and instructions had been given to close 07 accounts.	Balances in the dormant accounts should be examined thus taking necessary measures.
(ii)	An opening balance of Rs. 1,221,650,996 had existed in the stores and other advance account pertaining to the Head 111-Ministry of Health. When queried, it was observed in audit that the said balance had been maintained nominally without any basis at all. Although audit queries had been issued from time to time in that connection, no measures had been taken thereon even by 20 May 2022.	Having examined the notes of the Treasury relating to old transactions, action is being taken to provide such information for the Ministry of Health.	Balances in the dormant accounts should be examined thus taking necessary measures expeditiously.

(g) Non-financial Assets

A sum of Rs. 1,850,007 had been shown as non-financial assets as at 31 December 2021. The following observations were made in the audit test check conducted in that connection.

	Audit Observation	Comment of the Management	Recommendation
(i)	Approval for including the value of Personnel Identification Secretariat building in the register of assets of the Government, had been sought through the Cabinet Memorandum, No. MF/NB/01/CM/2017/85 presented by the Minister of Finance on 20 March 2017 under the title "Inclusion of loans obtained by the Ministry of Defense for development projects and the interest in the accounts". Approval had been granted thereon through the Cabinet Decision, No. අමප/ 17/0632/719/062 dated 05 April 2017, but action had not been taken to record that asset even by 31 December 2021.	Instructions to account for the non-financial assets have been given by the Department of State Accounts. It is the responsibility of Chief Accounting Officer / Accounting Officer of the relevant Head of Expenditure to properly account for the assets.	All the assets of the Government should be brought to accounts.
(ii)	The sum of Rs. 8,199 Billion, being the value of Government investments made during the period of 2006-2021, had been shown under construction or purchase of physical assets and acquisition of other investments in the cash flow statements. Nevertheless, assets valued at Rs. 1,85 Billion only had been recognized and accounted therefrom as non-financial assets and brought to accounts in the statement of financial position for the year 2021. Financial assets valued at Rs. 934 Billion comprising sub-loans of Rs. 173 Billion and the capital contribution of Rs. 761 Billion made to the public enterprises included in that expenditure, had been brought to accounts. Accordingly, a sum totaling Rs. 2,784 Billion had been	All the items such as, rehabilitation and improvement of capital assets, acquisition of capital assets, skills development, and other capital expenses, belong to the activity - construction or purchase of physical assets and acquisition of other investments, shown in the cash flow statement. Of them, only the expenses incurred under the item, acquisition of capital assets, have been capitalized under the non-financial assets.	The value of acquired financial and non-financial assets shown in the cash flow statement, should also be accounted for under financial and non-financial assets in the statement of financial position.

brought to accounts by the end of the year under review as financial and non-financial assets. Of the sum amounting to Rs. 8,199 Billion, being the total of construction or purchase of physical assets and acquisition of other investments shown in the cash flow statements, assets valued at Rs. 5,415 Billion equivalent to 66 per cent could not be recognized and brought to accounts. The non-financial assets had not been accounted for in the financial statements with respect to the period 2005-2014, and brought to accounts with effect from the year 2015.

(h) Treasury Guarantee

The following observation is made.

Audit Observation	Comment of the Management	Recommendation
The Auditor General had been informed through the confirmation Letter, No. PED/S/SLA/1/11(ii) of the Secretary of the Treasury dated 24 February 2022 that a Treasury guarantee had been provided in order to remain effective until the Sri Lankan Airlines is restructured in regard of the accumulated loss of Rs. 371,734 million sustained by that Company as at 31 March 2021. The said guarantee had not been disclosed in the financial statements.	Letters of comfort had been issued continuously in that manner since the year 2016. As the said bond was different to a one generally issued by the Treasury, it was not included in the register of guarantees.	Financial statements should be prepared by including accurate and up-to-date information.

(i) Dormant Accounts

The following observation is made.

Audit Observation	Comment of the Management	Recommendation
Balances totaling Rs. 1,007 million had continued to exist over a longer period under 02 dormant accounts shown in the financial statements of the Government for the year 2021. Furthermore, net balances totaling Rs. 8,792,222 had continued to exist without being settled under the advance accounts of the Government Those balances included negative balances of Rs. 233,298.	Instructions for settlement of those accounts have been given to the relevant Department.	The long-standing balances should be examined, and only the balances actually exist in the financial statements should be brought to accounts.

(j) Inconsistency between the Statement of Financial Position and the Statement of Financial Performance

The following observation is made.

Audit Observation	Comment of the Management	Recommendation
There existed no direct liaison between the statement of financial performance and the statement of financial position included in the financial statements of the Government. The statement of financial performance had merely represented the actual position of the budget for the year under review thus failing to compute any surplus or deficit relating to the preceding year and adjust that surplus or deficit in the statement of financial position. As such, the statement of financial performance and the statement of financial position remained inconsistent.	The financial statements of the Government for the year 2021 had been prepared based on the format that had been in use over several preceding years. However, when accounts are prepared in accordance with the accounting framework and the standards scheduled to be introduced in due course, the inefficiency pointed out in the audit is expected to be avoided.	The liaison between the statement of financial performance and the statement of financial position, should be ensured.

(k) Statutory and Other Funds

The following observation is made.

Audit Observation	Comment of the Management	Recommendation
A sum of Rs. 14,979 billion had been shown in the statement of financial position as the total of balances of statutory and other funds, but only a debit balance of Rs. 939 billion had been shown in the statement of changes in equity. The balance of the net assets adjustment account amounting to Rs. 14,040 billion which caused a material and direct effect on equity, was not shown in the statement of changes in equity.	As the net assets adjustment account is not considered a statutory or other fund , it is not shown in the statement of changes in equity. Nevertheless, the values relating to net assets adjustment account, have been given in detail under Note, No 26 of the financial statements. Disclosures on the nature and purpose relating to each reserve/fund in equity, have been made in the explanatory notes.	Accuracy should be ensured in preparing the financial statements.

(l) Classification of Assets and Liabilities

The following observation is made.

Audit Observation	Comment of the Management	Recommendation
Assets and liabilities had not been classified as current or non-current before being shown in the statement of financial position. As such, the users of the financial statements and the parties interested therein, had no clear understanding on the value of external liabilities to be settled by the Government in the ensuing year.	The relevant classifications have been scheduled to be done in accordance with the accounting framework and standards to be introduced in due course.	Accuracy should be ensured in preparing the financial statements.

(m) External Liabilities Exceeding the Assets

The following observation is made.

Audit Observation	Comment of the Management	Recommendation
According to the statement of financial position, the value of external liabilities totaled Rs. 17,817 billion whereas the value of assets totaled Rs. 2,838 billion. As such, the total of the external liabilities had exceeded the value of total assets by Rs. 14,979 billion.	Accounting for the total value of non-financial assets belonging to the Government, has not yet been completed fully. Furthermore, certain assets acquired or constructed by utilizing the loans mentioned under liabilities of the Government, have been shown in the financial statements of the public enterprises. It is expected to solve this issue when preparing consolidated accounts with respect to the entire Government sector including public enterprises.	Prompt action should be taken to account for all the assets belonging to the Government.

(n) Transactions Involving Foreign Currency

The following observation is made.

Audit Observation	Comment of the Management	Recommendation
Exchange differences/foreign currency exchange profits or losses occurred in transactions as per the policy on foreign currency transactions under significant accounting policies in the financial statements, should have been adjusted in the statement of financial performance. However, the loss relating to the exchange of foreign currency computed to the value of Rs. 363,648 million in the year under	It was not stated as per the foreign currency policy in the financial statements of the Government that exchange differences would be adjusted in the statement of financial performance. It is mentioned therein that exchange differences are	Financial statements should be prepared by including accurate information.

review, had been adjusted to the net assets adjustment account in the statement of financial position.	adjusted through the main ledger accounts.	

(o) Failure to Make Provision on Depreciation

The following observation is made.

Audit Observation	Comment of the Management	Recommendation
Except for lands and work in progress, provision for depreciation had not been made on non-financial assets valued at Rs. 700,951 million in accordance with the prudent concept of accounting. Furthermore, the remaining value and useful life of those assets should have at least been revised by the end of every financial year, but it had not been done so. Accordingly, users of the financial statements of the Government have been deprived of the possibility of knowing the carrying amount which is deduced by deducting the accumulated depreciation and accumulated impairment losses, if any.	All the non-financial assets belonging to the Government are being identified and brought to accounts. Once this process is completed, the proposed accounting framework and standards will be introduced, and an appropriate depreciation policy will be put in place.	Financial statements should be prepared by including accurate information.

(p) Excesses

The following observation is made.

Audit Observation	Comment of the Management	Recommendation
Utilization should have been made based on the net provision that had been revised in terms of the Appropriation Act, No. 07 of 2020 and the annual budget estimate approved by Parliament. Nevertheless, the net provision of Rs. 3,280,318,000 made for Object, 422-2-3-3-1001 of the Head 422- State Ministry of Dhamma Schools, Pirivenas and Bhikkhu Education, had been exceeded by Rs. 74,355,089, thus	It is the responsibility of Chief Accounting Officer to utilize provision in accordance with the annual Appropriation Act and the approved annual budget estimates.	Without formally revising the limits approved by Parliament , expenses should not be incurred in excess of the provision made.

utilizing a sum of Rs. 3,354,673,089. As such, an over-expenditure of Rs. 74,355,089 was observed under that Object.

(q) Non-adherence to the Limits

It was revealed in accordance with the Treasury books that the limits approved by Parliament on the following advance works of the Government mentioned under third schedule to the Appropriation Act, No. 07 of 2020, had not been adhered to. Those limits should have been revised in terms of Section 8 (1) (b) of the Act by 31 May 2022. However, it had not been done so even by 31 August 2022.

	Audit Observation	Comment of the Management	Recommendation
(i)	The maximum limits on expenditure to be incurred under 02 public officers' advance works relating to a State Ministry and a District Secretariat, amounted to Rs. 32,000,000 and Rs. 17,000,000 respectively. By the end of the year under review, that Ministry and the District Secretariat had paid advances by exceeding those limits by sums of Rs. 1,401,679 and Rs. 208,590 respectively.	To Act within the prescribed limits is the responsibility of the Chief Accounting Officer.	The limits should be followed in accordance with provisions of the Appropriation Act.
(ii)	A minimum of limit for receipts amounting to Rs. 525,000,000 had been imposed on advances to public officers relating to another State Ministry. Receipts totaling Rs. 457,952,411 had been collected therefrom by the end of the year under review, thus failing to reach the limit by a sum of Rs. 67,047,589.	- Do.	- Do.

(iii)	Minimum limits of receipts amounting to Rs. 500,000 and Rs. 200,000 had been imposed on 02 public officers' advances works through the annual Appropriation Act relating to 02 commission offices that had not been functional in the year 2021. However, no receipt whatsoever had been reported even by the end of the year under review.	- Do.	- Do.
(iv)	The sum of Rs. 20,000,000 had been stated as the maximum limit on debit balance relating to another State Ministry. However, that balance had become Rs. 24,602,727 by the end of the year under review, thus exceeding the limit on debit balance by Rs. 4,602,727.	- Do.	- Do.

(r) Fuel Price Stabilization Fund

The following observation is made.

Audit Observation	Comment of the Management	Recommendation
The sum of Rs. 26,673,196,758 receivable by the Department of Treasury Operations from the Fuel Price Stabilization Fund as at 31 December 2020, had been shown as a liability with a negative value in the statement of financial position of the financial statements of the Government for the year 2021, and erroneously stated as Fuel Price Stabilization Fund under miscellaneous accounts.	This account, being a main ledger account, has been shown under miscellaneous accounts in the statement of financial position.	Accurate information should be included in the financial statements.

(s) Preparation of Financial Statements under Accrual Basis

The following observation is made.

Audit Observation	Comment of the Management	Recommendation
Financial statements had been prepared in accordance with the accounting framework introduced in the year 2005. According to Proposal No. 254 of the budget, it had been decided to convert the process of preparing financial statements from the existing method of improved cash basis to the accrual basis within a period of 10 years. The timeframes relating to activities included in the roadmap presented with respect to the relevant Cabinet approval, had been revised by the Department of State Accounts, but a formal approval had not been obtained in that connection. Furthermore, progress of the relevant process should be reported to the Cabinet after one month's period following the end of each year in accordance with the note of the Cabinet. However, progress had not been reported in such a manner even by 20 May 2022. The Audit was informed by the Department of State Accounts that, once a policy decision was taken on the conversion process, approval would be obtained on the revised roadmap.	Agreed with the audit observation.	Accurate information should be included in the financial statements.

1.7 Non-compliance with Laws, Rules, and Regulations

Audit Observation			Comment of the Management	Recommendation
	Reference to the Laws, Rules, and Regulations, etc.	Non-compliance		
(a)	Article 149 of the Constitution of the Democratic Socialist Republic of Sri Lanka.	Without being approved by Parliament even as at 31 December 2021, the COVID – 19 Healthcare and Social Security Fund and the Fuel Price Stabilization Fund had been established under approval of the Cabinet. According to Article 149 of the Constitution, all the revenue and receipts should be credited to the Consolidated Fund. However, sums of Rs. 367,645,984 and Rs. 728,619,709 had respectively been received by those Funds in the year under review, but those receipts had been credited to those two Funds. Moreover, an expenditure of Rs. 93,575,980 had been incurred under the COVID – 19 Healthcare and Social Security Fund, but that sum had been brought to the Fund Account. The said receipts and payments brought under 02 Fund Accounts that had not been approved by Parliament , were	Not replied.	Action should be taken in accordance with the Constitution.

		accounted for under main ledger accounts of the Treasury by disregarding the Consolidated Fund.		
(b)	Fiscal Management (Responsibility) Act, No. 03 of 2003.			
(i.)		According to Fiscal Management (Responsibility) Act, No. 03 of 2003 as amended by the Fiscal Management (Responsibility)(Amendment) Act, No. 15 of 2013 and No. 12 of 2021, the maximum value of liabilities by the end of the year should not have exceeded 80 per cent of the GDP estimated for that year. Nevertheless, that limit had reached 109.87 per cent as at 31 December 2021. Considering the sum of Rs. 1.58 billion, being the value of guarantees and letters of comfort given to the banks in respect of loans obtained by public enterprises under securities of the Treasury, and the statement of liabilities and commitment made available to the Audit relating to Ministries, Departments and special expenditure units, liabilities valued at Rs. 334 billion had not been included in the aforesaid liabilities.	The matter of exceeding the debt ceiling of the Government will be included in the annual report presented by the Ministry of Finance for the year 2021 as per the Act thereby informing Parliament .	Provisions of the Act should be followed.

(ii.)		According to Section 3(a) of the Fiscal Management (Responsibility) Act, No. 03 of 2003, the budget deficit of the year under review should have been estimated not to exceed five per centum of the estimated gross domestic product, and the actual budget deficit by the end of the year under review should have been maintained in a manner not exceeding five per centum of the estimated gross domestic product. Nevertheless, the estimated budget deficit represented 18.48 per centum of the estimated GDP and the actual budget deficit represented 12.59 per centum of the actual GDP of the year under review; hence, those limits had not been adhered to.	The budget deficit, mentioned herein, was prepared in accordance with economic classification. In case of a difficulty in achieving the target given in the Act if any, the reasons therefor and the procedure scheduled for the future, should be informed to Parliament as per the Act. Such matters will be explained through the final report on the budgetary position presented in Parliament .	Provisions of the Act should be followed.
(c)	State Accounts Circular, No. 255/2017 dated 27 April 2017.	Instructions had been given under Paragraph 05 of the State Accounts Circular, No. 255/2017 dated 27 April 2017 that liabilities should be settled in the same year without being brought forward to the ensuing year. Furthermore, in case that provision had not been made for commitments of the ensuing year, such commitments should not be brought forward to the ensuing year in accordance with Paragraph 2(c) of that Circular. According to information furnished to the Audit by the	The values of liabilities and commitments entered into the "Cigas" programme through the relevant Head of expenditure, are shown in the financial statements of the Government. Instructions required to report on liabilities and commitments, have been provided by the Department of State Accounts. Hence, it is the responsibility of the	It is necessary to follow the instructions given in Circulars.

		Department of State Accounts, a sum totaling Rs. 334 billion had been shown as the value of liabilities and commitments as at 31 December 2021.	Chief Accounting Officer / Accounting Officer for the relevant Head of expenditure to report on the liabilities and commitments in accordance with those instructions.	
(d)	State Accounts Circular, No. 243/2015 dated 24 June 2015.	It was expected to close the deposit accounts under the category of 6003 in terms of State Accounts Circular, No. 243/2015 dated 24 June 2015. Instructions were given that such activities be done through the annual estimate with effect from the year 2016. Nevertheless, a balance of Rs. 10 million maintained in a deposit account under the No. 6003, was brought forward without being settled even as at 31 December 2021.	This balance arose due to incorrect accounting process done by the District Secretariat, Colombo. It was informed to take corrective measures.	The Circular should be followed.
(e)	Financial Regulation 373 of the Democratic Socialist Republic of Sri Lanka.	Debit balances totaling Rs. 4,277 million under 110 imprest accounts pertaining to Ministries and Departments remained unsettled as at 31 December 2021 contrary to Financial Regulation 373, and it was observed that balances of Rs. 481.8 million included therein under 10 imprest accounts, had continued to exist over several years. Action had not been taken to settle those balances even by 31 December 2021.	The responsibility of reconciling the imprest accounts thereby setting the balance to the Treasury in terms of Financial Regulation 373, is entrusted with the Chief Accounting Officer of the relevant institution.	Action should be taken in accordance with the Financial Regulations.

02. Financial Review

2.1 Estimation of Revenue

The following observation is made.

Audit Observation	Comment of the Management	Recommendation
The value of GDP for the year 2021 amounted to Rs. 16,809 billion whereas the GDP for the year 2020 amounted to Rs. 15,027 billion. As such, the GDP had increased by Rs. 1,782 billion or 11.86 per cent as compared to the preceding year. According to the annual budget estimate approved by Parliament for the year 2021, revenue of the Government amounted to Rs. 1,984 billion, and the Government revenue amounted to Rs. 1,547 billion in the preceding year. Accordingly, the Government revenue had been overestimated by 28.26 per cent equivalent to Rs. 437 billion as against the preceding year. Although the budget deficit had been estimated based on that revenue estimate, the initial revenue estimate had been revised to the value of Rs. 1,506 billion with a sum of Rs. 478 billion being deducted by the Revenue Accounting Officer. According to the said revenue estimate, revenue of the Government represented 8.73 per cent of the GDP. Increase in the GDP should have been taken into consideration in preparing revenue estimates though, it was observed that revenue had been overestimated without considering that matter. A revenue of Rs. 1,467 billion had been collected in the year 2021, and it was Rs. 39 billion less than the revised revenue estimate. Comparing that with	According to the annual budget estimate approved by Parliament for the year 2021, total revenue of the Government amounted to Rs. 1,994.4 billion (inclusive of tax revenue, non-tax revenue, and foreign grants) whereas the actual revenue amounted to Rs. 1,489.0 billion which, when considered as a percentage of the estimate, indicated an achievement of 74.7 per cent. Furthermore, comparison with the revised revenue estimate approved by Parliament for the year 2021 amounting to Rs. 1,525.4 billion, this indicated an achievement as high as 97.6 per cent. As compared with the year 2020, the actual Government revenue and grants had increased by 6.1 per cent in the year 2021. Macroeconomic trends and effects thereof had mainly attributed to the fluctuations in Government revenue. The revised revenue	Revenue should be accurately assessed before preparing estimates, and when such estimates are revised, attention should be brought as to how the budget deficit should be financed.

the revenue estimate presented to Parliament , a decrease of Rs. 517 billion was indicated. The decrease in the collected revenue as against the revenue estimate presented in Parliament in each year during 2012-2021, ranged between 9.51 per cent and 26.08 per cent. The highest percentage during that period was revealed in the year under review. According to Financial Regulation 85 (2) (b), the Revenue Accounting Officer should report to the Department of Fiscal Policies to vary the revenue estimates, thus making it possible to revise a Parliamentary-approved revenue estimate without approval of Parliament subsequently. As such, accountability in estimating revenue in a realistic manner had become weak.	estimate is included in the draft Appropriation Act to be presented for Parliamentary approval in respect of the ensuing year.	

2.2 Deficit in Revenue

The following observation is made.

Audit Observation	Comment of the Management	Recommendation
According to financial statements of the year under review presented to Audit, the deficit of revenue amounted to Rs. 1,290 billion as against the corresponding deficit of Rs. 1,304 billion for the preceding year. As for the period of 2006-2021, the highest value for revenue deficit was reported in the year 2020. In each year during that period, the collected revenue was insufficient for settling the recurrent expenditure of the Government. The minimum of deficit amounting to Rs. 43 Billion in revenue was reported in the year 2007 which represented 7.56 per cent of the collected revenue. During the said period, the deficit in the total	The revenue, expenditure and budget deficit used for economic analyses, had been computed in accordance with economic classification. According to that classification, the actual revenue of the year 2021 totaled Rs. 1,464 billion including grants, and the total expenditure amounted to Rs. 3,522 billion comprising recurrent expenses amounting to Rs. 2,748 billion and capital expenses & loans	Measures should be taken for the recovery of revenue in order to minimize the deficit in revenue. Expenses should be incurred economically.

revenue amounted to Rs. 4,780 Billion. Domestic and foreign loans, and foreign grants were obtained to bridge the gap. As such, borrowings of Rs. 23,183 Billion were obtained comprising Rs. 16,265 Billion through domestic loans, Rs. 6,704 Billion through foreign loans, and foreign grants totaling Rs. 213 Billion during that period. Having utilized the loans and grants so obtained in each year, the deficit of revenue was financed in the range of 6.86 – 45.59 per cent. With no investments made by utilizing the loans and grants, 20.23 per cent, 45.59 per cent and 42.41 per cent thereof had been utilized in the years 2019, 2020, and 2021 respectively for the settlement of recurrent expenses.

A sum totaling Rs. 1,048 Billion had been paid as interest in the year under review representing 38.02 per cent of the total recurrent expenditure. A sum of Rs. 975 Billion had been paid on interest in the preceding year representing 36.36 per cent of the total recurrent expenditure. Comparison of paying interest with the preceding year indicated an increase of Rs. 73 Billion. Payment of interest in the year 2006 to the total of Rs. 151 Billion had increased to Rs. 1,048 Billion by 594 per cent as of the year 2021. Obtaining loans to finance the budget deficit and paying interest thereon had increased annually. A sum of Rs. 1,048 Billion or 71.74 per cent of the Government revenue collected in the year 2021 totaling Rs. 1,467 Billion had been spent on paying interest. This scenario was annually increasing during the relevant period, and indicated an exponential growth from the year 2019.

The revenue of Rs. 620 Billion that should have been collected by the Department of Inland revenue in the year 2021, remained due. Had that amounting to Rs. 774 billion. Accordingly, balance in the current account amounted to Rs. 1,290 billion. This was mainly attributable to the continuous increase in the payment of interest on loans.

The Revenue Accounting Officers directly responsible for the relevant Heads of Revenue, and the Chief Accounting Officers of all the Ministries and Departments, as well as all the Accounting Officers, are held accountable for the recovery of revenue in arrears.

revenue been collected in the year 2021, the revenue deficit of that year would have been decreased by 51.94 per cent or Rs. 670 Billion. The revenue due for the years 2019 and 2020 remained Rs. 698 Billion and 579 Billion respectively. Had the due revenue been collected in those years as well, an excess revenue of Rs. 165 Billion would have been resulted in for the year 2019 whilst the revenue deficit for the year 2020 would have been decreased to Rs. 606 Billion by 46.47 per cent.

Loans had been obtained due to reasons such as, failure to accurately prepare the revenue estimates or failing to collect revenue as per the estimates prepared, and failure in managing the expenses economically. As obtaining loans had annually been on the increase, cost for the interest thereon had also increased annually whilst the recurrent expenditure had increased. The deficit in revenue had increased annually due to reasons such as, failure in collecting the estimated revenue as expected, and inadequacy of revenue to settle the expenditure annually owing to the increase in recurrent expenditure.

2.3 Budget Deficit

The following observation is made.

Audit Observation	Comment of the Management	Recommendation
According to financial statements of the Government, budget deficit of the year 2021 amounted to Rs. 2,080 billion representing 12.37 per cent of the GDP. Budget deficit of the year 2020 amounted to Rs. 2,116 billion or 14.08 per cent of the GDP. There existed a budget deficit throughout the entire period of 2006-2021, and	According to Section 3(a) of the Fiscal Management (Responsibility) Act, No. 03 of 2003, budget deficit should not exceed five per centum of the estimated gross domestic product. The budget deficit, mentioned herein, is the one computed	Budget deficit should be minimized in compliance with the relevant legal provisions.

the budget deficit of Rs. 300 billion in the year 2006 had become Rs. 2,080 billion by the year 2021. The highest value of budget deficit during that period had been reported in the year 2020. Considering the budget deficit as a percentage of the GDP for the period 2006-2021, that percentage ranged between 5.55 per cent and 14.08 per cent. According to Section 3(a) of the Fiscal Management (Responsibility) Act, No. 03 of 2003, the actual budget deficit should have been maintained at 05 per cent of the actual GDP, but that limit had not been maintained in any year during that period. That limit had been maintained at 5.55 per cent, 5.69 per cent and 5.59 per cent for the years 2016, 2017, and 2018 respectively.	in accordance with the economic classification. In case of a difficulty in achieving the target given in the Act if any, the reasons therefor and the procedure scheduled for the future, should be informed to Parliament as per the Act. Such matters were explained through the final report on the budgetary position presented in Parliament . According to the economic classification, the budget deficit estimated for the year 2020 amounted to Rs. 1,565 billion which represented 8.9 per cent of the GDP. The actual budget deficit for the year 2021 amounted to Rs. 2,058 billion equivalent to 12.2 per cent of the GDP. This was an increase of Rs. 493 billion as against the estimated budget deficit.	

2.4 Increase in Loan Balance

The following observation is made.

Audit Observation --------------------------	Comment of the Management --------------------	Recommendation ----------------------
More borrowings had been obtained in the face of budget deficit increasing annually. By the end of the year 2021, the financial statements of the Government showed that the loan balance payable by the Government, totaled Rs. 16,826,831 million comprising a balance of Rs. 9,986 Billion on domestic loans and a balance of Rs. 6,841 b on foreign loans. The loan balance of the Government in the year 2020 totaled Rs. 14,692 Billion. Accordingly, the loan balance had	The matter of exceeding the liabilities including the borrowings of the Government will be included in the annual report presented by the Ministry of Finance for the year 2021 thereby informing Parliament .	Liabilities should be maintained in compliance with the regulations.

increased by 14.53 per cent or Rs. 2,135 billion in the year 2021 as against the year 2020. The loan balance of the year 2006 amounting to Rs. 2,431 Billion represented 82.72 per cent of the GDP, and by the end of the year 2021, the loan balance reached Rs. 16,827 Billion representing 100.11 per cent of the GDP. According to Section 3(f) of the Fiscal Management (Responsibility) Act, No. 03 of 2003 as amended by the Fiscal Management (Responsibility)(Amendment) Act, No. 15 of 2013 and No. 12 of 2021, liabilities of the Government should have been maintained by less than 80 per cent of the GDP. Nevertheless, only the Government's liability on borrowings had exceeded that limit thus reaching 100.11 per cent excluding the other liabilities. This situation existed even in the year 2020.

2.5 Public Debt

The following observation is made.

Audit Observation	Comment of the Management	Recommendation
A sum of Rs. 1,235,000 million had been scheduled to be the value of Treasury bonds as per the programme on borrowings for the year under review. However, bonds valued at Rs. 1,742,938 million had been obtained. Accordingly, borrowings had been obtained through bonds having exceeded the scheduled value by 41 per cent or Rs. 507,938 million. According to the programme on borrowings, the values of Foreign Currency Banking Units (FCBU) and Sri Lanka Development Bonds amounted to Rs. 251,342 million and Rs. 300,610 million respectively whereas the values of actual borrowings	Due to reasons such as, obtaining market borrowings to finance the budget in view of economic turmoil and foreign currency crisis occurred in the year 2021, and obtaining loans on emergency purposes to purchase vaccines for controlling Covid-19, an increase in the total value of disbursements was reported as against the schedule. The reason for increase in the project loans obtained from	Borrowings should be made in accordance with formal plans.

amounted to Rs. 29,510 million and Rs. 207,505 million respectively. Accordingly, values of borrowings had decreased by Rs. 222,241 million and Rs. 93,105 million as against the amounts scheduled for the year under review.	China, was that market borrowings had been included therein.	

2.6 Issue of Treasury Guarantees and Letters of Comfort

As at 31 December 2021, Treasury guarantees valued at Rs. 1,813,176 million and letters of comfort to the value of Rs. 81,268 million had been issued to external institutions in 241 and 23 instances respectively. In the wake of expiring the Treasury guarantees , periods of extension had been granted on Treasury guarantees valued at Rs. 74,360 million and US $ 1,886 million, and letters of comfort valued at Rs. Rs. 29,550 million and US $ 160 million in 27 and 12 instances respectively during the year 2021. In favor of the letters of comfort given in the year 2021 or years prior, loan installments and interest totaling Rs. 1,832,112,103 had been settled by the Department; and, an interest totaling Rs. 1,740.5 million along with loan installments totaling Rs. 90.9 million relating to 06 guarantees issued to Mihin Lanka Limited, had been included therein. The period of validity of Treasury guarantees and letters of comfort valued at Rs. 3,121 million issued to 03 institutions, had not been extended even by 12 May 2022. The following observations were made in the sample tests conducted on files relating to the institutions to which Treasury guarantees and letters of comfort had been issued.

	Audit Observation	Comment of the Management	Recommendation
(a)	Treasury guarantees and letters of comfort issued to Sri Lankan Airlines Ltd.		
(i)	Sri Lanka Airlines Ltd had obtained short-term loans totaling US $ 200 million and Rs. 26,250 million from the Bank of Ceylon and People’s Bank respectively in 08 instances since the year 2016 along with a sum of US $ 5.38 million and Rs. 1..352 Billion obtained from the People's Bank under capitalized interest facility. The Treasury had issued guarantees and letters of comfort in that connection.	Agreed with the observation.	The process of issuing Treasury guarantees and letters of comfort should be maintained in a formal and up-to-date manner.

(ii)	In addition to the credit facilities obtained through state banks as mentioned above, the Government of Sri Lanka had issued a security to finance the Sri Lankan Airlines Ltd with a sum of US $ 175 million through an international bond to be settled by June 2024.	Agreed with the observation.	The process of issuing Treasury guarantees and letters of comfort should be maintained in a formal and up-to-date manner.
(iii)	Performance of the Sri Lankan Airlines Ltd remained highly unfavorable since the year 2016. As such, it was reported that loans could not be settled as scheduled.	Agreed with the observation.	The process of issuing Treasury guarantees and letters of comfort should be maintained in a formal and up-to-date manner.
(iv)	Approval of the Cabinet had been given through the Cabinet Decision, No. 17/2383/733/026-1 dated 08 November 2017, to liquidate the Mihin Lanka Limited. However, the Sri Lankan Airlines Ltd had been restructured in accordance with Observations No. MF/PE/CM/2020/12 of the Minister of Finance, Economic and Policy Development dated 30 January 2020. It was informed that the institution named, National Agency for Public Private Partnership – NAPPP, was not functional, and letters of comfort would be issued again until a decision was taken by the Government on the future of the Sri Lankan Airlines Ltd.	Agreed with the observation.	The process of issuing Treasury guarantees and letters of comfort should be maintained in a formal and up-to-date manner.
(b)	Treasury guarantees and letters of comfort issued to the Mihin Lanka Limited.		
(i)	A short-term credit facility of Rs. 1,650 million had been provided through the Bank of Ceylon in terms of Note, No. PE/AV/SLA/CM/2015 of the Cabinet dated 14 July 2015	Agreed with the observation. The interest and the capital amount payable on the loan obtained by Mihin Lanka Limited from the	The process of issuing Treasury bonds and letters of relief should be maintained in a formal and up-to-date manner.

	with a view to continuing operations of the Mihin Lanka Limited, and the repayable period thereof had expired by 31 March 2016. Nevertheless, letters of comfort had continuously been issued giving extensions for settlement of the loan; and, the final extension had been given up to 31 December 2022 or until the date of completion of the recovery, whichever occurs first.	People's Bank, had been set off against the dividend of Rs. 1,000 million receivable by the Treasury from the People's Bank.	
(ii)	As for the loan amounting to Rs. 1,650 million obtained from the People's Bank, an arrears of Rs. 1,741,728,301 comprising an outstanding capital balance of Rs. 1,560,962,436 and an interest balance of Rs. 180,765,865, had further remained payable as at 31 December 2021.	The total of capital and interest further payable with respect to the loan of Rs. 1,650 million obtained by the Company, amounted to Rs. 1,741,728,301.	The process of issuing Treasury guarantees and letters of comfort should be maintained in a formal and up-to-date manner.

2.7 Profits and Dividends

The following observations are made.

	Audit Observation ------------------------	Comment of the Management --------------------	Recommendation ----------------------------
(a)	Revenue amounting to Rs. 49 Billion and Rs. 06 Billion had been estimated under the Profit Revenue Code, 20.02.03.00 and Dividend Revenue Code, 20.02.04.00 for the year ended as at 31 December 2021. The Department of Public Enterprises had been able to collect Rs. 25.92 Billion and Rs. 4.67 Billion respectively in the year under review indicating 52 per cent and 78 per cent of the estimated profit revenue and dividend revenue	Many institutions reported less profits owing to Covid-19 outbreak. In obtaining dividends, the existing requirements for working capital had seriously been taken into consideration.	Accurate and realistic revenue estimates should be prepared in accordance with provisions under Financial Regulation 85.

	respectively.		
(b)	A sum of Rs. 760,777,405,378 had been shown in the financial statements of the Government as capital contribution of public enterprises as at 31 December 2021. Nevertheless, profits and dividends totaling Rs. 30,590,893,194 only had been received in respect of those investments during the year under review. Profits and dividends equivalent to 04 per cent of the value of investment had been earned.	Many institutions reported less profits owing to Covid-19 outbreak. In obtaining dividends, the existing requirements for working capital had seriously been taken into consideration.	Formality should be ensured in supervision and regulation of public enterprises.
(c)	The number of enterprises and other institutions belonging to the Government as at 31 December 2021, was 145 though, estimates had been prepared for 39 institutions whereas profits and dividends had been remitted to the Treasury only by 39 institutions.	Revenue estimates have been prepared for 58 institutions having potential for profits and dividends as at 31 December 2021.	Formality should be ensured in supervision and regulation of public enterprises.
(d)	According to Section 10(5) of the Finance Act, No. 38 of 1971, the net surplus of revenue of Government Corporations (all sums remaining out of the net surplus revenue) should be credited to the Consolidated Fund. However, instances were observed in which the Department of Public Enterprises had not taken substantial measures so as for the public enterprises with net surplus to credit such surpluses to the Consolidated Fund.	A part of profit or the entire profit is collected under the Consolidated Fund in a manner that working capital requirements and development programs of institutions are not adversely affected.	Formality should be ensured in supervision and regulation of public enterprises.

2.8 Bank Overdraft

The balance of the overdraft amounted to Rs. 798,453,585,243 as at 31 December 2021. The following observations are made in respect of the said balance.

	Audit Observation	Comment of the Management	Recommendation
(a)	The value of bank overdraft amounting to Rs. 463,868,639,897 as at 01 January 2021, had increased by 72 per cent reaching Rs. 334,584,945,346 by 31 December 2021.	Bank overdraft had been made use of as a short-term loan instrument due to reasons such as, decrease in Government revenue following revision on tax structure in accordance with budget policy of the Government, increase in expenditure including health and welfare expenses in the wake of Covid-19 outbreak.	Management of revenue and cash flows should be done properly.
(b)	Sums of Rs. 25,637,153,353 and Rs. 22,046,541,417 had been paid as interest on overdrafts to the Bank of Ceylon and People's Bank respectively in the year under review. Interest rate on overdrafts had increased with effect from 19 August 2021, and the interest amount payable daily had increased accordingly.	The value of bank overdrafts had increased due to above reasons along with interest rate on bank overdrafts as well.	Management of revenue and cash flows should be done properly.
(c)	The comparison of values of bank overdrafts existed by the end of the years 2019, 2020, and 2021 with the financial assets relating to those years, the percentages of 23.05 per cent, 51.82 per cent and 80.84 per cent were observed respectively.	Agreed with the observation.	Management of revenue and cash flows should be done properly.

(d)	The Department of Treasury Operations had been informed by the Chief Executive Officer of the People's Bank through his letter dated 02 June 2021 that the overdraft facility provided daily for the Government would be limited to Rs. 340 Billion owing to existing liquidity of the Bank. However, overdraft facilities had been obtained in excess of that limit on 03 days in September 2021. Although the overdraft facility had been limited to Rs. 320 Billion through the letter issued by the Chief Executive Officer of People's Bank on 16 December 2021, the value of overdraft amounted to Rs. 337 Billion as at 31 December 2021; hence, that limit too had been exceeded by the Treasury.	Agreed with the observation. Considering the mandatory expenses such as, salaries, Samurdhi assistance, and debt servicing, the limit on overdrafts had been increased under consent of the top level management.	Management of revenue and cash flows should be done properly.

...