

## Report of the Auditor General on Head 102 – Ministry of Finance - Year 2015

The audit of the Appropriation Account, and the Reconciliation Statements including the financial records, books, registers and other records of the Head 102 – Ministry of Finance for the year ended 31 December 2015 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Secretary to the Ministry on 10 October 2016. The audit observations, comments and findings on the accounts and the Reconciliation Statements were based on a review of the Accounts and the Reconciliation Statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

### 1.2 Responsibility of the Chief Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer is responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements in accordance with the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing, maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

## 2. Accounts

### 2.1 Appropriation Account

#### Total Provision and Expenditure

The total net provision made for the Ministry amounted to Rs. 3,630.11 million and out of that, Rs. 1,273.12 million had been utilized by the end of the year under review. Accordingly, the savings out of the total net provision of the Ministry amounted to Rs. 2,357 million or 65 per cent. Details appear below.

| Expenditure  | As at 31 December 2015 |                 |                 | Savings as a Percentage of Net Provision |
|--------------|------------------------|-----------------|-----------------|------------------------------------------|
|              | Net Provision          | Utilization     | Savings         |                                          |
|              | Rs. Millions           | Rs. Millions    | Rs. Millions    |                                          |
| Recurrent    | 573.13                 | 571.16          | 1.97            | 0.34                                     |
| Capital      | 3,056.99               | 701.96          | 2,355.03        | 77.04                                    |
| <b>Total</b> | <b>3,630.12</b>        | <b>1,273.12</b> | <b>2,356.99</b> | <b>64.93</b>                             |

## 2.2 Advances to Public Officers Account

-----

### Limits Authorized by Parliament

-----

The limits authorized by Parliament for the Advances to Public Officers Account, Item No.10201 of the Ministry and the actual amounts are given below.

| <u>Expenditure</u> |              | <u>Receipts</u>  |              | <u>Debit Balance</u> |              |
|--------------------|--------------|------------------|--------------|----------------------|--------------|
| Maximum<br>Limit   | Actual       | Minimum<br>Limit | Actual       | Maximum<br>Limit     | Actual       |
| -----              | -----        | -----            | -----        | -----                | -----        |
| Rs. Millions       | Rs. Millions | Rs. Millions     | Rs. Millions | Rs. Millions         | Rs. Millions |
| 15.39              | 10.07        | 9.50             | 11.87        | 70.00                | 44.18        |

## 2.3 Audit Observation

-----

The Appropriation Account and the Reconciliation Statements for the year ended 31 December 2015 of the Ministry of Finance had been prepared satisfactorily, subject to the Audit Observations appearing in the Management Audit Report referred to in Paragraph 1.1 above. The material and significant Audit Observations, out of the Audit Observations included in the Management Audit Report appear in paragraph 3.

## 3. Material and Significant Audit Observations

-----

### 3.1 Advances to Public Officers Account

-----

According to the Reconciliation Statement presented to audit the balances of the officers who retired and vacated of posts, that remained outstanding as at that date totalled Rs. 920,947. Even though those outstanding balances remained over periods ranging from 01 year to 13 years, the Ministry had failed to recover those outstanding balances.

### 3.2 Irregular Use of Assets not Vested

-----

A private company had been established in the Times Building of which legal ownership had not been vested in the Ministry of Finance while a section of the building had been rented out by that company to other private company and an income of Rs.9,450,000 had been earned for the period from October 2013 to 31 December 2015. That income which should be credited to the Consolidated Fund had been allowed to utilize by an external party.

### 3.3 Unsettled Liabilities

-----

The rates payable amounting to Rs.5,061,052 on behalf of the Times Building as at 31 December 2015 had not been paid even by 31 July 2016.

### 3.4 Non – compliances

#### Non – compliance with Laws, Rules and Regulations

Instances of non – compliance with the provisions of laws, rules and regulations observed during the course of audit test checks are analyzed below.

#### Reference to Laws, Rules and Regulations

#### Establishments Code of the Democratic Socialist Republic of Sri Lanka

#### Non -compliance

(i) Section 5.2.1 of Chapter XIX

As an officer not entitled to obtain scheduled quarters, was in occupation of a Government quarters, a sum of Rs.1,679 had been deprived monthly by the Government, due to recover only 10 per cent from the salaries of 02 officers who occupied the quarters, even though 12 ½ per cent of the salary should have been recovered from a married officer.

(ii) Section 5.4 of Chapter XIX

Where husband and wife both public officers are in occupation of Government quarters, if not entitled scheduled quarters, 12 ½ per cent of the salary of the higher paid officer and 5 per cent of the salary of the lower paid officer should be recovered. Nevertheless, 5 per cent of the salary had not been recovered from 03 spouses of the officers who occupied in the Government Quarters even though they were employed in Government Service.

(iii) Section 6.12 of Chapter XIX

The allocating Authority of the quarters could be grant an extension of the period of occupation in very special circumstances. Nevertheless, the officers had occupied the quarters without being obtained an extension of the period.

(iv) Section 7.2 of Chapter XIX

A penal rent of which a sum equivalent to the current open market rent of the quarters as assessed by the Chief Valuer plus 8 per cent of the officers salary should be recovered

from the officer who fails to vacate quarters, for the period he overstays his tenure. But the penal rent had not been recovered from 8 officers accordingly.

### 3.5 Performance

-----

Even though, provisions of Rs. 270,000,000 had been made in the Annual Budget Estimate 2015 for the constructions of Isipathana Housing Scheme, no action whatsoever had been taken thereon in the year 2015.

### 3.6 Deviation from the Government Procurement Guidelines Procedure

-----

The following observations are made in respect of the procurements made by the Ministry.

- (a) Even though, the National competitive bidding should be invited for the Security Service to be obtained in terms of Guideline 3.2 of the Government Procurement Guidelines, a competitive bidding had not been invited by the Ministry to obtain the security service for the year 2015.
- (b) In terms of Guideline 4.3.1(a) of the Government Procurement Guidelines, the Total Cost Estimate including all associated costs should be prepared by the Procuring entity, no adequate evidence made available for audit to ensure that it was prepared accordingly.

### 3.7 Uneconomic Transactions

-----

A sum of Rs. 909,883 had been paid monthly to the private security firm in respect of the security service of the General Treasury in the year 2014. That service had been executed by a state Bank in the year 2015. Accordingly, the monthly average expenditure paid amounted to Rs. 2,396,906. A sum of Rs.1,487,023 had been overpaid monthly in the year 2015 due to changing the Institution of the supply of security service.

### 3.8 Human Resources Management

-----

#### Approved Cadre and Actual Cadre

-----

The position on the cadre of the Ministry as at 31 December 2015 had been as follows.

|       | Category of Employees                    | Approved Cadre | Actual Cadre | Number of Vacancies | Excess    |
|-------|------------------------------------------|----------------|--------------|---------------------|-----------|
|       | -----                                    | -----          | -----        | -----               | -----     |
| (i)   | Senior Level                             | 35             | 23           | 12                  | -         |
| (ii)  | Tertiary Level                           | 32             | 11           | 21                  | -         |
| (iii) | Secondary Level                          | 85             | 81           | 04                  | -         |
| (iv)  | Primary Level                            | 108            | 118          | -                   | 10        |
| (v)   | Others (Casual/Temporary/Contract Basis) | 05             | 01           | 04                  | -         |
|       | <b>Total</b>                             | <b>265</b>     | <b>234</b>   | <b>41</b>           | <b>10</b> |
|       |                                          | ===            | ===          | ===                 | ===       |

### **3.9 Report of the Auditor General on the Financial Statements of the Democratic Socialist Republic of Sri Lanka for the year ended 31 December 2015**

---

The audit of financial statements of the Democratic Socialist Republic of Sri Lanka for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. My comments and observations appear in this Report. The Management Audit Report for the year under review was furnished to the Deputy Secretary to the Treasury on 21 June 2016.

#### **3.9.2 Management's Responsibility for the Financial Statements**

---

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

#### **3.9.3 Auditor's Responsibility**

---

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards, consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000–1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements 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 internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### 3.9.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 3.10.4 of this report.

## 3.10 Financial Statements

### 3.10.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 3.10.4 of this report the financial statements give a true and fair view of the financial position of the Democratic Socialist Republic of Sri Lanka as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

### 3.10.2 Financial Performance

The financial performance of the Democratic Socialist Republic of Sri Lanka for the year ended 31 December 2015 as compared with the preceding year is given below.

| <b>Revised Budget<br/>Estimates for<br/>the year 2015</b> |                                      | <b>2015</b>         | <b>2014</b>         |
|-----------------------------------------------------------|--------------------------------------|---------------------|---------------------|
| -----                                                     |                                      | -----               | -----               |
| <b>Rs. Millions</b>                                       |                                      | <b>Rs. Millions</b> | <b>Rs. Millions</b> |
|                                                           | <b>Revenue</b>                       |                     |                     |
|                                                           | -----                                |                     |                     |
| 252,600.0                                                 | Income Tax                           | 262,583.4           | 198,114.6           |
| 790,740.0                                                 | Taxes on Domestic Goods and Services | 756,109.0           | 556,002.7           |
| 249,360.0                                                 | Taxes on International Trade         | 263,428.2           | 233,808.0           |
| -----                                                     |                                      | -----               | -----               |
| <b>1,292,700.0</b>                                        | <b>Tax Revenue</b>                   | <b>1,282,120.6</b>  | <b>987,925.3</b>    |
| <b>147,950.0</b>                                          | <b>Non Tax Revenue and Others</b>    | <b>112,124.8</b>    | <b>139,706.1</b>    |
| -----                                                     |                                      | -----               | -----               |
| <b>1,440,650.0</b>                                        | <b>Total Revenue (a)</b>             | <b>1,394,245.4</b>  | <b>1,127,631.4</b>  |

|                    |                                               |                    |                    |
|--------------------|-----------------------------------------------|--------------------|--------------------|
|                    | <b>Less : Expenditure</b>                     |                    |                    |
|                    | -----                                         |                    |                    |
| 432,436.8          | Salaries, Wages and Other Employment Benefits | 429,742.3          | 333,860.1          |
| 177,254.4          | Other Goods and Services                      | 162,965.7          | 176,808.2          |
| 630,565.6          | Subsidies, Grants and Transfers               | 552,848.7          | 412,601.4          |
| 529,572.9          | Interest Payments                             | 527,227.6          | 446,393.0          |
| 6,403.7            | Other Recurrent Expenditure                   | 137.2              | 383.2              |
| -----              |                                               | -----              | -----              |
|                    | <b>Total Recurrent</b>                        |                    |                    |
| <b>1,776,233.4</b> | <b>Expenditure (b)</b>                        | <b>1,672,921.5</b> | <b>1,370,045.9</b> |
| -----              |                                               | =====              | =====              |
| <b>335,583.4</b>   | <b>Revenue Deficit (a) – (b)</b>              | <b>278,676.1</b>   | <b>242,414.5</b>   |
| 835,396.8          | Public Investments                            | 683,963.4          | 595,710.7          |
| -----              |                                               |                    | -----              |
| <b>1,170,980.2</b> | <b>Budget Deficit</b>                         | <b>962,639.5</b>   | <b>838,125.2</b>   |
| =====              |                                               | =====              | =====              |
|                    | <b>Financing the Budget Deficit</b>           |                    |                    |
|                    | -----                                         |                    |                    |
| 321,637.3          | Foreign Borrowings                            | 556,370.3          | 422,543.0          |
| (204,085.1)        | Foreign Debt Repayments                       | (187,112.8)        | (106,979.2)        |
| -----              |                                               | -----              | -----              |
| <b>117,552.2</b>   | <b>Net Foreign Borrowings</b>                 | <b>369,257.5</b>   | <b>315,563.8</b>   |
| 17,950.5           | Foreign Grants                                | 6,013.9            | 9,415.0            |
| -----              |                                               | -----              | -----              |
| <b>135,502.7</b>   | <b>Total Foreign Financing</b>                | <b>375,271.4</b>   | <b>324,978.8</b>   |

|                    |                                                    |                  |                  |
|--------------------|----------------------------------------------------|------------------|------------------|
| 1,701,642.4        | Domestic Borrowings                                | 1,187,230.9      | 965,449.4        |
| (659,696.0)        | Domestic Debt Repayments                           | (659,282.3)      | (528,987.3)      |
| -----              |                                                    | -----            | -----            |
| <b>1,041,946.4</b> | <b>Net Domestic Borrowings</b>                     | <b>527,948.6</b> | <b>436,462.1</b> |
| 14,000.0           | Recoveries from On-lending                         | 12,960.8         | 14,892.4         |
| 350.0              | Sale of Capital Assets                             | 97.9             | 17,604.3         |
| -                  | Net Change in Deposit Accounts and Liabilities     | 13,053.6         | 16,916.6         |
| -                  | Increase / (Decrease) in Cash and Cash Equivalents | 33,307.2         | 27,271.0         |
| -----              |                                                    | -----            | -----            |
| <b>1,191,799.1</b> | <b>Total Financing</b>                             | <b>962,639.5</b> | <b>838,125.2</b> |
| =====              |                                                    | =====            | =====            |

### 3.10.3 Financial Position

A comparison of the Assets and Liabilities of the Democratic Socialist Republic of Sri Lanka as at the end of the year under review and the preceding year is given below.

|                                    | As at 31 December   |                     |
|------------------------------------|---------------------|---------------------|
|                                    | 2015                | 2014                |
|                                    | <u>Rs. Millions</u> | <u>Rs. Millions</u> |
| <b>Non Financial Assets</b>        | 21,287.3            | -                   |
| <b>Financial Assets</b>            |                     |                     |
| Advances to Public Officers        | 22,326.7            | 23,396.3            |
| Advances to Government Departments | 9,878.0             | 9,679.0             |
| Membership Fees                    | 3,517.2             | 3,517.2             |



|                                                  |                    |                    |
|--------------------------------------------------|--------------------|--------------------|
| On Lending                                       | 174,196.1          | 207,966.1          |
| Capital Contributions to State owned Enterprises | 492,129.9          | 397,837.3          |
| Investments on Borrowings                        | 7,684,953.7        | 6,577,431.5        |
| Stamps Stock Account                             | 1,315.2            | 1,244.4            |
|                                                  | -----              | -----              |
| <b>Total Financial Assets</b>                    | <b>8,388,316.8</b> | <b>7,221,011.8</b> |
|                                                  | =====              | =====              |
| <b>Total Assets</b>                              | <b>8,409,604.1</b> | <b>7,221,071.8</b> |
|                                                  | =====              | =====              |
| <b>Statutory and Other Funds</b>                 |                    |                    |
| -----                                            |                    |                    |
| Consolidated Fund                                | (403,025.5)        | (356,664.8)        |
| Contingency Fund                                 | 100.0              | 140.0              |
| Foreign Loan Revolving Fund                      | 25,747.6           | 25,835.3           |
| Investment based Funds - State Owned Enterprises | 666,326.0          | 605,803.4          |
| Miscellaneous Funds                              | 1,397.0            | 1,284.8            |
| Non Current Assets Reserve Fund                  | 21,287.3           | -                  |
|                                                  | -----              | -----              |
| <b>Total Funds</b>                               | <b>311,832.4</b>   | <b>276,398.7</b>   |
|                                                  | =====              | =====              |
| <b>Liabilities</b>                               |                    |                    |
| -----                                            |                    |                    |
| Bank Overdrafts                                  | 197,655.0          | 164,347.8          |
| Advances from the Central Bank                   | 151,131.7          | 143,898.0          |
| Government Borrowings                            | 7,684,953.7        | 6,577,431.5        |
| Deposits and Other Liabilities                   | 63,142.4           | 62,723.5           |

|                                                |                    |                    |
|------------------------------------------------|--------------------|--------------------|
| Accounts Operating with Government Departments | 277.0              | (4,315.0)          |
| Sundry Accounts                                | 611.9              | 587.3              |
|                                                | -----              | -----              |
| <b>Total Liabilities</b>                       | <b>8,097,771.7</b> | <b>6,944,673.1</b> |
|                                                | -----              | -----              |
| <b>Total Funds and Liabilities</b>             | <b>8,409,604.1</b> | <b>7,221,071.8</b> |
|                                                | =====              | =====              |
| <b>Contingent Liabilities and Commitments</b>  | <b>431,954.3</b>   | <b>519,273.9</b>   |

#### 3.10.4 Accounting Deficiencies

-----

The following observations are made.

- (a) In terms of Section 2(1) (b) of the Appropriation Act, No. 41 of 2014, the borrowings can be obtained on behalf of the Government without exceeding the limit of Rs.1,780,000 million in the year 2015 according to the respective laws. Nevertheless, according to the financial statements of the Republic, a sum of Rs.3,349,805 million had been obtained as domestic and foreign loans in the year under review. Accordingly, the borrowing limits authorized by Parliament in the year 2015 had been exceeded by Rs.1,569,805 million and the corresponding excess of borrowing limit authorized by Parliament for the preceding year amounted to Rs.1,164,775 million.
- (b) Even though according to the financial statements as at 31 December 2015 the loan balance to be repayable by the Government amounted to Rs.7,684,954 million; as a result of effect of the following observations revealed during the course of audit test checks, that loan balance had been understated by Rs.1,025,180 million in the accounts.
  - (i) Even though the face value of the Treasury Bonds as at 31 December 2015 had been confirmed to audit as Rs.3,695,541 million, by the Department of Treasury Operations, that balance had been understated in the financial statements by Rs.508,763 million.

- (ii) Even though the face value of the Treasury Bills as at 31 December 2015 had been confirmed to audit as Rs.663,285 million by the Department of Treasury Operations, that balance had been understated in the financial statements by Rs.30,000 million.
  - (iii) The loan balance of Rs.338,141 million to be payable by the Republic as at 31 December 2015 relating to 07 loan agreements entered into with the foreign lending institutions by the Republic had not been included in the financial statements.
  - (iv) According to the information obtained from the Department of National Budget, the Finance Lease Liability as at 31 December 2015 had been confirmed as Rs.19,376 million. Nevertheless the liability in respect of motor cycles obtained under finance lease method since the year 2014 had been understated by Rs.13,807 million in the financial statements.
  - (v) The loan balance of Rs.7,550 million obtained from 04 local banks from the year 2012 for the construction of the building of the Department of Registration of Persons by the Ministry of Defence had not been included in the financial statements.
  - (vi) A sum of Rs.12,031 million comprising Rs.2,469 million and Rs.9,562 million had been paid in the year under review as installments and interest respectively on behalf of loans obtained by a Ministry in the year 2014 from local banks with the guarantee of the Government. Even though the payment of those loans and interest had been made by the Government, the loan balance of Rs.126,919 million had not been included in the financial statements.
- (c) Even though a sum of Rs.527,227 million had been paid as interest in the year under review according to the financial statements, the net results of the following audit observations revealed at audit test checks carried out thereon, a sum of Rs.16,818 million had been overstated in the accounts.
- (i) The interest income of Rs.13,998 million earned from issuing Treasury Bonds had been surcharged to the interest payment account and as such the receipts of interest income and payment of interests in the year 2015 had been understated by that amount in the financial statements.

- (ii) In issuing Treasury Bonds at the price less than the face value, sales value of the bonds only had been credited to the Bonds account instead of crediting the face value of the Bonds to Bonds Account. Due to this, in releasing the face value of those bonds by paying cash in the year under review, the discount of the bonds amounting to Rs.40,378 million had been debited to the interest account and as such the interest shown in the financial statements had been overstated by Rs.40,378 million.
  - (iii) According to the Return 854 – 1 prepared by the Department of External Resources, the interest for the foreign loans for the year under review amounted to Rs.83,063 million. But according to the Note 08 to the financial statements, the payment of interests had been Rs.77,174 million and as such a difference of Rs.5,889 million was observed.
  - (iv) Even though the interests amounting to Rs.9,562 million had been paid for loans obtained by a Ministry from banks with the guarantee of the Government, it was brought to account under Government investments without being brought to account as payment of interests and as such the payment of interests had been understated by Rs.9,562 million.
- (d) According to the financial statements, sub – loans totalling Rs.174,196 million had been granted by the Government to various Government institutions. But due to net effect of the following observations revealed during audit test checks thereon, the value of sub – loans had been understated by Rs.2,682 million in the financial statements.
- (i) Even though the balance of the sub loans receivable from 14 Government institutions as at 31 December 2015 had been shown as Rs.8,390.8 million in the financial statements the respective institutions had confirmed those sub loans as Rs.7,215.4 million. As such the balance of the sub loans in 14 those institutions had been overstated by Rs.1,174.4 million.
  - (ii) According to the financial statements, the value of sub loans of 07 institutions as at 31 December 2015 had been shown as Rs.5,726.0 million. Nevertheless, according to the balance confirmations sent by those 07 institutions, the loan balance amounted to Rs.9,332.6 million. Accordingly the loan balances relating to those 07 institutions had been understated by Rs.3,606.6 million in the financial statements.

- (iii) Sub loans amounting to Rs.250 million granted to State Mortgage and Investment Bank on 9 per cent interest in the year 2001 and the interest receivable thereon up to 31 December 2015 amounting to Rs.337 million had not been brought to the financial statements.
  
- (e) The premium earned by issuing bonds in the year 2015 had been credited to Treasury Bonds Account instead of posting separately in the financial statements and as such the value of Treasury Bonds had been overstated by Rs.18,846 million.
  
- (f) Receipts and payments of foreign loans had been shown in the financial statements as Rs.556,370 million and Rs.187,113 million respectively but due to net effect of the following audit observations revealed during the course of audit test check thereon, receipts and payments of foreign loans had been understated by Rs.34,003 million and Rs.4,605 million respectively.
  - (i) Receipts of foreign loans amounting to Rs.10,696.7 million in the year 2015 relating to 7 foreign loan agreements and repayment of foreign loans amounting to Rs.4,604.7 million in the year 2015 had not been brought to financial statements.
  - (ii) Out of the receipts of foreign loans relating to 41 loan agreements in the year under review, a sum of Rs.23,306.5 million had not been brought to financial statements.
  - (iii) A sum of Rs.187,113 million had been shown in the financial statements as repayment of foreign loans but according to the note No.30 (i) (Statement of Foreign Loan Balances) of the financial statements repayment of foreign loans amounted to Rs.174,800 million and as such a difference of Rs.12,313 million was observed.
  
- (g) As stated in the financial statements, the value of investments made by the Government in the various Public Enterprises, amounted to Rs.492,192 million but due to net impact of the following observations revealed during the course of audit test check thereon, the value had been understated by Rs.105,068 million in the accounts.

- (i) Even though the capitalized value of the State land vested in the Hotel Developers Company (Lanka) Ltd amounted to Rs.7,000 million, that value had not been brought to the financial statements.
- (ii) The Capital Contribution of Rs.100 million made by the Treasury in a private Company in the year 2011 had not been brought to the financial statements.
- (iii) Even though a sum of Rs.305,152 million had been shown as capital contribution of the General Treasury in respect of 6 enterprises out of 129 Enterprises owned by the Government according to the financial statements, the respective institutions had shown the capital contribution of the Treasury as Rs.339,069 million in their financial statements. As such the capital contributions totalling Rs.33,917 million relating to those 06 Enterprises had been understated in the financial statements.
- (iv) According to the financial statements, a sum of Rs.349 million had been shown as capital contribution of the General Treasury in respect of 02 institutions, out of 129 Enterprises owned by the Government. Nevertheless, confirmation of balances had established that the Treasury had not invested for the capital of those institutions. Accordingly, a sum of Rs.349 million had been overstated in the financial statements.
- (v) Even though the General Treasury had contributed a sum of Rs.50,500 million and Rs.13,900 million by issuing Treasury Bonds to the Capital of the Ceylon Petroleum Corporation and the National Water Supply and Drainage Board respectively during the year 2015, that values had not been shown in the financial statements of the Republic for the year 2015.
- (h) Even though the arrears of revenue for the year under review in respect of 3 State institutions which earned major revenue totalled Rs.55,408 million, it was not disclosed in the financial statements.
- (i) The Telecommunication Regulatory Commission of Sri Lanka had obtained a Commercial Loan of USD 104.3 million or Rs.15,238 million on the guarantee of the Ministry of Finance from a foreign lending institution for the construction of “Nelum

Kuluna” Multifunctioning TV and Telecommunication Tower during the year 2012. Nevertheless, that contingent liability had not been disclosed in the financial statements.

- (j) Ministry of Irrigation and Water Resources Management had paid a sum of Rs.4,011 million comprising Rs.3,012 million and Rs.999 million as advances during the year under review and the preceding year respectively to a foreign company for the Gin-Nilwala Rivers Diversion project. Even though provisions of Rs.40 million had been made for this project under the Object 198-2-3-18-2502 in the year under review, a sum of Rs.3,012 million had been incurred, exceeding that limit by Rs.2,972 million.
- (k) A balance amounting to Rs.400 million had existed in the Suspense Account No.8533 of the financial statements of the Republic as at the end of the year under review and it included a sum spent for obtaining vehicles for the Commonwealth Heads of State Conference as well. Provisions for that expenditure had not been obtained and brought to account and settled the balance even by the end of the year under review. In addition to that, a credit balance of Rs.1,269 million had existed in the Suspense Account No.8233 and action had not been taken to settle that balance even by the end of the year under review.
- (l) According to the revised annual Budget estimate of the year under review, the Budget deficit amounted to Rs.1,170,980 million and that represented 10.47 per cent of the estimated Gross Domestic Product. Even though the estimated deficit should be less than 5 per cent of the Gross Domestic Product in terms of Section 3 (a) of the Financial Management (Responsibility) Act No.3 of 2003, the Budget estimates had been prepared exceeding that limit.

### **3.10.5 Bank Overdraft**

-----  
According to the financial statements of the Republic, the balance of the Bank Overdraft had been shown as Rs.197,655 million and the composition thereof is as follows.

- (a) A bank overdraft of Rs.204,760 million relating to 02 bank accounts out of 11 bank accounts operated by the Deputy Secretary to the Treasury had existed and an overdraft balance of Rs.193,536 million had been shown in the financial statements after deducting a favourable bank balance of Rs.11,224 million there from. According to the notes 28 of the accounts observed that a debit balance of Rs.25,440 million relating to 08 accounts and a credit balance of Rs.29,560 million relating to 01 account generated from deposits accounts, including the balance of the imprest account had been adjusted to the above balance.

- (b) The correct Bank Overdraft balance in the year under review totalled Rs.204,760 million and the correct Bank Overdraft balance in the preceding year totalled Rs.189,461. Accordingly, the Bank Overdraft balance had increased by 8.08 per cent or Rs.15,299 million more than the preceding year.
- (c) According to the financial statements of the year under review the payable interest on overdrafts obtained annually had been Rs.11,086 million.

### **3.10.6 General Deposit Account**

-----

According to the financial statements, the net credit balance of the Treasury General Deposit Account as at 31 December 2015 amounted to Rs.62,756 million and it was stated after adjusting the debit balance of Rs.145 million against the credit balance of Rs.62,901 million.

### **3.10.7 Losses and Damage**

-----

A sum of Rs.138 million had been shown as write-offs of losses and damages of the year 2015 in the financial statements and it had decreased by Rs.245 million as compared with the write offs of losses and damages of the preceding year amounting to Rs.383 million.

The following observations are made in this connection.

- (a) According to the audit test checks carried out on Appropriation Accounts of 14 Heads, it was observed that the losses and damages totalling Rs.62 million had not been disclosed in the financial statements of the Republic in terms of Financial Regulations 106 and 113.
- (b) The value of write offs of losses and damages under the Financial Regulation 109 shown in the Appropriation Accounts furnished by the Ministries, Departments and District Secretariats amounted to Rs.18 million. Nevertheless, those losses and damages had not been disclosed in the financial statements.

### **3.10.8 Accounting of Fixed Assets**

-----

A sum of Rs.21,287 million had been included as non-financial assets in the financial statements of the year under review. Those assets had been shown as Buildings, Machinery and Equipment,



Lands, work- in -progress of buildings and leased vehicles belonging to several Ministries, Departments and District Secretariats. Nevertheless action had not been taken to include non – current assets relating to other Ministries, Departments, District Secretariats in the financial statements even in the year under review except the assets stated in the above mentioned Ministries, Departments and District Secretariats under the Schedule No.1 furnished with the financial statements.

### **3.10.9 Capital Contributions to State Owned Enterprises**

-----

A total capital investment of Rs.492,130 million had been made in 129 Government Owned Enterprises as at 31 December 2015 inclusive of Rs.94,333 million made by the Government in 7 institutions in the year under review. The investment made during the year under review had represented 19 percent of the total value of investments. The following observations are made in this connection.

- (a) The particulars relating to the Share Certificates valued at Rs.22,289 million invested in the shares of 45 Government and Non – government Companies, had not been included in the report furnished by the Board of Survey authorized by the letter of the Director General of Treasury Operations No.TOD/CM/3/1/8 Volume (iii)(b) dated 08 December 2015. Accordingly, the particulars relating to the accuracy of investments of all the shares had not been furnished to audit and as such it could not be ensured the value of investments of those shares in audit.
- (b) Even though it was mentioned in the financial statements that the Treasury had contributed the capital totalling Rs.115,635 million relating to 20 Companies, according to the Boards of Survey Reports the value of the investments in those companies had been Rs.44,641 million. Accordingly a sum of Rs.70,994 million relating to those 20 companies had been overstated in the financial statements.
- (c) Even though according to the Boards of Survey Report for the year 2015, a sum of Rs.1,508.7 million had been contributed to the share capital of 3 companies, that capital contribution had not been included in the financial statements.

### **3.10.10 Foreign Loans and Grants**

-----

According to the Annual Budget Estimates for the year under review, sums of Rs.250,687 million and Rs.18,334 million had been estimated as Foreign Loans and Foreign Grants respectively. The original estimate for foreign loans had been revised up to Rs.321,637 million by increasing a sum of Rs.70,951 million and the original estimate for foreign grants had been revised up to Rs.17,951 million by decreasing of Rs.16,117 million.

The following observations are made in this connection.

- (a) In accounting of foreign loans repayments in the year 2015, a sum of Rs.9 million had been under stated relating to 4 loan agreements and a sum of Rs.18 million had been overstated relating to 4 loan agreements in the financial statements of the Republic.
- (b) A sum of Rs.122 million as interest relating to the loans not received as at 31 December 2015 of 5 loan agreements and a sum of Rs.647 million as other payments had been brought to account as the expenditure of the year 2015.
- (c) Provisions of Rs.316,909 million had been estimated under the foreign loan financing in the year 2015 and provisions of Rs.252,591 million had been utilized under that financing in the year under review. Accordingly a sum of Rs.64,318 million out of the estimated provision had not been utilized. Similarly, a sum of Rs.556,370 million was received in the year 2015 as foreign loans, the estimates had not been prepared so as to utilize the total loan.
- (d) Provisions of Rs.17,905 million had been made for Capital Expenditure which had been expected to be financed through foreign grants in the year under review. Out of that a sum of Rs.5,541 million had been utilized and as such provisions of Rs.2,364 million or 31 per cent out of the provisions made had been saved.
- (e) Even though provisions amounting to Rs.9,337 million had been made for projects expected to be implemented under 17 Heads, the provisions made had been saved by the end of the year under review due to non – implementation of those projects.
- (f) Foreign grants amounting to Rs.112 million received from various institutions and countries by 31 December 2015, had been retained in the General Deposit Account of the Department of Treasury Operations.

### **3.10.11 Advance Accounts**

-----  
The Maximum Limit of the Debit Balance of the Prisons, Industrial and Agricultural Undertakings Advance account, Item No.32302 had been authorized as Rs.12.00 million by the Appropriation (Amendment) Act No.15 of 2015. That limit had become Rs.16.18 million as at the end of the year under review, exceeding the limit by Rs.4.18 million.

### **3.10.12 Sub – loans granted to Local Institutions**

-----

The following observations are made at audit test checks carried out relating to the balances of sub loans granted to Government Institutions by the Government as at 31 December 2015.

- (a) The balances of sub loans totalling Rs.28,701 million given to 18 Government Institutions by the Government as at 31 December 2015 had not been confirmed by those institutions.
- (b) The total sub loan balances given by the Government to Government Institutions as at 31 December 2015 had been shown as Rs.23,673 million in Notes 20 to the financial statements of the Republic. The value of sub loans had been shown as Rs.14,592 million under “Acquisition of Financial Assets” in Note 10 of those financial statements. A Reconciliation had not been made on the difference between those two balances.
- (c) Even though the sub- loans amounting to Rs.947 million granted by the Government for 04 institutions should have been settled by 31 December 2015, the loan balances had not been recovered even by 30 May 2016.
- (d) According to the Decision of the Cabinet of Ministers dated 30 September 2014, it was decided to liquidate the Real Estate Exchange (Pvt.) Ltd within 02 months. Action had not been taken to recover outstanding installments of loan and interest given thereon by the Government for that company amounting to Rs.276 million even up to 30 May 2016.

## **3.11 Financial and Operating Review**

-----

### **3.11.1 Government Revenue**

-----

The total annual revenue relating to 94 Revenue Codes had been estimated as Rs.1,689,000 million for the year under review. Nevertheless, according to the revised revenue estimate the total Government Revenue had been revised up to Rs.1,440,650 million by Rs.248,350 million. That represented 15 per cent of the original estimated revenue and the actual revenue for the year under review amounted to Rs.1,394,245 million.

The following observations are made in this connection.

- (a) According to the Revenue estimate of the year under review, the total revised revenue of the Government amounted to Rs.1,440,650 million. The actual revenue for the year 2015 amounted to Rs.1,394,245 million and as such the target shown in the revised estimate could not be achieved by Rs.46,405 million.

- (b) Revenue amounting to Rs.50 million relating to 7 Revenue Codes which were not included in the annual revenue estimates had been collected in the year under review.
- (c) The actual collection of revenue under 13 Revenue Codes in the year under review amounted to Rs.72,647 million and the actual collection of revenue under above Revenue Codes in the year 2014 totalled Rs.128,436 million. Accordingly, collection of those revenue in the year 2015 as compared with the year 2014 had decreased by Rs.55,789 million or 43 per cent.
- (e) The revenue earned annually by the Department of Zoological Gardens of Sri Lanka had been credited to the Zoological Gardens Development and Welfare Fund without crediting it to the Government Revenue. The total revenue retained in that Fund as at 31 December 2015 had been Rs.1,849 million. Since the provisions are made in the Annual Budget Estimates for the expenditure of the Department of Zoological Gardens, the revenue earned should have been credited to the Government Revenue.

### 3.11.2 Government Expenditure

-----

The full control over Public Finance had devolved on the Parliament in terms of the provisions in Article 148 of Chapter XVII of the Constitution of the Democratic Socialist Republic of Sri Lanka. The provisions required for the Government Expenditure for the year 2015 had been made by the Appropriation Act No 41 of 2014 as amended by the Appropriation (Amendment) Act No 15 of 2015 and the Appropriation (Amendment) Act No. 01 of 2015. Accordingly provisions of Rs.3,475,410 million had been made for the expenditure for the year 2015. Details are as follows.

| <b>Financing</b>                                                                                       | <b>Capital Provisions</b> | <b>Recurrent Provisions</b> | <b>Total</b> |
|--------------------------------------------------------------------------------------------------------|---------------------------|-----------------------------|--------------|
| -----                                                                                                  | -----                     | -----                       | -----        |
|                                                                                                        | Rs.Millions               | Rs.Millions                 | Rs.Millions  |
| Provisions from the Appropriation Act                                                                  | 1,232,457                 | 868,834                     | 2,101,291    |
| Provisions for Special Law Services approved by the existing Laws and charged on the Consolidated Fund | 802,381                   | 434,327                     | 1,236,708    |

|                                                  |           |           |           |
|--------------------------------------------------|-----------|-----------|-----------|
| Supplementary Provisions on Special Law Services | 17,317    | 120,094   | 137,411   |
|                                                  | -----     | -----     | -----     |
| Total                                            | 2,052,155 | 1,423,255 | 3,475,410 |
|                                                  | =====     | =====     | =====     |

The following observations are made in this connection.

- (a) According to the Revised Budget Estimate for the year 2015, Provisions of Rs.3,475,410 million had been made for Government Expenditure and it was Rs.2,767,039 million according to the Revised Budget Estimate of the preceding year. Accordingly, the expenditure for the year under review had increased by Rs.708,371 million or 26 per cent as compared with the preceding year. Out of the total provisions made for the year 2015, a sum of Rs.3,203,280 million had been utilized. Accordingly, the savings had been Rs. 272,130 million or 7.2 per cent of the provisions made.
- (b) According to the Section 6 (1) of the Appropriation Act, a sum of Rs. 201,296 million, comprising Rs.63,440 million for Recurrent Expenditure and Rs. 137,856 million for Capital Expenditure had been granted under the Supplementary Support Services and Liabilities of Urgent Requirements Project under the Development Programme of Department of National Budget – Head 240 for the year under review.
- (c) The provisions totalling Rs.6,630 million made for 66 Objects of Recurrent Expenditure had not been utilized even by the end of the year under review and as such the entire provisions had been saved. Even though provisions of Rs.368,275 million had been made under 1,318 Objects for the year under review, Rs.292,692 million out of that had been utilized. Accordingly, provisions of Rs.75,583 million had been saved. Those savings had ranged from 26 per cent to 99 per cent of the provisions made for those Objects.
- (d) The Provisions totalling Rs.32,910 million made for 372 Capital Objects had not been utilized during the year and as such the entire provisions made had been saved by the end of the year. Out of the provisions totalling Rs.391,419 million made for another 992 Capital Objects, provisions of Rs.276,935 million had been utilized by the end of the year under review. Accordingly the savings had been Rs.114,484 million. Those savings had ranged from 26 per cent to 99 per cent of the provisions made for those Objects.

### 3.11.3 Budget Deficit

According to the financial statements for the year under review, the revised Budget Deficit amounted to Rs.1,170,980 million, and it had increased by Rs.394,110 million or 51 per cent as compared with the revised Budget Deficit of the preceding year. According to the financial statement of the year 2015, the actual Budget Deficit amounted to Rs.962,639 million and it had decreased by Rs.208,341 million as compared with the estimated Budget Deficit. The actual Budget Deficit for the year under review had been 8.6 per cent of the Gross Domestic Product.

### 3.11.4 Liabilities of the Republic

The following observations are made relating to the liabilities of the Republic.

- (a) According to the financial statements of the Republic, the gross liability of the Republic as at end of the year under review amounted to Rs.8,124,917 million as compared with the gross liability of Rs.6,971,794 million for the preceding year and it had increased by Rs.1,153,123 million or 16.5 per cent. The increase of Public debt by 1,107,522 million had mainly affected thereto. Details are given below.

| Liabilities                                          | As at 31 December |             | Variance<br>(Decrease/<br>Increase) | Variance as a<br>percentage |
|------------------------------------------------------|-------------------|-------------|-------------------------------------|-----------------------------|
|                                                      | 2015              | 2014        |                                     |                             |
|                                                      | Rs.Millions       | Rs.Millions | Rs.Millions                         |                             |
| Bank Over draft                                      | 197,655           | 164,348     | 33,307                              | 20.0                        |
| Central Bank Advances                                | 151,132           | 143,898     | 7,234                               | 5.0                         |
| Foreign Loans Revolving Fund                         | 25,748            | 25,835      | (87)                                | 0.3                         |
| Miscellaneous Funds                                  | 1,397             | 1,285       | 112                                 | 9.0                         |
| Public Debt                                          | 7,684,954         | 6,577,432   | 1,107,522                           | 17.0                        |
| Accounts Deposits and Other Liabilities              | 63,142            | 62,724      | 418                                 | 0.7                         |
| Liabilities Account of the Government<br>Departments | 277               | (4,315)     | 4,592                               | 106.0                       |
| Sundry Accounts                                      | 612               | 587         | 25                                  | 4.0                         |
|                                                      | -----             | -----       | -----                               |                             |
| Total                                                | 8,124,917         | 6,971,794   | 1,153,123                           | 16.5                        |
|                                                      | =====             | =====       | =====                               |                             |

(b) In terms of Fiscal Management (liabilities) Act No 3 of 2003, as amended by the Fiscal Management (liabilities) Amendment Act No. 15 of 2013, the total liability of the Government should not be exceeded 80 per cent of the Gross Domestic Product. According to the financial statement of the Republic for the year 2015, the total liability amounting to Rs.8,124,916.4 million had represented 72.6 per cent as compared with the estimated Gross Domestic Product of Rs.11,183,200.0 million for the year 2015. However this limit of liability had not exceeded due to non- inclusive of loans obtained by the public enterprises on Treasury Guarantees and the loans transferred to the public enterprises by the Government.