Head-249 – Department of Treasury Operations

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1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Department of Treasury Operations for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance and cash flow statement for the year then ended was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No.19 of 2018. The summary report containing my comments and observations on the financial statements of the Department of Treasury Operations was issued to the Accounting Officer on 11 June 2021 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report was issued to the Accounting Officer on 11 June 2021 in terms of Section 11(2) of the National Audit Act, No. 19 of 2018. This report is submitted to Parliament in pursuance of provisions in the article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act No. 19 of 2018.

In my opinion, the financial statements give a true and fair view of the financial position of the Department of Treasury Operations as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Opinion

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

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

The 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 the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Section 16(1) of the National Audit Act, No.19 of 2018, the Department is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable the preparation of annual and periodic financial statements.

In terms of Sub-section 38(1)(c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department at 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 summary report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate and its materiality depends on the influence on economic decisions taken by users on the basis of these financial statements.

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

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.

- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, among other matters significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5. Report on Other Legal Requirements

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

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

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

2. Financial Review

2.1 Revenue Management

The following observation were made,

	Audit Observation	Comments of the Accounting Officer	Recommendation
(a)	Although a revised revenue estimate had been shown for the 11 revenue codes prepared by the Department, the relevant approval was not submitted to the audit. It was observed that these estimates varied from 67 per cent to 159 per cent in relating to the 11 revenue codes compared to actual income.	It is impractical to combine them and present the performance as a percentage since the 11 revenue codes are different from each other. Accordingly, it is kindly stated that those revenue codes do not show a variation in the range of 67 per cent to 159 per cent and the reasons are given for the variance of the 11 relevant revenue codes.	Revenue forecasting and record keeping should be streamlined to determine the level at which government spending should be kept in order to make the right policy decisions, to determine the budget gap and for monitoring and policy analysis.
I	**Investigation on Arrears Revenue** According to the arrears revenue report as on 31 December 2020, the following observations were made during the investigation of arrears related to 06 revenue codes.		

i.	The total arrears revenue for the years 2017 and earlier were Rs.5,361,931,137 as at 31 December 2020 and it was 54 per cent of the total arrears revenue of Rs.9,896,017,350.	Agrees with the audit observation. Out of it, a sum of Rs.3,215 million had been recovered as at 31.03.2021.	Action should be taken to recover/settle the arrears.
ii.	According to paragraph 4 of the Fiscal Policy Circular No. 01/2015 dated 20 July 2015, although it had been stated that the arrears should be recovered, 89 per cent out of the total arrears revenue of Rs. 9,896,017,350 as at 31 December 2020 was the arrears revenue relating to the previous year.	A sum of Rs.6,480 million relating to the years prior to 31.03.2021 had been settled.	Action should be taken to recover/settle the arrears.
iii.	During the audit of arrears revenue relating to 2017 and earlier years, it was informed that there was uncertainty regarding the recovery of arrears revenue of Rs.5,361,288,685 relating to 5 institutions on non-payment of loan interest and loan installments as per the agreements. This outstanding loan represented 54 per cent of total outstanding revenue.	Actions are being taken to waive the loan and interest amount of one of these institutions and legal action is being taken against another institution. The approval had been received to waive the interest of another institution and approval had been granted to recapitalize and restructure the loans of the other two institutions.	Action should be taken to recover/settle the arrears.

II.	The following observations were made during the examination of the decrease and increase in the total arrears revenue as at 31 December 2020 as compared to 31 December 2019.		
i.	Revenue from government assets under Revenue Code 20.02.01.99 - The arrears of other rents as at 31 December 2019 was Rs. 147,356 and it was observed that it had increased by Rs.1,134,484 or 670 per cent as at 31 March 2020.	Part of the arrears had already been recovered	Action should be taken to recover/settle the arrears.
ii.	The total arrears revenue as at 31 December 2019 was Rs.12,428,196,377 and it was Rs.9,896,017,350 as at 31 December 2020. Accordingly, it was observed that the total arrears revenue had decreased by Rs.2,532,179,027 or 20 per cent.	Agree with the audit observation.	Action should be taken to recover/settle the arrears.
(b)	**Revenue Code No. 30.01.01.00- Foreign Grants**		
I.	According to the Public Accounts Circular No. 30/94 dated 20 April 1994 relating to the accounting of the foreign aids, although it was stated that all transactions related to foreign aid should be done	According to the Public Accounts Circular No. 30/94 dated 20.04.1994, all foreign aids should be received through the Director General of the Department of External Resources.	Need to formalize the process of obtaining foreign aid and keeping accounts and strengthen regulation and take strict action against non-compliance with circular instructions.

	by the Director General of the External Resources Department of the Treasury, According to the information obtained on a sample test, 24 institutions had obtained Rs.2,026 million foreign grants to 77 projects directly to the relevant institutions in 2018 and 2019 without the knowledge of the Treasury. The details on these grants were not included in the Treasury records and the actions had not taken to account the grants by making allocations. It was also observed that the Treasury does not have an effective and efficient mechanism to ascertain whether such grants have been received by other Ministries / Departments.		
II.	Also, according to the information received on a sample basis, other Ministries / Departments had received a total of Rs. 1,266 million of foreign grants in the year 2020 without the knowledge of the Treasury and no action had been taken to make allocations for those values and included in the financial statements.	- Do -	- Do -

III.	The total expenditure of foreign grants received during the year under review under foreign grant No. 12 (Receive in cash) in the Financial Statements for the year 2020 was Rs.1,174,654,127 and according to the relevant deposit ledger, the total expenditure was Rs. 1,010,962,945. In this difference, foreign grants amounting to Rs.5,306,026, the values credited to government revenue during the year under review without being used for the relevant purpose and the surcharge amounting to Rs.318,803 were included.	The project implementation agency is responsible for utilizing the funds received for the project.	Strengthen coordination and regulation on the utilization of foreign grants for relevant purposes as strengthens the confidence of the granters.
IV.	A sum of Rs.9,655,159 received as special grants for 06 projects from 05 grantors had been sent back to donors during the year under review without being utilized for the relevant objects.	The project implementation agency is responsible for utilizing the funds received for the project and this should be investigated by the Department of External Resources.	Attention should be needed to make maximum use of the foreign grants received.
V.	Although received as special grants on 1 January 2020, the value of foreign grants which remained inactive till 31 December 2020 without being used for the relevant purpose was Rs.79,716,465.	The Chief Accounting Officers / Accounting Officers of the relevant Ministries / Departments are responsible for non-utilization of foreign grants for the intended purpose.	Strengthen coordination and regulation on the utilization of foreign grants for relevant purposes as strengthens the confidence of the donors.

VI.	According to the 802 - i report submitted by the Department of External Resources, 06 foreign grant agreements valued at Rs.4,952,640,578 had been entered into during the year 2020 and a sum of Rs.874,371,529 had realized in the year 2020 but only Rs. 474,391,137 had been spent. Accordingly, the information/values had not been disclosed in the financial statements regarding the difference of Rs.399,980,392 in between them.	The amount equivalent to the actual expenditure incurred during the year 2020 relating to the project was accounted as the grant received out of the amount credited to the account of Deputy Secretary to the Treasury by the donor agency.	- Do -

2.2 Management of Expenditure

	Audit Observation -----------------------	Comments of the Accounting Officer -----------------------------------	Recommendation ---------------------
(a)	The total net provision of Rs.1,700,000 provided for two capital expenditure codes was saved in full as at end of the year without being spent during the period.	Agrees with the audit observation. The reasons for savings had presented by Form ACA2 (II) in Financial statements.	Providing over-provisions through annual estimates should be controlled.
(b)	It was observed that the variance in five expenditure codes ranged from a decrease of 13 per cent to an increase of 358 per cent in preparing the initial cost estimate and the revised cost estimate.	Agrees with the audit observation.	- Do -

(c)	There was a savings of Rs. 3,351,637,425 after utilization during the year due to over-provisioning for 08 recurrent expenditure codes and 02 capital expenditure codes and it was observed that it had taken a percentage ranging from 25 per cent to 98 per cent of the net provision.	- Do -	- Do -
(d)	1409 of the Appropriation Vote Ledger of the Department - The amount totalling Rs.178,125,563 included under other expenditures had not been included in the information of the Public Debts Department of the Central Bank of Sri Lanka.	The cost of issuing International Sovereign Bonds amounting to Rs.8,976,987 had been deducted in remittances of the profit of the Central Bank of Sri Lanka for the year 2020	A system should be developed to ensure that credit-related information is updated within the relevant institutions.

2.3 Non-compliance with Laws, Rules and Regulations

Audit Observation	Comments of the Accounting Officer	Recommendation
In accordance with Guideline No. 6 issued by the Department of Public Accounts in accordance with paragraph 10:1 of the Public Finance Circular No. 02/2020, although the Cash Flow Statement (Form ACA - C) should be prepared on a regular basis, It was observed that the cash flow statement submitted for audit had not been prepared accordingly. The following observations are made in this regard.		

(a)	Although the advance recovery during the year was Rs.10,255,025, a sum of Rs.4,797,790 had been stated under the cash flow generated from the investment activities in the cash flow statement. Accordingly, the cash inflow had been understated by Rs. 5,457,235.	Revised the Cash Flow Statement for 31 December 2020 by including only advance recoveries and advance payments made only from cash in the cash flow statement.	Action should be taken in accordance with the circulars.
(b)	Although the advance payment was Rs.8,232,481, the advance payment in the cash flow statement had been stated as Rs.4,513,316. Accordingly, the cash flow had been understated by Rs.3,719,165.	Revised the Cash Flow Statement for 31 December 2020 by including only advance recoveries and advance payments made only from cash in the cash flow statement.	Action should be taken in accordance with the circulars.

2.4 Deposit Accounts Balances

Audit Observation	Comments of the Accounting Officer	Recommendation
It was observed that there were 19 deposit accounts totalling Rs.79,716,727 maintained without any transactions during the year under review. These deposit accounts are related to foreign grant receipts and the opportunity to use those grants for the relevant purpose had been lost due to the inactivity of these deposits. This was further confirmed by the crediting of Rs.5,306,026 to the government revenue during the year under review and returning of Rs.9,655,159 to donors without use for intended purposes.	02 out of the 19 deposit accounts mentioned here are still in active condition. In another account, the relevant Ministry had been continuously informed to utilize the balance. Although balances in other accounts were used in 2018 and 2019, it had not been used in 2020. Actions will be taken to notify it again and if not, action will be taken to credit to the government revenue or take further action.	It should be maintained updated book and records.

3. Operating Review

3.1 Non-achievement of expected Output Level

3.1.1 Treasury approved Imprest Accounts – (7002/7003)

	Audit Observation	Comments of the Accounting Officer	Recommendation
(a)	Although the main function of the Department is to authorize and supervise the opening / maintenance of the Imprest Accounts, the following observations were made in this connection.		
I.	The balances of 04 approved treasury accounts (7002) as at 31 December 2020 was a credit balance of Rs.2,342,323.	Action had been taken to settle 03 out of the 04 credit balance accounts by 31 March 2021. Actions will be taken to settle the remaining balance in April 2021.	Providing necessary guidelines for compliance with Financial Regulations.
II.	There were 03 accounts in the (7002) and (7003) accounts with initial balance remaining for many years even at the end of March 2021 and the total of those accounts were Rs.118,227,633.	The Secretary to the Ministry had stated that the balance of one of these 03 accounts couldn't be settled due to the severe financial difficulties prevailing in the Fisheries Corporation. It had been informed that further action will be taken to settle another balance by gathering information from foreign missions and letters had been sent to the relevant Ministry advising on how to settle the other balance.	- Do -

III.	The balance of the imprest account No. 7002-0-0-035/13 in the above mention accounts was Rs.91,530,099 and it was consist of unsettled advances for the year 2013 and earlier period. Out of those advances a sum of Rs.51,979,371 consisted of 173 secured deposits given for housing provided to staff who went abroad for work in foreign service. A sum of Rs.4,285,061 out of that value had been over 20 years, a sum of Rs.44,284,956 between 10 and 20 years and the balance of Rs. 3,409,354 was over 07 years.	Details had been obtained from each of the missions to settle the outstanding advances for the year 2013 and action is being taken to recover them.	- Do -
IV.	It was observed that out of those 173 housing guarantees/secured deposits, a sum of Rs.47,954,750 represented 165 security deposits provided as securities for houses that are not currently used by the staff of the foreign Missions.	Steps had been taken by the Ministry to recover deposits placed for houses and progress in this regard will be reported on 30.09.2021.	- Do -
V.	Also, there was an unsettled advance balance of Rs.355,085,724 in the balance of Rs.787,712,457 in the Imprest Account number 7002-0-0-035 /20 and out of that value, a sum of Rs.327,202,925 was represented the unsettled advances of foreign missions. Out of those advances, a sum of Rs.303,909,210 were represented security deposits placed for housing provided to staff who went abroad for foreign service and out of it a sum of Rs.20,464,959 were over 10 years. A sum of Rs.49,112,123 was represented the values between 5 to 10 years. Further, out of these security deposits, a sum of Rs.21,275,938 represented the value of 56 deposits kept by the staff of the mission for non-occupied houses.	According to the F.R.373, arrangements had been taken to transfer by a journal entry for the year 2021.	- Do -

VI.	Unsettled advances of missions amounting to Rs. 23,293,715 were the sub-imprests and among those advances, there were Rs.9,168,655 for the period before the year 2018, Rs.813,741 for the year 2018 and Rs.3,912,255 for the year 2019. Accordingly, in accordance with F.R. 371, the sub-imprest should be settled immediately after completion of those works, but action had not been taken as per the regulations accordingly.	The relevant missions had been instructed to recover the relevant sub-imprests in due course as and when required.	- Do -
(b)	Public borrowings and accounting of debt service were the major functions of the Department and the following observations were made in this connection.		
I.	The Cabinet Memorandum No. MPS/SEC/2017/32 on "Hambantota Port Concession Agreement" dated 20 July 2017 submitted by the Ministry of Ports and Shipping was approved by the Cabinet on 04 August 2017 and accordingly, the General Treasury had assumed the responsibility of repaying the outstanding balance of the loans taken by the Government for the construction of the Hambantota Port with effect from the effective date of the concession agreement. The balance of Rs.164,602 million of that loan had not been accounted in the financial statements of the Island Account or in the financial statements of the Ports Authority.	Loans taken by the Government for the construction of the Hambantota Port, paid by the Sri Lanka Ports Authority up to the year 2017 and debt service is carried out by the Treasury as per the decision of the Cabinet of Ministers dated 04 August 2017. As the Hambantota Port is an asset of the Sri Lanka Ports Authority, it was informed that relevant loans should be recorded in the books of the Ports Authority.	It should be regularized of public borrowing and debt service accounting.

II.	A total sum of Rs.6,124 million in respect of 19 foreign loan agreements realized during the year 2020 and in relation to 5 foreign loan agreements realized during the year or before the year 2019 had not been accounted as foreign loans even as at 31 December 2020.	These loans had not been accounted due to the lack of adequate budgetary provisions in the relevant Ministries and the projects not certified the expenditure as at 31.12.2020.	-	Do -
III.	The loan balances totalling Rs.1,336,519,034 related to 03 foreign loan numbers included in CS-DRMS 2000 + Report 854 – 1 report of the Department of External Resources had not been accounted.	Although the loan was repaid in 2020, the CS-DRMS system of the External Resources Department was recorded in the relevant date. In another loan, the loan balance is understated.	-	Do -
IV.	It was observed that the total loan balances amounting to Rs.4,399,424,782 in two foreign loan items included in the Government Financial Statements for the year 2020 were higher than the loan balances mentioned in the CS-DRMS 2000+ Report 854 - 1 report of the External Resources Department.	Although these loans had been received in the account of the Deputy Secretary to the Treasury of the Central Bank of Sri Lanka, the Department of External Resources had added that information to the system in 2021.	-	Do -
(c)	Another major function of the Department was to assess the funding requirements of Expenditure Institutions and release funds on a priority basis and the following observations were made in this connection.			

I. A total sum of Rs.4,718.16 billion as Rs.2,804.65 billion for recurrent expenditure and Rs.1,913.51 billion for capital expenditure respectively had been approved by the Parliament for the year 2020. According to the information submitted to the audit, a total imprest limit of Rs.2,166.70 billion had been imposed as Rs.1,708.36 billion on recurrent expenditure and Rs.458.34 billion on capital expenditure in it. The institutions had demanded a total imprest of Rs.2,640.63 billion as Rs.1,777.39 billion for recurrent expenditure and Rs.863.23 billion for capital expenditure by exceeding that amount. However, the Treasury did not release the required amount of cash and released a sum totaling Rs. 1,948.31 billion as Rs.1,622.54 billion for recurrent expenditure and Rs.325.77 billion for capital expenditure which was less than the minimum imprest limit.	In releasing imprest to Ministries / Departments, the annual imprest limit, monthly imprest requests, bank balances in official bank accounts, cash status under the Consolidated Fund and priorities are taken into consideration.	Release of imprest should be maximized by managing the cash flows and assessing the needs of the expenditure institutions.
II. Accordingly, the total sum of Rs. 692.31 billion had not been released by the Treasury as Rs.537.46 billion or 62.26 per cent of the imprest amount requested by the institutions for capital expenditure and Rs.154.86 billion or 8.71 per cent of imprest amount requested by the institutions for recurrent expenditure.	The considerable impact on government revenue from the COVID–19 pandemic in 2020 had also affected directly to release of imprest.	Release of imprest should be maximized by managing the cash flows and assessing the needs of the expenditure institutions.
(d) Also, the main functions of the Department include issuing Treasury Guaranties and the following observations were made in this connection.		

I. The bank guarantees/relief letters amounting to Rs.1,340,612.19 million had been issued to external entities on 230 occasions by 31 December 2020 and it had expired on 31 December 2020. The period of Treasury Guarantees valued at Rs.880 million had not been extended.	The issue of these relief letters was recommended by the Department of Development Finance and extension of time for these letters will be done as soon as the recommendation of the Department is received.	The process of issuing bank guarantees and relief letters should be maintained in a formal and updated manner.
II. Relief letters issued on behalf of Mihin Lanka		
(i) Four relief letters valued at US $ 2.5 million each for People's Bank and Bank of Ceylon as two letters for each bank and a relief letter valued at Rs.1,650 million had been issued on behalf of Mihin Lanka Airlines.	These relief letters were issued on the recommendation of the Department of Public Enterprises with the approval of the Cabinet.	To formalize the process of issuing bank guarantees and relief letters.
(ii) The payment period of this loan had laps on 31 March 2016 and letters of relief were issued frequently by extending the loan repayment period. It was observed that the deadline of the last extending period is given up to the date of ending one year after 31 December 2020 or the date end up the liquidation process whichever comes earlier.	These relief letters were issued on the recommendation of the Department of Public Enterprises with the approval of the Cabinet.	To formalize the process of issuing bank guarantees and relief letters.
(iii) Although Mihin Lanka had windup the operation since October 2016, the aforesaid company commenced liquidation on 09 March 2018. Accordingly, although it had been pointed out under Cabinet Memorandum No.18/1001/810/005 that the liquidation process should be completed within 06 months and extensions beyond that should not be approved, it was not observed that liquidation had been completed even up to now.	These relief letters were issued on the recommendation of the Department of Public Enterprises with the approval of the Cabinet.	To formalize the process of issuing bank guarantees and relief letters.

(iv)	A sum of Rs. 831,400,000 had been paid as at 30 October 2020 relating to a loan of Rs. 1,650 million obtained from the Bank of Ceylon and the loan amount of Rs.1,650 million has to be paid further.	These relief letters were issued on the recommendation of the Department of Public Enterprises with the approval of the Cabinet.	- Do -
(v)	According to the information submitted to the audit, The People's Bank had informed to the Treasury that the approved income tax by the People's Bank amounting to Rs.1 billion was used to settle the capital of Rs.90,900,000 and interest of Rs.909,100,000 relating to relief letter amounting to Rs.1,650 million issued on behalf of Mihin Lanka Company. Accordingly, the settlement was adjusted to the accounts by a Transfer Application dated 31 December 2020.	These relief letters were issued on the recommendation of the Department of Public Enterprises with the approval of the Cabinet.	- Do -