

## **Financial Statements of the Government -2018**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statement of the Financial Statements of the **Democratic Socialist Republic of Sri Lanka** for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance and cash flow statement for the year then ended, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. The report including my comments and observations on these financial statements was issued to the Chief Accounting Officer on 31 May 2019 in terms of Sub-section 11 (1) of the National Audit Act No. 19 of 2018 and the Detailed Annual Management Audit Report in terms of Section 11 (2) of the National Audit Act No. 19 of 2018 was issued to the Chief Accounting Officer on 17 July 2019. This report will be tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, except for the matters described in Paragraph 1.6 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 2018, and of its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **1.3 Responsibilities of Chief Accounting Officer for the Financial Statements**

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

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Ministry of Finance 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 Government 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**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the 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 Requirements**

I express the following matters in accordance with Section 6 (d) of National Audit Act, No. 19 of 2018.

- (a) The financial statements presented are consistent with the preceding year.
- (b) The recommendations pertaining to the Paragraphs No.1.6.1.1 (a) (i) to (iv), No.1.6.1.1 (a) (vi), 1.6.1.1 (b), 1.6.1.2 (a) (i) and 1.6.1.5 in this report made by the Auditor General on the financial statements in the preceding year had not been included in the financial statements of the year under review.

## 1.6. Comments on Financial Statements

### 1.6.1 Public Debt

The following observations are made

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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<p>(a) According to the financial statements, the balance of debts payable by the Government as at 31 December 2018 amounted to Rs.11,276,281 million, whereas according to the following matters observed at the audit test check, aforesaid balance of debts had been understated by Rs.828,377.</p>		
<p>(i) The accounting policy related to the Treasury Bonds included in the financial statements of the Government had been revised with effect from the year 2016 and accordingly, in the issuance of Treasury Bonds, instead of their net value, accounting at their face value had been initiated. Nevertheless, due to failure in further adjusting the face value of the Treasury Bonds issued before the year 2016 to the accounts, the total liability applicable to the Treasury Bonds as at 31 December 2018 had been understated by Rs.344,306 million in the financial statements.</p>	<p>Amounts should be accounted for in accordance with accounting policy.</p>	<p>be The minimum price in relevant to the bonds issued before the year 2016 will be adjusted in the year of maturing those bonds and until then, face value of those bonds will be shown as notes to the accounts.</p>
<p>(ii) The debt balance of Rs.336,126 million remained as at 31 December 2018 relating to 08 loan agreements entered into by the Government under the contractual agreements had not been included in the financial statements.</p>	<p>Financial statements should be presented in an updated manner including all the necessary information.</p>	<p>Since the above loan amount is a liability to be included in the financial statements of the Government institutions which implement the relevant projects, that value is not included in the financial statement of the Government.</p>

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| (iii) | Of the debt balances included in the aforesaid 08 loan agreements, a sum of Rs.172,517 million represented the balance payable for the loans obtained by the Sri Lanka Government for the construction of Hambantota Port and the approval of the Cabinet of Minister for the Cabinet Memorandum titled “Hambantota Port Relief Agreement” dated 20 July 2017 presented by the Ministry of Port and Naval Affairs in this connection, had been granted on 04 August 2017. Accordingly, the General Treasury had held the responsibility regarding the settlement of remaining balance of the loans obtained by the Sri Lanka Government so as to be effective from the date of enforcement of the said Relief Agreement. Nevertheless, the above loan balance had not been included in these financial statements of the Government. Likewise, the above loan balance had been eliminated from the financial statements of the Sri Lanka Ports Authority as at 31 December 2018. | Accounting of local and foreign loans should be streamlined. | The Sri Lanka Ports Authority had accounted for the loans up to the year 2017 and only the services pertaining to the loans are carried out by the General Treasury in terms of Cabinet Decision dated 25.07.2017. Similarly, the Ministry of Finance had proposed to the Cabinet that the loan obtained for the Hambantota Port should be recorded in the books of the Sri Lanka Ports Authority. |
| (iv)  | Sums totalling Rs.58,442 million comprising Rs.39,416 million realized during the year 2018 relating to 50 foreign loan agreements and Rs.19,026 million realized during the year 2017 relating to 15 foreign loan agreements had not been brought to account as foreign loans even by 31 December 2018.   | -Do-   | Since the relevant Ministries had not certified the foreign loan disbursements due to lack of adequate budgetary provisions, the amount of Rs.58,442 million realized during the years 2017 and 2018 relating to the foreign loan agreements could not be brought to account.  |
| (v)   | In converting loan balance existed in foreign currency in the foreign loan balance statement as at 31 December 2018 into Rupees, the exchange adjustment as at 31  | -Do-   | With effect from the year 2019, the exchange adjustments relating to the loan realizations which had not been brought to   |

December 2018 pertaining to the aforesaid loan realization which had not been accounted for up to date, too, had been adjusted to the loan balance. As a result, the foreign debt balance as at the end of the year had been overstated by Rs.9,570 million relating to 36 foreign loan agreements and understated by Rs.13 million relating to 02 foreign loan agreements.

account will be eliminated from the loan balance accounted for at the end of the year.

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| (vi)  | Of the loans obtained by the Department of Pensions from the commercial banks for the payment of pension gratuity from the year 2014, the balance further remained payable as at 31 December 2018 amounted to Rs. 65,110 million and that balance had not been identified and brought to account as local loans in the financial statements.  | -Do- | Necessary steps have been taken to include the relevant outstanding loan balance in the books and to settle those loan installments under the Expenditure Item No.3001 from the year 2020.         |
| (vii) | The Sri Lanka Ports Authority had obtained a loan from the People's Bank in order to settle the arrears of Rs.3,950 million payable to the contractor relating to the construction of Suriyawewa International Cricket Stadium and according to the Cabinet Decision dated 20 November 2017, the payment of the above loan and the relevant interest had been entrusted to then Ministry of Finance and Mass Media. That value had not been recognized and brought to account as local loans in the financial statements. | -Do- | Since necessary provisions were not received to account for this liability in the year 2018, action will be taken to account for this liability by obtaining relevant provisions in the year 2019. |
- (b) According to the financial statements of the Government, settlement of foreign loans during the year 2018 amounted to Rs.307,015 million, whereas it was Rs.287,060 million according to the Note 29 (Foreign loan balance statement) of the financial statements. Hence, a difference of Rs.19,955 million was observed.
- Amounts included in the financial statements and the relevant notes should be accurate.
- The repayment of loan amounting to Rs.19,955,803,734 is not included in Note 29 of the financial statement of the Government as repayment of foreign loans.

- (c) According to the financial statements of the Government, the total Public debt balance (inclusive of the advances obtained as short term loans by the Sri Lanka Government from the Central Bank of Sri Lanka ) stood at Rs.11,467 billion as at 31 December 2018. Nevertheless, according to the information of the Central Bank of Sri Lanka, the Public debt balance as at that date amounted to Rs.11,977 billion. Accordingly, a difference of Rs.510 billion was observed.
- Values included in all the reports relating to public debts should be compared and relevant reconciliation statements should be presented.
- Since the relevant two reports are prepared using two different principals for the fulfillment of different management and legal requirements, there are differences of the information included in those reports and the way of presenting such information.

## 1.6.2 On-lending

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According to the information made available to audit, the on lending granted as at 01 January 2018 amounted to Rs.181,368 million and on lending of Rs.11,866 million had been granted during the year. A sum of Rs.25,584 million of the above sum only had been recovered during the year and the balance of on lending together with other adjustments (changes of exchange rate) had been Rs.184,161 million as at 31 December 2018. The following observations are made in this connection.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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(a) In order to settle the payments of Golden Key depositors, the Ministry of National Policies and Economic Affairs had granted Rs.4,989.9 million in the year 2015 and 2016 and Rs.2,500 million in the year 2017. On lending agreements had not been entered into for that purpose and it had not been accounted for as on lending. As a result, the on lending balance included in the financial statements had been understated by Rs.7,489 million.	Signing on lending agreements and entering into agreements should be formalized.	The Public Enterprises Department has been informed to finalize the signing of on lending agreements and to refer the same to account for as on lending and the Director General of Public Enterprises by his letter has informed that the Central Bank of Sri Lanka had refused the act of entering into an on lending agreement through the latter dated 01.04.2019. Since there is no possibility to account for on lending without entering into an on lending agreement, this amount could not be brought to account as on lending .

		<u>Institute</u>	<u>Difference</u> Rs.	<u>Reasons for</u> <u>difference</u>
(b) When comparing loan balances included in the financial statements of the Government as at 31 December of the year 2018 with the direct balance confirmations with respect to 18 on lending agreements, on lending balance of Rs.64 million and Rs.93 million had been overstated and understated in the financial statements respectively.	Accurate and updated records and books should be maintained.	NWS& DB ADB 3348	10,502,894	According to the Letter No.2/5/DP dated 31.12.2018 of the Chief Accountant of the Ministry of City Planning, Water Supply and Higher Education, the release of on lending of the year 2018 has been correctly done.
		HDFC/N HDA	3,410,430	
		CENTRAL BANK	50,000,000	That institute has been informed to make the relevant corrections.
			----- 63,913,324 =====	It has been informed to correct this error by the letter dated 03.05.2019.
		<u>Institute</u>	<u>Difference</u> Rs.	<u>Reasons for</u> <u>difference</u>
		Colombo Municipal Council ADB 3348	93,186,748	The relevant institute has been informed to make relevant corrections and action is being taken to correct this difference.
		PEOPLE'S Bank SME DeF	363,310	-Do-
			----- 93,550.058 =====	

### 1.6.3 Capita Contribution of the Government Owned Business

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The following observations are made.

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(a) Although the Government investments in various Public Enterprises amounted to Rs.587,321 million, it was observed at the audit test check that the investment value had been overstated by Rs.1,625.3 million and understated by Rs.30,430.6 million in the financial statements.	Correct and updated records and books should be maintained.	<p>(a) Overstatement of Capital Contribution of the Government Owned Business. -----</p> <p>(i) Sri Lanka Tea Board -----</p> <p>It is expected to conduct a special study on Rs.672,012,202 reported in the statement of financial position of the Institute and recognized the correct value as the capital contribution of the Treasury.</p> <p>(ii) Urban Development Authority -----</p> <p>Although the sum of Rs.1,257,651,060 granted to the Authority has been stated an investment in the Treasury books, the Authority records this as a Treasury Grant and write off annually. However, according to the Section 18 of the Finance Act, the Parliament approval should be given for such write off.</p> <p>(iii) Sri Lanka Export Insurance Corporation -----</p> <p>It is observed that the adjustment related to Rs.10,000,000 attributed to the difference has been made by the Corporation in the year 2012 and it was noted down to take the due steps after ascertaining additional information.</p> <p>(iv) Ceylon Shipping Line Ltd. -----</p> <p>Necessary steps are being taken to adjust the relevant investment value in the Treasury books.</p>



(b) Understatement of Capital Contribution of the Government Owned Business.

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(i) This difference has been caused due to failure in recording in the Treasury books the number of shares issued in respect of the dividends received for the investment made by the Treasury in the Commercial Bank.

(ii) National Development Bank

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Due to the 19,247 shares issued in respect of the dividends worth Rs.2,611,839 granted to the General Treasury by the National Development Bank in the year 2018, this difference has been caused.

(iii) Kotagala Plantation Ltd.

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Due to subdivision (without increasing accumulated capital) made to the shares existed as at 09.01.2018 under the proportion of 2:3 by the Kotagala Plantation Ltd., the shares owned by the General Treasury have increased as 5,700,834. It was noted down to make relevant adjustments in the Treasury books.

(iv) **Regional Development Bank**

The share value issued to the General Treasury by the Regional Development Bank so as to represent the value of Rs.4,176,292,999 ( a number of 158,013,356 shares at a rate of Rs.26.43 per share) agreed in consideration of the amalgamation of the Regional Development Bank and the Lankaputhra Development Bank, had been the reason for the said relevant difference.

(v) **National Water Supply and Drainage Board**

Identification of funds granted by the Treasury for repayment of loans of water and waste water projects and payment of interests thereon, by the Board as the capital contribution of the Treasury without a recommendation of the Treasury, had been the reason for the said difference.

(vi) **Sri Lanka Bureau of Foreign Employment**

A sum of Rs.691,161,788 including a sum of Rs.58,502,029 granted later in addition to the value of Rs.632,659,758 granted up to 31.12.2016, entered in Treasury Books, has been identified as the capital contribution of the Treasury during the financial year ended 31.12.2018 by the Sri Lanka Bureau of Foreign Employment. Necessary action is being taken for adjusting the relevant value in Treasury Books.

#### 1.6.4 **Contingent Liabilities and Commitments**

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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
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(a) The Road Development Authority had obtained loans from local institutions on Treasury Bonds and an amount equivalent to loan installments and interests thereon is annually granted by the General Treasury to the Road Development Authority under the Object 117-02-04-51-2506 of the Ministry of Higher Education and Highways for the settlement of those loans.	The financial statements should be presented in an updated and accurate manner by including all required information.	As the Treasury Guarantees had been issued for the loan, it has been indicated under contingent liabilities in the financial statements. Further, those loans had been obtained by the Road Development Authority and the said loans had been shown as a liability in the financial statements of the Road Development Authority. As such, the Treasury has not identified it as an actual liability in the financial statements.

As stated above, out of domestic loans obtained from local commercial banks and special banks by the Road Development Authority, a sum of Rs.180,121.60 million obtained under 94 loan agreements and a balance of US\$ 35.45 million (Rs.6,478.48 million) obtained under one loan agreement by 31 December 2018, had been indicated under contingent liabilities and commitments in the financial statements.

Even though the General Treasury holds the full responsibility for loan servicing, the said loan balance of Rs.186,600.08 million obtained from local banks, had not been identified as a liability in the financial statements. Moreover, it had not been applied even in the computation of annual liability limit.

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| <p>(c) A 15 per cent interest rate is paid for fixed deposits of Rs.1 million or less maintained by senior citizens in licenced commercial banks or licenced specialized banks and a 15 per cent interest rate is paid since the year 2017 for fixed deposits of Rs.1.5 million or less maintained, according to 2015 budget proposals. Moneys relating to the difference between the said interest rate and the normal interest rate, should be reimbursed to the relevant banks by the General Treasury. As</p> | <p>Updated and accurate financial statements including all required information should be submitted.</p> | <p>No payment whatsoever has been made during the year due to non-receipt of imprests for payment of interest relief to the Department of Development Finance for fixed deposits of senior citizens for the year 2018.</p> |
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such, the interest relief so payable to 07 State Banks and 22 private banks as at 31 December 2018, had been Rs.33,198.08 million. The said liability had not been disclosed in the financial statements and it had not been disclosed in the financial statements of the relevant institution as well.

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| <p>(c) A sum of Rs.3,224 million for which recommendation was given by a committee appointed as per the Cabinet Decision on 01 February 2016 for settling of outstanding contract liabilities to the Provincial Roads Development Authority (Western Province) from the year 2011 up to the end of the year 2014, had been included in the annual financial statements of the said Authority as receivable from the General Treasury. However, the said value had not been included under liabilities in the financial statements of the Government.</p> | <p>Updated and accurate financial statements including all required information should be submitted.</p> | <p>Provisions required for accounting these liabilities, could not be obtained in the year 2018. As such, it had not been accounted for.</p> |
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### 1.6.5 Suspense Account

The following observation is made.

#### **Audit Observation**

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 Action had not been finalized even by 31 December 2018 relating to the loss of Rs.400 million occurred in the sale of 82 motor vehicles purchased for the Commonwealth Summit held on 18 December 2014. Moreover,

#### **Recommendation**

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 Speedy action should be taken to settle moneys temporarily retained in the Suspense Account.

#### **Comments of the Chief Accounting Officer**

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 An inquiry is being carried out presently to write off the loss of Rs.400 million occurred in the sale of 82 motor vehicles purchased for the Commonwealth Summit or to recover the said loss from the responsible parties, if any.

this value brought forward for over a period of 04 years had been further included in the Suspense Account in the financial statements.

### 1.6.6 Unsettled Balances

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
Debit balances of Rs.1,188.1 million relating to 08 accounts remaining dormant for a long period and credit balances of Rs.2,960 million relating to 06 accounts in the financial statements of the Government in the year 2018, had been included continuously in the statement of financial position.	Settled and updated values should be included in the financial statements.	Necessary steps will be taken to write off main ledger accounts with debit balances, from books not required for further maintenance and to credit main ledger balances with credit balances to the Revenue and to eliminate from the system.

### 1.6.7 Foreign Grants

The following observations are made.

Audit Issue	Recommendation	Comment of the Chief Accounting Officer
(a) Foreign Grants amounting to Rs.341 million had been directly obtained to the relevant Institutions, by 05 Institutions without informing the Treasury. Information on these Grants had not been included in the reports of the Treasury and it was observed that the Treasury was not acquired with a procedure in confirming whether such assistance had been received to other Ministries/ Departments.	Obtaining and accounting of foreign assistance should be regulated in terms of the provisions of the Circular.	Action will be taken to issue instructions to the Secretaries to the Line Ministry to take action as following relating to the Government Institutions that directly obtain foreign assistance without communicating with the Department of External Resources, not considering the provisions in Chapter XI of Financial Regulations in terms of Paragraph 2.0 as amended by the Public Accounts Circular No.30/94.

- (i) To take action to properly account foreign grants that was directly obtained expeditiously, not considering the provisions of the Circular.
- (ii) Action should not be taken to obtain foreign grants without informing the Department of External Resources and the Department of National Budget/ without obtaining the approval.

- (b) Even though Budgetary Provisions totalling Rs.4,097 million had been provided under each Object for the execution of the relevant functions from the money received as Foreign Grants to various Ministries and Departments in the year 2018, only a sum of Rs.2,183 million or 53.3 per cent of the total provisions had been utilized in the year. Moreover, a sum of Rs.1,322 million as at the end of the year had been retained in the General Deposit Accounts without utilizing for the relevant functions and without accounting as foreign grants despite Budgetary Provisions amounting to Rs.1,914 million provisioned for the Foreign Grant Projects in the year under review had been saved.
- The utilization of Foreign Grants should be regulated.
- Steps will be taken to include in the instructions that are scheduled to be provided to the Secretaries to the Ministries along with the financial statements of the relevant Ministry, the reasons that could be accepted relating to the under- utilization of the Budgetary Provisions that were made available on foreign grants excluding the instances of deviations from control, for the prevention/ minimizing of this condition.

### 1.6.8 Non- Financial Assets

According to the financial statements of the Government, the value of the Non- Financial Assets as at 31 December 2018 had been a sum of Rs.1,089,398 million. The following matters were observed in comparing the Non- Financial Assets remained as at 31 December 2018 included in the Note No.16 to the Financial Statements relating thereto with the Non- Financial Assets Balance as at 31 December 2018 in the Annual Financial Statements of 93 Institutions selected on sample basis.

Audit Issue	Recommendation	Comment of the Chief Accounting Officer
<p>A sum of Rs.19,664 million, the total of the Non- Financial Assets Balance stated in the financial statements, of the Institutions selected on sample basis had not been brought to account in the Government Financial Statements.</p>	<p>The accounting of Non- Financial Assets should be regulated.</p>	<p>It had been confirmed that the information including in the relevant financial statements had been compared with Treasury Books and that it had been agreed with those information by the Chief Accounting Officer and by the Chief Financial Officer. It is the responsibility of the Chief Financial Officer/ the Chief Accountant who take action relating to the Expenditure Heads to make the necessary adjustments by comparing all transactions and notes up to the end of December 2018 with the accounting in the Treasury Books and confirming, prior to the presentation of the Initial Supplementary Accounts Summaries.</p>

- (b) Even though the value of non-financial assets pertaining to 15 selected institutions amounted to Rs.15,655 million, that balance was shown as Rs.2,875 million in the financial statements certified by the Chief Accounting Officers of respective institutions. As such, the value of non-financial assets in the financial statements of the Government as at 31 December 2018 had been overstated by Rs.12,780 million. -do-

- (c) Even though the value of non-financial assets pertaining to 19 selected institutions amounted to Rs.189,587 million, that balance was shown as Rs.267,177 million in the financial statements certified by the Chief Accounting Officers of respective institutions. As such, the value of non-financial assets in the financial statements of the Government as at 31 December 2018 had been understated by Rs.77,590 million. -do -do-

## 2. Financial Review

### 2.1 Non-compliance with Laws, Rules and Regulations

The following non-compliances with the provisions in laws, rules and regulations were observed.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non-compliance</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
(a) Article 151 of the Constitution of the Democratic Socialist Republic of Sri Lanka	A sum of Rs.50 million from the Contingencies Fund had been granted on 27 April 2018 to the Ministry of Youth Affairs, Project Management and Southern Development and action had not been taken even by 23 April 2019 to submit a supplementary estimate and settle the advances obtained.  Accordingly, the balance of Contingencies Fund in the statement of changes in equity included in the financial statements for the year ended 31 December 2018 had been shown as only Rs.450 million.	Action should be taken in terms of provisions in the Constitution of the Democratic Socialist Republic of Sri Lanka	The possibility of submitting a supplementary estimate was limited due to the political environment prevailed during the last quarter of the year 2018. Therefore, necessary action will be taken in due course to submit a supplementary estimate and settle the relevant advance.



- (b) Paragraph 3 (a) of the Fiscal Management (Responsibility) Act, No.3 of 2003
- It was observed that the Ministry of Finance has failed to ensure that budget deficit as at the end of the preceding year and the year under review shall not exceed five per cent of the estimated Gross Domestic Product of each year. As such, the said percentages relating to the estimated budget deficit and actual budget deficit had been 7.38 per cent and 5.62 per cent respectively during the year under review.
- Action should be taken in terms of provision in the Act.
- The effect of non-increase in the Government revenue as expected as well as the devaluation of rupee against the Dollar , the effect on the Government expenditure due to the reasons such as the expansion of Government investment opportunities with the intention of poverty alleviation through the development of economic and social infrastructure facilities in the country and expansion of local and foreign investment opportunities and also the relief provided in unexpected emergency disasters had affected the maintaining of expected level of the budget deficit.
- (c) Fiscal Management (Responsibility) Act, No. 3 of 2003 as amended by the Fiscal Management (Responsibility) (Amendment) Act, No. 15 of 2013.
- The maximum value of liabilities as at the end of a year should not exceed 80 per cent of the GDP estimated for that year. It appeared that the Ministry of Finance had complied to that limit in accordance with reports of the Ministry. However, by considering the liabilities relating to miscellaneous state enterprises that had been brought to accounts external to
- Provisions of the Act should be followed.
- (i.) When computing the limits of liabilities during the year, the liabilities specifically identified for which payments are specifically made, are taken into consideration. According to Section 3 (f) of the Fiscal Management (Responsibility) (Amendment) Act, No. 15 of 2003, the limit for liabilities of the Government should be within 80 per cent of the GDP estimated for the relevant year of finance. As stated in Section (e) of the said Act, the limit of

the statement of financial position, it was observed that the total liabilities had exceeded the said limit and represented 88 per cent of the GDP.

contingent liabilities of the Government should not exceed 10 per cent of the average of the GDP for 03 preceding years. As such, separate limits have been imposed on Government liabilities and contingent liabilities.

- (ii.) As the foreign loans brought to accounts external to the balance sheet, were shown in the financial statements of the public enterprises such as, Ceylon Electricity Board, Ports Authority of Sri Lanka, and *Airport and Aviation Services (Sri Lanka) Ltd*, that value is not shown in the financial statements of the Account of the Republic. Accordingly, the sum of Rs. 366 billion is not included in the limit of total liabilities as well.
- (iii.) Treasury bonds have been accounted to the face value since the year 2016. The sum of Rs. 344 billion shown in the audit report as being the balance of the Treasury bond understated in accounts, is the difference between the book value and the face value of the Treasury bonds issued up to the year 2016.