Head-249 – Department of Treasury Operations

---

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Department of Treasury Operations – Head 249 for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance and cash flow statements for the year then ended was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No.19 of 2018. The summary report including my comments and observations on the financial statements of the Department of Treasury Operations was issued to the Accounting Officer on 06 June 2022 in terms of Section 11 (1) of the National Audit Act, No. 19 of 2018. The Annual Detailed Management Audit Report relating to the Department was issued to the Accounting Officer on 15 July 2022 in terms of Section 11(2) of the Audit Act. This report will be presented in 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 of the Department of Treasury Operations give a true and fair view of the financial position of the Department of Treasury Operations as at 31 December 2021, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Opinion

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

1.3 Responsibility 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 such internal control as the Accounting Officer determines 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 annual and periodic financial statements to be prepared of the Department.

In terms of Sub-section 38(1)(c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibility 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, 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:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

- Evaluate the 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

As required by Section 6 (I) (d) of the National Audit Act, No. 19 of 2018, I state the followings;

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

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

2. Financial Review

2.1 Revenue Management

The following observations are made.

	Audit Observation	Comments of the Accounting Officer	Recommendation
(a)	The Department had estimated the revenue amounting to Rs.61,750,000,000 under 11 Revenue Codes for the year 2021. The original revenue estimates relating to all Revenue Codes had been revised in the year under review. Out of that, total revenue estimates of 10 Revenue Codes had been reduced by Rs.12,250,000,000**.** The revenue estimate relating to the Treasury Bond Surcharge – 2003.05.00, had been revised by increasing the revenue amounting to Rs.6,200,000,000 mentioned in the original revenue estimate, by Rs.7,300,000,000**.** As a whole, the Department had revised the estimate, by reducing the revenue expected to be collected according to the original estimate by Rs.4,950,000**.** However, revenue of Rs.70,175,052,224 had been collected from 11 Revenue Codes	An estimate valued at Rs.61,750,000,000 was prepared for 11 Revenue Codes in June 2020, that is, during the period when the public service was operative to a certain extent. However, as the public service was again crippled due to the second wave of Covid-19, the estimate for 10 Revenue Codes had been reduced by Rs.12,250,000,000 and revised as Rs.56,800,000,000, in July 2021. Moreover, the revenue of 05 Revenue Codes directly affected by activation of the public service through processes such as vaccination during the latter part of the year 2021, had been collected exceeding the original	Accurate and realistic revenue estimates should be prepared in terms of provisions of the Financial Regulation 85.

	by the end of the year under review. Revenue had been collected exceeding the original revenue estimates of 5 Revenue Codes. Accordingly, estimation of revenue and revision of them had not been carried out in a realistic manner.	revenue estimate. The revenue estimate relating to the Revenue Code of Treasury Bond Surcharege-2003.05.00 which depends on the market behavior factors, has been revised as Rs.13,500,000,000 by increasing the revenue of Rs.6,200,000,000 mentioned in the original revenue estimate by Rs. 7,300,000,000.	
(b)	Revenue amounting to Rs.9,896,151,815 under 7 Revenue Codes had been in arrears at the beginning of the year 2021 and a sum of Rs.8,810,689,720 out of that was brought forward since the year 2019 and prior years. Out of the said arrears of revenue brought forward for a long period, only a sum of Rs.13,000,000 had been recovered from a company in the year under review**.** Out of the revenue amounting to Rs.1,085,462,095 recoverable in the year 2020, a sum of Rs.16,103,048 had been recovered in the year under review. Moreover, arrears of revenue totalling Rs.7,548,679,264 had been written off of the arrears of revenue amounting to Rs.9,896,151,815 remained at the beginning of the year under review.	Arrears of revenue and revenue from interest amounting to Rs.7,431,611,375 and Rs.117,067,890 recoverable from the Milco Private Limited and the Ministry of Fisheries were eliminated from the report as per the Cabinet approval received for the Cabinet Memorandum submitted on 11.01.2021 and 04.12.2020 by the Ministry of Agriculture and Ministry of Fisheries respectively. Accordingly, action has been taken to account by providing provisions in a proper manner with regard to the writing off of the relevant loan amount and action in terms of Financial Regulation 113 has been taken on waiver of arrears of revenue from interest relating thereto.	Action should be taken to recover the arrears of revenue efficiently.

(c)	The value of the said revenue written off had been credited to the Government capital contribution of borrowers without charging on the Consolidated Fund. An approval should be obtained properly to write off the revenue already credited to the Consolidated Fund and it should have been charged on the Consolidated Fund making provision therefor from the annual budget estimate. It had been informed by the letter No. TO/REV/SL/2/288 dated 3 March 2021 of the Director General of the Department of Treasury Operations addressed to the Director General of Public Enterprises, to credit a sum of Rs.8,169,034,183 so as to include the amount so written off, to the Government capital contribution of a state company. However, the Department of Public Enterprises had credited the said amount to the Government capital contribution without obtaining provision from Parliament for the said capital contribution.	It had been decided on the Cabinet approval to capitalized the loan amount of Rs.8,169,034,183.39 recoverable from the Milco Private Limited in the year 2021 as an investment of the Government and to waive the interest thereof and the Department of Public Enterprises had been informed to capitalize the said amount and making provision relating thereto is a function of the Department of Public Enterprises.	The approval of Parliament should be obtained to make provision from the Consolidated Fund for the capital contribution of a statutory institution.
(d)	A sum of Rs.54,923,038 of the revenue recoverable relating to the year under review had been in arrears by the end of the year. As such, out of that, a sum of Rs.25,175,535 had been recovered by 30 April 2022. However, the Department had failed even by 30 April 2022 to recover an arrears of revenue of Rs.2,348,117,006 brought forward from the year 2019 and prior years.	Out of the revenue of Rs.2,373,292,541 which was in arrears by 31.12.2021, a sum of Rs.25,175,535 had been recovered by 30.04.2022 and necessary action is being taken to recover the balance thereof.	Arrears of revenue should be collected efficiently.

2.2 Expenditure Management

The following observations are made.

	Audit Observation	Comments of the Accounting Officer	Recommendation
(**a**)	The net provision totalling Rs.400,450,000 made for a Recurrent Object and three Capital Objects had been saved without being utilized.	Reasons for these savings have been indicated in the Format ACA 2(ii) of the financial statement.	In terms of the Financial Regulation 50, estimates should be prepared in an accurate and realistic manner.
(**b**)	Even though provision of Rs.2,000,000,000 had been made by the Supplementary Estimate for an Object for the year under review, the said provision had been saved without utilizing for any purpose by the end of the year under review.	As the specific forecasting of interest is a difficult task, additional provision was applied with a view to making payments for interest on Treasury Bills issued under market conditions. As Treasury interest rates could not be specifically forecasted earlier, additional provision applied for have been saved.	Provision should be obtained through supplementary estimates only for essential and emergency expenses.
(**c**)	Overprovision for 07 Recurrent Objects and 02 Capital Objects had been made and as such, the savings after utilization of those provision during the year amounted to Rs.237,178,550. The said savings had ranged from 27 per cent to 81 per cent of the net provision made relating to each Object.	Reasons for these savings indicated in the Format ACA 2(ii) of the financial statement are further applicable.	In terms of the Financial Regulation 50, estimates should be prepared in an accurate and realistic manner.

2.3 Deposit Balances

The following observation is made.

Audit Observation	Comments of the Accounting Officer	Recommendation
A balance amounting to Rs. 18,969 was available as at 31 December 2021 in	The Department of State Accounts has been	It should be rectified in terms of Financial

deposits retained temporarily for making repayments to third parties included in the Format ACA 4 of the financial statement presented and information thereon had not been made available to Audit.	informed that the Deposit Account bearing No. 6000-0-0-13-000 is not relevant to this Department.	Regulation 427 by reconciling Departmental Books of Account with Treasury Books.

2.4 Non-compliance with Laws, Rules and Regulations

The following non-compliances were observed.

	Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Accounting Officer	Recommendation
(i)	Letter No. SA/MAA/02/01/01 of 30 December 2021 of the Director General of State Accounts	According to the statement of financial performance of the year 2021, the imprest balance had been a negative value of Rs.2,325,108,410,892 as at 31 December 2021. Moreover, according to the Imprest Reconciliation Statement mentioned in the revised Format ACA-7, the imprest adjustment balance had been a negative value of Rs.2,325,108,410,892 as at 31 December 2021. However, the imprest adjustment balance of the Imprest Reconciliation Statement should have been a positive (+) value of Rs.2,325,108,410,892. Nevertheless, it had	According to the statement of financial performance of the year 2021, when the total expenditure is deducted from receipts of net revenue and non-revenue receipts, the imprest balance of the Department as at 31.12.2021 is a negative value of Rs.2,325,108,410, 892. Moreover, reasons for the said imprest balance have been indicated in the Format ACA 7 and its value as well is a negative value of Rs.2,325,108,410, 892.	Instructions given by the letter of the Director General of State Accounts should be logically presented.

		been indicated as a negative value, thus indicating the imprest balance as a 0 (zero) value as at 31 December 2021, is not logical.		
(ii)	Guidelines No. 2021/03 of 26 November 2021 of the Department of State Accounts	A sum of Rs.6,268,445 had been indicated as construction of physical assets or purchases and acquisition of other investments as expenses of cash flows arising from investment activities in the cash flow statement for the year ended 31 December 2021. Those acquisitions for the year under review had been Rs.6,663,776, thus undestating the net cash flow arising from investment activities by Rs. 395,331.	It is informed that when considering the expenditure as per the cash book, indicated as construction of physical assets or purchases and acquisition of other investments in the cash flow statement as at 31 December 2021, the differences which were pointed out by you, do not appear. Moreover, expenditure relating to the Object No. 249-1-1-2401 was not considered by you and this difference has arisen due to inclusion of expenditure incurred by the Department of Trade and Investment Policies under the Finance Lease Method.	Financial Statements should be prepared in accordance with Guidelines of the Department of State Accounts.

3. Operating Review

3.1 Non-achievement of expected Output Level

3.1.1 Accounting of Public Debt

The following observations are made.

	Audit Observation	Comments of the Accounting Officer	Recommendation
(a)	The Department had not introduced an appropriate methodology for the cash flow management and accounting of debt transactions relating to foreign debt.	The Department of External Resources is responsible for the maintenance of the database relating to realized foreign debt and loan repayments on behalf of the Government of Sri Lanka. As such, information contained in the said database is applied as the source of cash flow management and accounting of debt.	Public borrowings and accounting of debt servicing should be formalized.
(b)	Instances were observed where the consistency of financial statements of the Government was not maintained, due to making changes in accounting systems /bases from time to time, adhered to for accounting public debt.		
	(i) Discount portion of Treasury Bonds issued before the year 2016 had not been brought to account, thus understating the financial statements by Rs.318,246 million as at 31 December 2019. However, the Department of State Accounts had informed the Audit that provision of Rs. 318 billion should have been made for accounting the said discount portion and as making such a vast amount of provision practically is	A sum of Rs.291,166 million relating to Treasury Bonds issued before the year 2016 but to be matured further by 31.12.2020, had been brought to account and the face value of all Treasury Bonds payable by 31.12.2020 is disclosed in the financial statements at present. The amount of discount portion brought to account as above, will reach the maturity during the period up to the year 2045 and when reaching the	Financial statements should be prepared on accurate and formal systems/bases.

	attributed to increase the budget deficit, steps have been taken to adjust the discount portion relating to Bonds issued before the year 2016, in the year when reaching its maturity and to disclose the face value of those Bonds as notes in the financial statements until then. However, the said value had been brought to account without obtaining provision accordingly as at 31 December 2020.	maturity in each year, provision should be made annually from the budget for the repayment of book value and the discount portion of those Bonds in relevant years. However, out of the amount of discount portion of Rs.291,166 million brought to account by the end of the year 2020, only a sum of Rs.276,939,878,174 had been included in the financial statements by the end of the year 2021.	
(ii)	The Central Bank advance had been classified as a domestic debt in the audited financial statements of the year 2020 and reasons therefor as well had been given. However, the balance of the said Central Bank advance amounting to Rs.150.1 million had been eliminated from the domestic debt classification in the year 2021 and indicated as a separate item.	The Department of State Accounts is responsible for the preparation of the State Account and accordingly, it is appropriate to consult the Department of State Accounts regarding the eliminating of the balance of the said Central Bank advance amounting to Rs.150.1 million classified as a domestic debt in the year 2021, from the domestic debt classification.	Financial statements should be prepared on accurate and formal systems/bases.
(c)	According to the information presented to Audit, the value of foreign debt realized in the years 2021 and 2020 or prior to that but not accounted even by the end of the year 2021 had been Rs.16,883.6 million and Rs.21 million respectively as at 31 December 2021. However, a difference between the said value and the actual computed value as well was observed.		
(i)	There were values realized	Foreign debt could not be	Public borrowings and

	but not accounted in the year under review as well as in preceding years and reasons for failure to account so, had not been made available to Audit.	brought to account due to inadequate budget provision available with relevant Ministry in the year 2021 and failure in certifying expenditure as at 31.12.2021 by relevant projects.	accounting of debt servicing should be formalized.
	(ii) As such, it was further observed that the value of foreign debt presented in the financial statements of the Government as at 31 December 2021, is inaccurate.	It is agreed with audit observations.	Public borrowings and accounting of debt servicing should be formalized.
(d)	The value of foreign debt accounted in the year 2021 but realized in the year 2020 or prior to that, had been Rs.5,671 million. Even though it was realized during the relevant year, it was revealed that certain foreign debt had not been brought to account continuously during that year.	All debt realized during the year could not be brought to account during the same year itself due to inadequate budget provision available with relevant Ministry in the year 2021 and failure in certifying expenditure by relevant projects.	Public borrowings and accounting of debt servicing should be formalized.
(e)	A difference of Rs.240 million relating to the Loan No. 2001042 was observed between the foreign debt source of CS-DRMS 2000+ Report 854-1 as at 31 December 2021 and the financial statements of the Government as at that date.	It is agreed with audit observations.	Public borrowings and accounting of debt servicing should be formalized.
(f)	The value of foreign debt totalling Rs.311,191 million relating to 8 loan agreements included in CS-DRMS 2000+ Report 854 – 1 as at 31 December 2021, had been eliminated completely from the financial statements of the	The sum of Rs.311,190 million remained as at 31.12.2021 is a liability which should be recorded in the financial statements of Government institutions by which relevant projects were executed under the said loans.	Public borrowings and accounting of debt servicing should be formalized.

	Government and a sum of Rs.161,132 million obtained by the Government for the construction of the Hambantota Port, included therein, had been eliminated from financial statements of the Ports Authority as at 31 December 2021.		
(g)	The loan balance amounting to Rs.589 million remained as at 31 December 2021 relating to a loan agreement under the contractual commitments entered into in the year 2021 by the Government, had not been included in the financial statements of the Government.	Those values have not been included in the financial statements of the Government due to failure in including those values in the Annual Report – 854-1 of the Department of External Resources.	Public borrowings and accounting of debt servicing should be formalized.
(h)	Even though the loan currency relating to two loan agreements of the Report of CS-DRMS 2000+ Report 854 – 1, had been considered as EURO, according to the financial statements of the Government, it had been considered as XDR and USD. As such, exchange rates relating to different loan currencies for the same loan balances had been used, thus indicating differences of Rs.340 million and Rs. 285 million in the financial statements of the Government.	It is informed that consulting the Department of Public Enterprises on the progress is appropriate.	Public borrowings and accounting of debt servicing should be formalized.
(i)	There were negative values totalling Rs.12,463 relating to two loan keys according to the report of CS-DRMS 2000+ Report 854 – 1. Information for confirming that the loan amounts caused the said negative balance had not been repaid in excess, was not made	It is agreed with audit observations.	Public borrowings and accounting of debt servicing should be formalized.

	available to Audit.		
(j)	Negative loan balances amounting to Rs.1,481,264 relating to two loan agreements had been eliminated from the financial statements of the Government and reasons for those negative balances and for eliminating those values from financial statements, had not been made available to Audit.	The exchange loss occurred at the end of the year will be adjusted only to the Loan Account and Assets Account. However, as accounts are not prepared on accrual basis, the relevant loss will not be adjusted to the statement of financial performance.	Public borrowings and accounting of debt servicing should be formalized.
(k)	A loan balance of Rs.233,844 relating to the loan key No. 2010107, had been eliminated from financial statements of the Government and the reason therefor had not been made available to Audit.	As the said amount had been credited to the relevant bank account which is maintained by the Central Bank, only on 01.09.2021, the variation of the exchange rate remained for two days had attributed to the said relevant difference.	Public borrowings and accounting of debt servicing should be formalized.
(l)	Relevant information necessary for confirming the loan balance of Rs.20,247 million mentioned in the Note No. 29(i) submitted along with the financial statements of the Government, had not been included in the Report of CS-DRMS 2000+ Report 854 – 1. As such, sources necessary for confirming the said balance, had not been made available to Audit.	The Department of External Resources should reply therefor.	Public borrowings and accounting of debt servicing should be formalized.

3.1.2 Issuance of Treasury Sureties and Letters of Comfort

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
Bank guarantees of Rs.1,813,176 million and letters of comfort valued at Rs.81,268 million had been issued to external institutions in 241 and 23	The Department of Development Finance has been informed by letters dated 20.11.2020, 18.03.2021 and	The process of issuance of bank guarantees and letters of comfort should be

instances respectively by 31 December 2021. Due to expiry of Treasury sureties, the guarantee period of Treasury sureties valued at Rs.74,360 million and US $ 1,886 million relating to 27 instances and letters of comfort valued at Rs.29,550 million and US $ 160 million relating to 12 instances, had been extended in the year 2021. Loan installments and interest thereon totalling Rs.1,832,112,103 had been paid by the Department for letters of comfort issued in the year 2021 or prior to that and it included loan installments of Rs.91 million and interest thereon totalling Rs.1,740 million relating to 06 sureties issued to the Mihin Lanka Airlines. Action had not been taken even by 31 May 2022 to extend the validity period relating to Treasury sureties and letters of comfort totalling Rs.880 million issued to 02 institutions. The following observations are made at the test checks of samples of files carried out relating to institutions to which bank guarantees and letters of comfort were issued.	09.11.2021 that necessary action will be taken to settle loan balances relating to letters of comfort or to extend the validity period of those letters by making the Line Ministry aware of the value of sureties amounting to Rs.880 million obtained by the Co-operative Wholesale Establishment. No replies have been made so far.	maintained in a proper and updated manner.
(a) Treasury Sureties and Letters of Comfort issued to SriLankan Airlines		
(i) The General Treasury had issued sureties and letters of comfort to SriLankan Airlines on behalf of short term loans valued at US $ 200 million and Rs.26,250 million obtained on 8 occasions from the Bank of Ceylon and the People's Bank and for loans valued	Observation is accurate.	The process of issuance of bank guarantees and letters of comfort should be maintained in a proper and updated manner.

at US $ 5.38 million and Rs.1.352 billion at capitalized interest rates from the People's Bank since the year 2016.		
(ii) In addition to the above loan facilities obtained through state banks, the Government of Sri Lanka had issued a certificate of guarantee to SriLankan Airlines for raising funds of US$ 175 million through an international bond of 5 years repayable in June 2024.	Observation is accurate.	The process of issuance of bank guarantees and letters of comfort should be maintained in a proper and updated manner.
(iii) The performance of SriLankan Airlines was at a very weak level since the year 2016 and as such, it had been reported that settlement of loans had failed as expected.	Observation is accurate.	The process of issuance of bank guarantees and letters of comfort should be maintained in a proper and updated manner.
(iv) The Cabinet approval had been granted to liquidate Mihin Lanka Airlines as per No. 17/2383/733/026-1. However, according to the observation No. MF/PE/CM/2020/12 dated 30 January 2020 of the Minister of Finance, Economy and Policy Development, SriLankan Airlines had been restructured and it had been informed that the said institution (NAPPP-National Agency for Public Private Partnership) is currently inoperative and letters of comfort will have	It is agreed with the audit observation.	The process of issuance of bank guarantees and letters of comfort should be maintained in a proper and updated manner.

to be repeatedly issued until the Government will reach a decision on the going concern of SriLankan Airlines.		
(b) **Treasury Sureties and Letters of Comfort issued to Mihin Lanka Airlines**		
(i) Short term loan facilities of Rs. 1,650 million had been provided for the maintenance of operations of Mihin Lanka Airlines by the Note to the Cabinet No. PE/AV/SLA/CM/2015 dated 14 July 2015 and the period of repayment of this loan had expired on 31 March 2016. However, letters of comfort had been issued by extending the period of repayment of the said loan constantly. However, the final extension had been obtained up to 31 December 2022 or up to the date on which recoveries will be completed or whichever is earlier.	The validity period of the said letter of comfort had been extended up to 31.12.2022 on the approval of the Secretary to the Treasury and recommendations of the Department of Public Enterprises.	The process of issuance of bank guarantees and letters of comfort should be maintained in a proper and updated manner.
(ii) Action had been taken to settle a sum of Rs. 1,000 million as the interest and a portion of the capital payable up to 21 December 2020 for the loan obtained from the People's Bank by Mihin Lanka Airlines by setting off against a dividend of Rs.1,000 million receivable to the Treasury from the People's Bank relating to the year	Action has been taken to settle a sum of Rs. 1,000 million as the interest and a portion of the capital payable up to 21.12.2020 for the loan obtained from the People's Bank by Mihin Lanka Airlines, by setting off against a dividend of Rs.1,000 million receivable to the Treasury from the People's Bank relating to the year 2021.	The process of issuance of bank guarantees and letters of comfort should be maintained in a proper and updated manner.

2021. A sum of Rs. 831.4 million had been paid as the interest payable up to 21 December 2020 for the said loan amount.	Moreover, a sum of Rs.831.4 million has been paid by Mihin Lanka Airlines as the interest payable up to 21.12.2020 for the said loan obtained from the Bank of Ceylon.	
(iii) Out of the loan amounting to Rs. 1,650 million obtained from the Bank of Ceylon, an outstanding balance totalling Rs.1,741,728,301 comprising Rs.1,560,962,436 as a capital balance and Rs.180,765,865 as an interest balance was further payable by 31 December 2021.	Out of the loan amounting to Rs.1,650 million, an outstanding balance totalling Rs.1,741,728,301 comprising Rs.1,560,962,436 as a capital balance and Rs.180,765,865 as an interest balance was further payable by 30 October 2021.	The process of issuance of bank guarantees and letters of comfort should be maintained in a proper and updated manner.

3.1.3 Foreign Grants

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Provision of Rs.10,704,894,161 had been made in the year under review for 80 projects implemented by foreign grants. Of that, imprest totalling Rs.3,416,022,632 had been released for 76 projects. Release of imprest had been only 32 per cent of the provision made.	Provision is made through the Government budget to Chief Accounting Officers/Accounting Officers in each Ministry/Department by which foreign aid is obtained, to utilize foreign grants for relevant goals/objectives. Financial resources received relating to foreign grants are recorded and maintained by this Department and imprests are released to those institutions from time to time under the budget	Coordination and monitoring of utilization of foreign grants received for relevant objectives should be strengthened so as to ensure the credibility of grantors.

		provision made at the request of Chief Accounting Officers/Accounting Officers.	
(b)	Foreign grants of Rs.2,483,653,900 had been received from 33 grantors in 137 instances in the year 2021 and of that, a sum of Rs.45,620,543 had been returned to the grantor in the year under review.	Only a sum of Rs.2,483,653,900 has been received in cash as foreign grants during the year 2021. Moreover, only a sum of Rs.45,620,543 has been returned to the grantor by the end of the year. This Department has taken action to return those moneys to grantor only on the recommendation of the relevant Chief Accounting Officers/Accounting Officers and the Department of External Resources.	Attention should be drawn towards the utilization of received foreign grants to the maximum.
(c)	Foreign grants amounting to Rs.1,759,670 granted in the year under review to Ministry of Environment by the World Health Organization (WHO) for the Project of Recycling Used Agrochemical Containers in the North Central Province, had been returned to the grantor.	The World Health Organization has granted a sum of Rs.1,827,920 to this Department during the latter part of the year 2020 for a project of the Ministry of Environment. The sum of Rs.1,759,670 further remained as a balance after utilization of those moneys, was transferred to a new Deposit Account. Further, the Ministry of Environment by which the project is executed, had reported that the period of the project was ended and only the return of the sum of Rs.1,759,670.00 had been done by this Department in terms of foreign grant agreements at the request of the said Ministry and the World Health Organization and on recommendations of the Department of External	Coordination and monitoring of utilization of foreign grants received for relevant objectives should be strengthened so as to ensure the credibility of grantors.

		Resources.	
(d)	Grants amounting to Rs.39,794,102 received from foreign projects but not utilized, had been retained in deposit accounts. Even though a period over two years had lapsed after completing said projects, action had been taken in terms of Financial Regulation 571 to credit grants retained accordingly, to the Government revenue.	Only a sum of Rs.39,794,102.38 under foreign grants had been credited to the Government revenue in terms of F.R. 571 by the end of the year. As those deposits which were unclaimed by the grantor during the period of 2 years from the date of completion of the project, are considered as lapsed deposits, action has been taken in terms of the Financial Regulation to credit the said sum to the Government revenue based only on the recommendation given by Ministries/Departments by which the project is executed.	Coordination and monitoring of utilization of foreign grants received for relevant objectives should be strengthened so as to ensure the credibility of grantors.
(e)	Balances in 3 deposit accounts as at 31 December 2021 totalled Rs. 5,468,579**.** The said deposit accounts are relevant to receipts of foreign grants and those balances had remained dormant for over many years. Even though action should be taken to utilize those grants for the relevant objective, if it fails, action should be taken to credit it to the Government revenue in terms of Financial Regulations. Nevertheless, it had not been done accordingly.	In case of failure in taking action to utilize the relevant money even by the end of the year 2022, action will be taken to credit those moneys to the Government revenue on recommendations of the relevant Ministry. As such, it was noted to take action to credit those moneys to the Government revenue on recommendations of the relevant Ministry and the institution at the end of this year, in case of failure to utilize these moneys in the year 2022.	Coordination and monitoring of utilization of foreign grants received for relevant objectives should be strengthened so as to ensure the credibility of grantors.

3.1.4 Cash Flow Management

The following observation is made.

Audit Observation	Comments of the Accounting Officer	Recommendation
According to the credit programme of the year under review, the value of planned Treasury Bonds was Rs.1,235,000 million. However, a sum of Rs.1,742,938 million had been obtained as Treasury Bonds in the year under review. Accordingly, bonds had been obtained exceeding the planned target by Rs.507,938 million representing 41 per cent.	The Department has taken action within the approved credit limit authorized by Parliament and there were fluctuations in limits planned at the beginning of the year, of each debt instrument existed within the said limit. Downgrading of Sri Lanka according to credit ratings due to overall economic recessions had mainly attributed to the said situation and as a result, foreign borrowings will be limited and as such, Treasury Bonds will have to be issued more at the domestic market to settle the budget deficit.	Preparation and implementation of plans should be carried out properly.

3.1.5 Release of Imprest

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
Provision totalling Rs.3,789,171 million comprising Rs.2,694,152 million and Rs.1,095,019 million had been approved by Parliament as recurrent and capital expenditure respectively for the year 2021. A total sum of Rs.3,546,979 million comprising Rs.2,757,343 million and Rs.789,636 million had been spent as recurrent and capital expenses in the year	When releasing imprest for capital and recurrent expenditure by the Treasury to Ministries and Departments, attention is drawn towards the following matters. • Apply for imprest daily/monthly by Ministries and Departments • Daily bank/cash balances remained in official bank	Release of imprest for recurrent and capital expenditure should be formalized.

under review.

According to the information made available to Audit, limits of imprests totalling Rs. 2,454,679 million comprising Rs. 1,737,080 million and Rs. 717,599 million as recurrent and capital expenditure respectively, had been determined relating to 360 institutions comprising 185 Ministries and Departments, 103 Government institutions, 38 Universities, and 34 District Secretariats and Provincial Councils. Relevant institutions had applied imprest totalling Rs.2,911,205 million comprising Rs.1,929,136 million and Rs.982,069 million as recurrent and capital expenditure respectively. However, instead of releasing total amount of imprest applied by those institutions, the Treasury had released imprest totalling Rs.2,068,533 million comprising Rs.1,657,642 million and Rs.410,891million to relevant institutions as recurrent and capital expenditure respectively, even less than the minimum imprest limit.

Accordingly, the Treasury had not released imprests totaling Rs.842,672 million comprising Rs.271,494 million representing 14 per cent of the imprest applied by institutions for recurrent expenditure and Rs.571,178 million representing 58 per cent of the imprest requested by institutions for capital expenditure

In comparing the value of imprest applied relating to 360 institutions in the year under review with the value of imprest released, imprest had been released as 86 per cent for recurrent expenditure and as 42 per cent for

accounts owned by Ministries and Departments

- Cash position of the Consolidated Fund
- Priorities to be given on national requirement basis in consultation with the Top Management
- Giving priority for essential payments such as public debt servicing, salaries and wages, pensions, Samurdhi subsidies etc.
- Liquidity position existed in the implementation of programmes on public borrowings through the local financial market, and factors on financial cost directly affect the Treasury cash flow
- Quantitative impact on the Government revenue due to Covid 19 pandemic of the year 2021. Accordingly, action has been taken to release imprest economically, efficiently and effectively by considering above matters in releasing imprest by the Treasury under the Annual Appropriation Act -2021.

capital expenditure in relation to the value of imprest applied. However, a sum of Rs. 345,555 million representing 14 per cent had not been released from provision approved by annual estimates.

4. Human Resource Management

The following observation is made.

Audit Observation	Comments of the Accounting Officer	Recommendation
There were 20 vacancies in the Department as at 31 December 2021 and 08 vacancies of them were at the senior level.	There were 20 vacancies in the Department as at 31.12.2021 and 08 vacancies were at the senior level. Requests for officers for staff vacancies have been made to relevant parties on 02.07.2021	Action should be taken to fill essential vacant posts to perform the function of the Department and in case of unnecessary posts, action should be taken to revise the cadre.