

## **Financial Statements of the Government - 2022**

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of financial statements of the Government for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance, statement of changes in net assets/equity and cash flow statement of the General Treasury for the year then ended and notes to the financial statements including a summary of significant accounting policies was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions in Section 15 of the National Audit Act, No. 19 of 2018. The summary report including my comments and observations on these financial statements was issued to the Chief Accounting Officer on 30 May 2023 in terms of Section 15 of the National Audit Act, No. 19 of 2018. The Annual Detailed Management Audit Report relating to the financial statements of the Government was issued to the Chief Accounting Officer on 18 September 2023 in terms of Section 11(2) of the Audit Act. This report will be presented in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements of the Government give a true and fair view of the financial position of the Treasury as at 31 December 2022 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

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

My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (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 qualified opinion.

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

The Chief Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and in terms of Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as the Chief 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 General Treasury is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

In terms of Sub-section 38 (1) (c) of the National Audit Act, the Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists in the General Treasury and carry out periodic reviews to monitor the effectiveness of such system 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, 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 skepticism 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 General Treasury'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 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 and Regulatory Requirements**

I express the following matters in accordance with section 6 (1) (d) of the National Audit Act, No.19 of 2018.

- (a) The financial statements are consistent with the preceding year,
- (b) The following recommendations made by me on the financial statements for the preceding year had not been implemented.

<b>Reference to Paragraph</b> -----	<b>Audit Observation</b> -----	<b>Recommendations</b> -----
1.6.1 (a) (v), (viii), (x), (xiv) and (xv)	Accounting for foreign loans	Borrowings made by the government and debt servicing should be brought to account formally.
1.6.1 (c) (i) and (ii)	Accounting for foreign grants	All foreign grants received should be included accurately in the financial statements of the Government.
1.6.1. (e)	Rent and advances	Values shown in the financial statements should be reconciled with other relevant financial statements.
1.6.1 (f)	Treasury approved advances	Balances in the dormant accounts should be examined thus taking necessary measures.
1.6.1 (g) (ii)	Non-financial assets	All assets of the Government should be brought to account.
1.6.1 (i)	Dormant accounts	The long-standing balances should be examined, and only the balances actually existing in the financial statements should be brought to account.
1.6.1 (j)	No direct in relationship between the Statement of Financial Position and the Statement of Financial Performance	The liaison between the statement of financial performance and the statement of financial position should be ensured.
1.6.1 (k)	Statutory and other Funds	Accuracy should be ensured in preparing the financial statements.

1.6.1 (l)	Classification of Assets and Liabilities	- do -
1.6.1 (m)	Total external liabilities exceeding the total assets	Prompt action should be taken to account for all the assets belonging to the Government.
1.6.1 (n)	Transactions involving Foreign Currency	Financial statements should be prepared by including accurate information.
1.6.1 (o)	Failure to make Provision on Depreciation	- do -
1.6.1 (p)	Fuel Price Stabilization Fund	- do -
1.6.1 (q)	Preparation of Financial Statements under Accrual Basis	- do -

## 1.6 Comments on Financial Statements

### 1.6.1 Accounting Deficiencies on the Preparation and Presentation of the Financial Statements of the Government

The following observations are made.

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) There was no direct relationship between the statement of financial performance and the statement of financial position included in the financial statements of the Government. That is, the statement of financial performance reflected only the actual position of the budget relating to the year under review and of them, deficits or surpluses relating to the year had not been computed and adjusted to the statement of financial position. Accordingly, the statement of financial performance and the statement of financial position were in contrast.	The financial statements of the Government for the year 2022 had been prepared based on the format used since several preceding years. However, it is expected that, the position pointed out by the Audit will be accurate in preparing accounts as per the Accounting Framework and Accounting Standards expected to be introduced in future.	The relationship between the statement of financial performance and the statement of financial position should be ascertained.

- (b) Even though a debit value of Rs.22,477,362,524,574 had been indicated as the total of statutory and other funds in the statement of financial position, only a credit value of Rs.149,436,599,992 had been indicated in the statement of changes in equity. The debit balance of Rs.22,626,799,124,566 of the Net Assets Adjustments Account which has a direct and significant impact on the equity, had not been indicated in the statement of changes in equity.
- As the Net Assets Adjustments Account is not considered as a statutory or other fund, it has not been indicated in the statement of changes in equity. However, values relating to the Net Assets Adjustments Account have been indicated in detail under Note No. 27 to the financial statements.
- The financial statements should be prepared so as to reveal the accurate information to users of financial statements.
- (c) Assets and liabilities included in the statement of financial position had not been classified as current and non-current. As such, the users of financial statements and interested parties were unable to get a clear view of the amount of external liabilities payable by the Government during the ensuing year.
- It is expected to make relevant classifications in improving the accounting system as per the Accounting Framework and the Accounting Standard relating thereto planned to be introduced in future.
- The financial statements should be prepared so as to reveal the accurate information to users of financial statements.
- (d) According to the statement of financial position, the value of total external liabilities amounted to Rs.27,281,161,967,904. However, the value of total assets amounted to only Rs.4,803,799,443,330 in relation to the said value. As such, the total external liabilities exceeded the total assets by Rs.22,477,362,524,574.
- Accounting of the total value of non-financial assets of the Government has not been finalized so far. Further, certain assets acquired or constructed using loan amounts shown under liabilities of the Government, are included in the financial statements of relevant public enterprises.
- Prompt action should be taken to account all assets owned by the Government.
- It is expected to settle the aforesaid position in preparing consolidated accounts relating to the whole public sector including public enterprises.
- (e) Provision for depreciation had not been made according to the Prudence Accounting Concept by systematically allocating the depreciable value for non-financial
- Action is being taken to recognize and account all non-financial assets owned by the Government and once the said process is completed, it is expected to
- The financial statements should be prepared so as to reveal the accurate

assets totalling Rs.775,918 million throughout their useful life except for lands, work-in-progress in the financial statements of the Government. Moreover, assets should be periodically reviewed so as to reflect the fair value. However, action had not been taken accordingly. As such, the opportunity of getting a specific understanding of the carrying amount obtained after deducting accumulated depreciation and accumulated impairment losses of these assets, if any, had been lost by the users of these financial statements.

introduce an appropriate depreciation policy subsequent to the introduction of the proposed accounting framework and standards.

information to users of financial statements.

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| (f) | A sum of Rs.33,405,049,463 was included as grants in the cash flow generated from financial activities in the cash flow statement included in the financial statements of the Government. Nevertheless, the said value comprised receipts of materials and equipment valued at Rs.19,487,743,093 as grants without cash inflow. | The value of grants received from materials and equipment was shown as a cash flow in the cash flow statement. Nevertheless, the expenditure as well relating thereto has been included as a cash outflow in the cash flow statement. As such, it does not affect the balance of the cash flow. | The cash flow statement should be prepared in compliance with Accounting Principals.   |
| (g) | A balance of domestic and term loans amounting to Rs.45,000,000,000 had been converted to Treasury Bills in the year under review and no cash flow whatsoever was generated therefrom. However, it had been indicated under financial activities, considering as a cash inflow generated during the year under review.          | Even though domestic loans amounting to Rs.45 billion converted to Treasury Bills had been indicated as a cash flow, the relevant balance had been indicated under the cash outflow as well, thus not observing any affect to the balance of the cash flow statement.                           | The cash flow statement should be prepared in compliance with accounting principals.   |
| (h) | The value of net changes in deposits and other liabilities included in the cash flow generated from financial activities in the cash flow statement of the year 2020, had been separately indicated in each relevant  | The value of net changes in deposits and other liabilities was indicated separately in the classification of each cash flow since the year 2021 as per the proposal of the Auditor General.   | Financial statements should be prepared in compliance with basic accounting practices. |

cash flow from the year 2021. Accordingly, the cash flows included in those values were included in the Consolidated Fund and as such, action had been taken to adjust the net changes in values of deposits and other liabilities to the Consolidated Fund as a total. Therefore, recording a reverse of Rs.294,583,038,486 from the Consolidated Fund as net changes in deposits and liabilities in the year under review was observed in Audit as contrary to Article 150(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

Moreover, inclusion of any item in the cash flow is not an inclusion in the Consolidated Fund. Further, Note No. 24 to the financial statements indicates that cash inflow and cash outflow of the cash flow statement is only a reconciliation report between the balance of the Consolidated Fund and all items mentioned in the cash flow statement is not brought to account at all in the Consolidated Fund.

Accordingly, even though deposits and other liabilities are included in cash outflows and cash inflows, net changes thereof are not relevant to the Consolidated Fund. As such, when reaching the balance of the Consolidated Fund, the relevant value amounting to Rs. 294,583,038,486 has been reversed. This is not an accounting entry at all.

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| (i) | A sum of Rs.1,022,280,600 recoverable as at 31 December 2022 to the Department of Treasury Operations from the Fuel Price Stabilization Fund, had been indicated as a negative value under a liability in the statement of financial position of the financial statements of the Government for the year 2022 and erroneously indicated by naming as the Fuel Price Stabilization Account under miscellaneous accounts. | As this Account is a major Ledger Account, it has been indicated under miscellaneous accounts of the statement of financial position. However, in case the Audit will point out the manner of showing the relevant item for the fair presentation in the financial statements, it is agreed to make necessary revisions accordingly. | Information should be accurately included in the financial statements.                                   |
| (j) | According to the financial statements of the Government, the value transferred in the year under review to the Government from the profit of the Central Bank of Sri Lanka was Rs.30,007,245,202 and according to the financial   | The amount actually transferred during the year 2022 to the Government from profit of the Central Bank of Sri Lanka of the year 2021, was Rs.30 billion and the said amount has been brought to account.   | Receipt of profit should be reconciled as at the end of the relevant year with the relevant institution. |

statements of the Central Bank of Sri Lanka, the said value was Rs.31,035,788,000. As such, a difference of Rs.1,028,542,798 was observed.

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| (k) | In the comparison of Government recurrent grants and capital grants provided to public enterprises with the values included in the financial statements of relevant institutions, the net value had been understated in the financial statements of the Government by Rs.38.5 million and Rs.16.52 million respectively. | Responsibility of accurate accounting for recurrent and capital grants of public institutions pointed out by you and indicating them in the financial statements of those institutions has been assigned to the Accounting Officers of those institutions and the Chief Accounting Officers of Ministries relating thereto. | Values of capital and recurrent grants provided, should be reconciled with relevant institutions as at the end of the financial year. |
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## 1.6.2 Foreign Borrowings

The following observations are made.

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) According to the information made available to Audit, the value of foreign borrowings realized in the year 2022 and the year 2021 or prior to that but unaccounted even by the end of the year 2022, were Rs.10,665.4 million and Rs.3.6 million respectively. However, according to computations of the Audit based on foreign exchange rates remained as at the end of the year under review on information submitted by the Department of Treasury Operations, the total value of foreign borrowings not so accounted was Rs.11,700.6 million as at 31 December 2022. Accordingly, a difference of Rs.1,031.5 million was observed. Therefore, it was further observed that loan values realized but unaccounted during the year under review as well as prior years, remained as at 31 December 2022. Moreover, if any expenditure was incurred using unaccounted foreign borrowings, it was	It is agreed with. When reporting realization of loans, the Treasury had informed the relevant Ministries and Projects to take steps to account relevant expenditure with immediate effect and reminders as well have been sent from time to time. However, the relevant Ministries/Projects had not certified expenditure due to inadequate budgetary provision or other reasons. As such, it was unable to account corresponding loan liabilities relating thereto. However, of the total foreign loans, the value of unaccounted foreign loans was 0.09 per cent.	Public Borrowings and debt servicing should be brought to account formally.



further observed that the said expenditure could remain excluded in the financial statements of the year under review.

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| (b) | Realizations of Rs.17,305.2 million had been accounted in the year under review relating to 21 types of loans maintained outside the statement of financial position which were realized in the year 2021 or prior years and no disclosures whatsoever had been made thereon in the financial statements of the Government. Accordingly, contrary to periodic concept, it was further observed that even though it was realized during the relevant year, certain foreign borrowings had not been accounted continuously during the said year.                              | It is agreed with. It was noted down to make relevant disclosures in ensuing years.   | Public Borrowings and debt servicing should be brought to account formally. |
| (c) | Nevertheless, according to Note No.30 (11) to the financial statements of the Government of the year under review, the opening balance of the loan agreement No. 2001042 had been indicated as € 5,644,462 without any realization or repayment in the year and the said loan balance had been indicated as € 6,702,014 as at 31 December 2022.   | A technical defect occurred in the improvement made to the CS-DRMS by the Department External Resources, has been rectified in the year 2021 and the relevant rectification was indicated in the financial statements of the year 2022. | Public Borrowings and debt servicing should be brought to account formally. |
| (d) | The loan amount of Rs.589 million remained unaccounted as at 31 December 2021 as per Report of 854-1 relating to the loan agreement bearing No.2021007 under contractual commitments entered into by the Government in the year 2021, had been accounted in the year 2022 as a realization in the current year and no disclosures thereon had been made in the financial statements. As such, it was observed that actual realizations during the year under review were not completely reflected by Notes No.11 and 30 (II) to the financial statements of the Government. | It was noted down to make relevant disclosures in ensuing years.  | Public Borrowings and debt servicing should be brought to account formally. |

- (e) Loan balances amounting to Rs.518,293 million relating to 08 types of loans maintained completely outside the statement of financial position of the financial statements of the Government, had been accounted in the year under review. No disclosures whatsoever had been made thereon in the financial statements of the Government and the balances of the relevant 08 types of loans had been directly indicated in the closing balances of Note No.30 (II). Furthermore,
- (i) Even though it is the normal practice of the Government to account the borrowings through the Consolidated Fund, the aforesaid 08 types of loans could not be accounted through the Consolidated Fund. Nevertheless, the loan instalments relating to these 08 types of loans had been paid through the Consolidated Fund.
- (ii) It was observed that no expenditure whatsoever incurred by obtaining these 08 types of loans, had been accounted as expenditure in the financial statements of the Government during the period of obtaining the loan or during any other period. Moreover, no asset
- According to the Cabinet decision, these loan balances were recorded in the financial statements and it was noted down to disclose such transaction separately in ensuing years.
- As borrowings had not been made under the Appropriation Act for financing the budget deficit during the relevant financial year, it is not necessary to account through the Consolidated Fund. Of these 08 loan agreements, payment of loan installments of loans relating to the projects of Hambantota Port (since 2017) and the Norochcholai Coal Power Plant, was made through the Consolidated Fund and the loan amount obtained for the Mattala Airport Development Project was serviced by the Airport and Aviation Services (Sri Lanka) (Private) Limited.
- As assets and liabilities under these 08 loan agreements were recorded in the financial statements in relevant semi-government institutions upon a Government policy decision, it was not necessary to account as an
- Public Borrowings and debt servicing should be brought to account formally.
- Public Borrowings and debt servicing should be brought to account formally.
- Public Borrowings and debt servicing should be brought to account formally.

whatsoever acquired by expenditure in the financial statements of the Government. obtaining this loan, had been accounted in the financial statements of the Government.

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| (f) | Different currency units had been used in the financial statements of the Government for two loan agreements in the preceding year. As such, the relevant loan balances had changed by Rs.340 million and Rs.285 million according to the Report 854-1 of the CS-DRMS System. Even though only the loan currency unit had been changed in the year under review in the opening balances relating to those two types of loans, the opening balances had not been rectified. As such, the relevant changes had been absorbed into the currency loss arisen in the year under review due to those loans. Therefore, differences were observed between currency losses by the said values according to financial statements of the Government and the Report 854-1 of the CS-DRMS System. | The accurate loan balance as at 31.12.2021 relating to the two loan agreements concerned, has been shown by loan currency in the financial statements. Further, the relevant loan liability remained as at 31.12.2022 has been recorded accurately in Sri Lankan Rupees using accurate exchange rates remained as at 31.12.2022. | Public Borrowings and debt servicing should be brought to account formally. |
| (g) | Even though a sum of € 500,000 had been received in the year under review relating to Loan No.2019010, the value thereof amounted to Rs.114,180,500 according to the Report 854-1 of the CS-DRMS System while it was Rs.148,497,550 according to financial statements of the Government. As such, the loan value had been overstated by Rs.34,317,050 in the financial statements.  | It is agreed with.   | Public Borrowings and debt servicing should be brought to account formally. |
| (h) | Even though the opening loan balance should be equal to the closing loan balance after adding the realizations during the year under review and deducting loan payments during the year under review in terms of the foreign currency unit included in Note No. 30(II) of the Financial Statement of  | <ul style="list-style-type: none"> <li>• Technical defects in the CSDRMS System</li> <li>• Exchange adjustments made in converting loan amounts from USD to XDR</li> <li>• Differences made in comparing with</li> </ul>   | Public Borrowings and debt servicing should be brought to account formally. |

the Government, a difference of Rs.1,327,324,971 related to 12 unequal loan agreements was observed.

balances of the Lender etc. had been mentioned as reasons for the said differences.

- (i) When comparing the Foreign Currency Banking Unit Loan (Project) Balances presented in Note No. 30(I) of the financial statement of the Government with the report 854-1 of the CS-DRMS System, a difference of Rs.94,064,888 had been observed in the opening balances as at 01 January 2022 related to two loan agreements, and a difference of USD 454,444 had been observed in relation to the loan agreement number 2018034 when loan repayments were made. Further, even though an amount of Rs. 2,978,950 in relation to loan agreement No. 2016002 had been adjusted to the Parity/Adjustments column, no disclosure had been made in the financial statements.
- In preparing financial statements of the year 2021 relating to the loan agreement No. 2018034, the loan currency of US\$ 454,443.37 relating to the loan repayment, has not been entered by mistake, thus observing the said difference. However, this has been rectified in the final financial statement of the year 2022.
- The CS-DRMS System has been updated considering a sum of Rs. 2,978,950 relating to the loan agreement No. 2016002, as a loan interest of the year 2021 by the Department of External Resources and the Central Bank of Sri Lanka. However, in 2022, in comparing balances with the lender, the Department of External Resources has verified it as a loan repayment. As such, in preparing the financial statements of the year 2022 the closing balance has been rectified by adjusting under adjustments.
- Public Borrowings and debt servicing should be brought to account formally.
- (j) Even though the exchange loss of Rs. 5,232,909 million occurred in the conversion of foreign loan as at 31 December 2022 into local currency should be adjusted to the Statement of Financial Performance in accordance with Accounting Principals, that value had been adjusted to the Net Assets
- It is agreed with.
- Public Borrowings and debt servicing should be brought to account formally.

Adjustment Account. Furthermore, the exchange loss of the preceding year amounted to Rs. 363,647 million and it was Rs.5,232,909 million in the year under review, thus observing an increase of 1,339 per cent in the year under review as compared with the preceding year.

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| (k) | Even though the value of loan instalments repaid during the year under review was Rs.348,629 million as per the Notes Nos. 30(ii), (iii) and (iv) to the financial statements relating to foreign loans, a difference of Rs.9,874 million was observed since it was Rs.358,504 million according to the statement of financial performance. Further, it was observed in audit that the value according to the Report 854-1 of the CS-DRMS System is Rs.369,825 million. | It is agreed with.   | Public borrowings and debt servicing should be properly accounted. |
| (l) | Even though information related to domestic loan repayments had been disclosed in a note in the statement of financial performance, no such note had been presented with the financial statements in relation to the foreign loan repayment value of Rs. 358,504 million paid in the year 2022.   | As foreign loan repayments have been included in the financial statements from Notes 30(i) to 30(iv), it has not been indicated as a separate note.  | Public borrowings and debt servicing should be properly accounted. |
| (m) | When comparing the loan balance confirmations sent by the lenders with the financial statements of the Government and 854-1 report of the computerized debt management system, it was observed that loan balances related to 07 and 37 loan types had been overstated and understated by Rs.7,607,493,758 and Rs.13,082,627,225 respectively in the financial statements of the Government.   | As loan balances realized but not accounted existed in the year 2022, there are differences between the balance in the financial statements as at 31.12.2022 relating to Loan Nos.2014030, 2019020, 2018003 and 2016019 and the balance of the 854-1 report. | Public borrowings and debt servicing should be properly accounted. |

- (n) When examining the loan balance confirmations received from the lending institutions, a sum of € 82,158 as Commitment Fee due, a sum of € 31,571 as Delay Interest and a sum of € 194,391 as Fees Overdue had been stated in certain loan balance confirmation letters.
- In accordance with the interim policy followed relating to suspension of payment of certain loans declared by the Government of Sri Lanka, foreign debt servicing which was effected, has been suspended for an interim period from 12.04.2022. As such, unpaid commitment fees and interest on penalties of loan balances, have been indicated as fees payable in the letters of confirmation by relevant creditors. This includes only the unpaid loan instalments of the balances mentioned in the 854-1 report relating to this loan.
- Public borrowings and debt servicing should be properly accounted.
- (o) Considering the disbursement period, even though the disbursed foreign loans related to the year 2022 were included in the 814-1 report of the computerized debt management system printed on 02 May 2023, it was observed that it was not included in the said report printed on 20 January 2023. Accordingly, the net worth of foreign loans amounting to Rs.27,392 million had also not been accounted for as disbursed loans in the financial statements of the Government. Further, among those loan balances, instances were observed where loan disbursements in the said report printed on 02 May 2023 were less than the said report printed on 20 January 2023.
- As all these disbursements relating to the year 2022 were disbursements that had to be entered into the data system after 20 January 2022, they were not included in the 814-1 report obtained on 20 January 2023. The creditors have been briefed on various occasions on the delay in receipt of disbursements to the Department of External Resources. Moreover, according to accepted loan management systems for correct projection of debt servicing by relevant currency, the disbursement system should be entered through only the disbursement notes forwarded to us with
- Public borrowings and debt servicing should be properly accounted.

relevant currency by the relevant creditor. In view of minimizing such delays in future, it is expected to call for a report with all transactions relating to each year on 01 January every year from creditors who have not been provided with online software facilities and without charging a fee for providing such financial statements. The creditors are further briefed on the delays of receiving these notes.

(p) When analyzing the reports of the computerized CS-DRMS System operated by the Department of External Resources for the management of foreign debt, the following deficiencies were observed.

(i) Even though the balances as at 31 December 2021 for loan numbers 2021008 and 2021016 had not been recorded according to the 854-1 Report of the CS-DRMS System obtained in the year 2021, the opening balances as at 01 January 2022 were observed as follows in the reports obtained as at 31 December 2022.

The Department of External Resources has notified the Department of Treasury Operations on realizations of these two loan agreements in the year 2022 and accordingly, they have been accounted through account summaries in December 2022.

Public borrowings and debt servicing should be properly accounted.

Loan No.	Loan Currency	Loan amount realized	Value Rs.
22021008	USD	392,385	78,647,303
22021016	USD	12,500	2,505,423

Similarly, there were no opening balances for the above two types of loans as at 01 January 2022 according to the financial statements of the Government, and the following amounts had been accounted for as realized

during the year under review. Accordingly, it was not clear in which year these loans had been realized.

Loan No.	Loan Currency	Loan amount realized	Value Rs.
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2021008	USD	392,385	78,280,893
2021016	USD	472,500	168,106,589

- (ii) The loan balance related to loan number 2002054 was only € 11 or Rs. 2,495 as at 01 January 2022, and the loan balance related to this loan without any realization during the year under review was €4,373 or Rs. 1,692,045 as at 31 December 2022. It is agreed with. Public borrowings and debt servicing should be properly accounted.
- (iii) Negative loan balances totalling Rs.1,803,456 in respect of two loan agreements had been observed in the financial statements of the Government and 854-1 Report of the CS-DRMS System. It is agreed with. It has been noted down to be rectified in the year 2023. Public borrowings and debt servicing should be properly accounted.
- (iv) Negative loan disbursements totalling Rs.24,945,542 related to two loan agreements had been observed only in the financial statements of the Government, and according to the 854-1 Report of the CS-DRMS System, a difference totalling Rs. 1,936,975,642 was observed between the closing balances of the previous year and the opening balances of the year under review. Accordingly, the accuracy relating to foreign loans as at a specific date through the debt management system, could not be satisfied. It is agreed with. As the project was completed, of the amount remitted by the lender, the return of money saved without spending has resulted in these negative loan realizations. Public borrowings and debt servicing should be properly accounted.



### 1.6.3 Non-financial Assets

The following observations are made.

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) Even though the total value of non-financial assets as at 31 December 2021 was Rs. 1,850,007 million according to the financial statements of the Government for the year 2021, the value as at 01 January 2022 was stated as Rs. 1,802,121 million according to the financial statements of the Government for the year 2022. Accordingly, the opening balance of non-financial assets for the year under review was understated by Rs.47,886 million.	In terms of Appropriation (Amendment) Act, No.21 of 2022 passed on 02.09.2022, State Ministries and Expenditure Head No. 104, 114, 115, 159 and 169 existed until then were abolished and their scopes were assigned to other Cabinet Ministries. Accordingly, as the value of non-financial assets accounted as at 30.09.2022 under the abolished Expenditure Heads have been assigned to the new ministry/ministries that were assigned with relevant functions, a difference of opening balances is apparent.	The opening balances of non-financial assets should be compared with the closing balances of the preceding year and revealed in case of any difference.
(b) The balance of non-financial assets of certain institutions, out of 84 institutions selected on sample basis, was Rs. 38,245 million and according to Format ACA-6 of the financial statements of those institutions, the balance was Rs. 21,382 million. Therefore, the value of non-financial assets as at 31 December 2022 was overstated by Rs.16,863 million in the financial statements of the Government.	According to Treasury Accounts Statements issued by the Department of State Accounts, values similar to the value of non-financial assets have been indicated in the financial statements and specific explanations can be called on reporting values more or less than the aforesaid values in auditing relevant institutions. Furthermore, it is informed that maintaining the accuracy in accounting of values of non-financial assets, is a responsibility of the Chief Accounting Officers of relevant reporting institutions.	All non-financial assets should be properly accounted.
(c) The balance of non-financial assets of certain institutions, out of 84 institutions selected on sample basis, was Rs. 6,277 million, and according to the	Only the values reported have been entered by the Department of State Accounts to its data system by comparing the balance of the Non-financial Assets Control Account	All non-financial assets should be properly accounted in the financial

Format ACA-6 of the financial statements of those institutions, the balance was Rs. 7,829 million. Therefore, the value of non-financial assets in the Financial Statement of the Government as at 31 December 2022 was understated by Rs. 1,552 million.

with the individual balances through each Expenditure Unit relating to the value of non-financial assets indicated in the final financial statements of the Government. However, the said institution could own assets further unreconciled with the control balance in such manner and instructions have been given to enter such assets unreconciled and to be further reported, to the CIGAS Computer System.

- (d) A difference of Rs.344 million was observed between the building value assessed and adjusted to opening balances during the current year in the Format ACA-6 for the year 2022 of 2 institutions selected on sample basis and the values contained in the valuation reports submitted for audit by the Valuation Department.
- The Department of State Accounts coordinates with relevant institutions on the valuation and accounting of state lands and buildings. The relevant institutions are informed to account through the CIGAS Computer System, the value of a certain land or building after being valued and reported, And accounting those values accurately is a responsibility of the relevant institutions.
- All non-financial assets should be properly accounted in the financial statements of the Government.

#### 1.6.4 Rent and Work Advances

Audit Observation	Comment of the Management	Recommendation
Even though the opening (31 December 2021) rent and work advance balance of Head 290 - Fisheries and Aquatic Resources Department and Head 247 - Sri Lanka Customs Department are stated as Rs.8,518,925 and Rs. 780,000 respectively according to financial statements of the Government, the opening balances of the rent and work advance account were not recorded in the financial statements in the year 2022 of those departments.	The balances accounted by relevant institutions in the Treasury books are indicated in the financial statements of the Government.	The values included in the financial statements of the Government should be compared with the financial statements of other institutions.

## 1.6.5 Capital Contribution

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) According to the direct balance confirmations submitted by 13 public corporations and shareholding public enterprises and public companies, the capital contribution of those entities as at 31 December 2022 was Rs.985,745 million, and according to the financial statements of the Government, the balance was Rs. 149,875 million. Therefore, the capital contribution in the financial statements of the Government as at 31 December 2022 had been understated by Rs. 835,870 million.	Agreed with the Audit Query.	The capital contribution made to public enterprises, should be properly accounted.
(b) Differences were observed between the direct balance confirmations submitted as at 31 December 2022 and the financial statements of the Government in relation to the number of shares owned by the Government in respect of 07 institutions. Accordingly, the capital contribution of the Government as at 31 December 2022 had been understated by Rs.1,877 million in the financial statements of the Government.	Agreed with the Audit Query. Necessary rectifications are due to be made in the year 2023.	The capital contribution made to public enterprises, should be properly accounted.
(c) Although the value as at 31 December 2022 had been Rs. 5,148 million in the calculation made during the audit according to the number of shares owned by 02 Public Companies and their nominal value, it had been indicated as Rs. 14,556 million in the financial statements of the Government. Accordingly, the capital contribution had been overstated by Rs. 9,408 million as at 31 December 2022 in the financial statements of the Government.	Agreed with the Audit Query. Necessary rectifications are due to be made in the year 2023.	The capital contribution made to public enterprises, should be properly accounted.

- (d) Although 6,183,946 shares worth Rs.175 million had been issued on 15 December 2022 by offsetting the loan amount of Rs.175 million, which had been obtained from Lankaputra Development Bank in order to improve Capital Adequacy (Tier -1) of the Regional Development Bank and which had to be paid to the General Treasury, it had not been brought to account in the financial statements of the Government as at 31 December 2022. Agreed with the Audit Query. The capital contribution made to public enterprises, should be properly accounted.
- (e) The increase in capital contribution of Government-owned enterprises during the year under review was Rs.1,405,204 million according to the financial statements of the Government. Out of that a sum of Rs.109,625 million, i.e. 8 per cent consisted of money released from the General Treasury for the payment of the recurrent expenditure of each institution, i.e. payments for loans, loan interest and payments of salaries and wages. The General Treasury is the sole owner of all these institutions. Accordingly, it is kindly informed that it is possible to consider the contributions of the Treasury for working capital issues or other expenses of recurrent nature existing in those institutions as a capital contribution made to those institutions. The capital contribution made to public enterprises, should be properly accounted.

### 1.6.6 Foreign Grants

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
(a) The value of foreign grants, which have been received as foreign grants to the Government of Sri Lanka as at 01 January 2022 and remained idle as at 31 December 2022 without being used for the relevant purpose had been Rs. 34.9 million.	Inquiring as to whether the money received as foreign grants are utilized for the relevant purpose or if not, for the relevant project, is a matter extraneous to the scope of this Department and the Department of National Policies and the Department of External Resources are the institutions directly involved thereon. However, the relevant executing institutions have been briefed from time to time through letters, to make arrangements to utilize the balance remaining in relevant deposit accounts or to credit to the revenue in case of failure to do	Action should be taken for maximum utilization of foreign grants received to the Government of Sri Lanka, for the relevant purpose.

so.

- (b) Although it has been stated that all the transactions related to foreign aid should be carried out by the Director General of the Department of External Resources of the General Treasury according to the State Accounts Circular No. 30/94 dated 20 April 1994, foreign grants totalling Rs.1,837,321,420 had been directly received for 20 projects of other ministries/ departments in the year 2022 without making the Treasury aware of that as per the information obtained from an audit sample and action had not been taken to make provision for those values and to include them in the financial statements.
- As per the Circular, it is mentioned that all transactions on foreign grant should be carried out by the Director General, Department of External Resources of the General Treasury. Nevertheless, foreign grants have been received directly to the Ministries and the Department without the knowledge of the General Treasury. It is a responsibility of executing institutions to report foreign grants received directly in such manner for inclusion in financial statements by allocating necessary budget provision. However, the General Treasury is taking all measures to avoid such situations.
- Action should be taken as per Circular instructions.

### 1.6.7 Non-Disclosures in the Financial Statements

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Even though the payments of Rs.671,569 million as loan repayments in relation to 391 loan agreements as at 13 April 2022 to the end of the year under review and Rs.305,435 million as the interest of the loans had been suspended according to the policy decision of suspending the payment of foreign loans issued by the Ministry of Finance, Economic Stabilization and National Policies on 12 April 2022, no disclosure had been made in the financial statements of the Government thereon and the relevant policy decision of suspending the payment of foreign loans.	It was noted down to make relevant disclosures in the coming years.	All the particulars to be conveyed to the users should be disclosed in the financial statements.

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| (b) | Two foreign borrowings of Rs.10,200 million that remained unrealized despite entering into agreements in the year 2022 had not been disclosed in the financial statements of the Government.  | The amount of Rs.10,200 million related to the Loan Nos. 2022008 and 2022003, which were agreed upon in the year 2022, were not realized in the year 2022 and was also not included in the 854-1 Annual Report submitted by the Department of External Resources.   | All the particulars to be conveyed to the users should be disclosed in the financial statements. |
| (c) | The Government equity contribution had not been classified as investments made in the listed companies and unlisted companies in the Colombo Stock Exchange. Furthermore, the share value of the listed companies in the Colombo Stock Exchange had been agreed upon its nominal value, whereas the market value thereof as at 31 December 2022 had not been disclosed in the financial statements. | We are unaware of the fact that the Government equity contribution is required to be classified as investments made in the listed companies and unlisted companies in the Colombo Stock Exchange and we kindly request to make the our Department aware of the applicable provisions and other regulations in this regard. Action will be taken to disclose the ownership value of the listed companies in the Colombo Stock Exchange in the financial statements in the year 2023. | All the particulars to be conveyed to the users should be disclosed in the financial statements. |

### 1.6.8 Exceeding Limits

The following observations are made.

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
In terms of Fiscal Management (Responsibility) (Amendment) Act, No.12 of 2021, the limit of issuing treasury guarantee as a percentage of the average of the gross domestic product for the current financial year along with the two preceding financial years is 15 per cent. Accordingly, the guarantee pertaining to the year 2022 shall be issued within the limit of Rs. 2,826,300 million whereas guarantees up to	Due to the abnormal increase in the foreign exchange rate since the beginning of the March 2022, the Sri Lankan Rupee depreciated by about 80 percent against the US Dollar, and consequently, the limit of the Treasury guarantee exceeded its	The limit pertaining to the issue of Treasury guarantee should be followed in terms of Fiscal Management (Responsibility) (Amendment) Act, No.12 of 2021.

Rs.2,908,515 million had been issued. maximum by 31.12.2022. Accordingly, Treasury guarantee of Rs.82,214 million had been issued exceeding the prescribed limit during the year under review it represented 15.4 per cent.

### 1.6.9 Non-compliance with Laws, Rules, and Regulations.

The following non-compliance with laws, rules, and regulations were observed.

Reference to Laws, Rules, and Regulations	Non-compliance	Comment of the Management	Recommendations	
(a)	Article 149 of the Constitution of the Democratic Socialist Republic of Sri Lanka.	The Fuel Price Stabilization Fund had been established and maintained on the approval of the Cabinet without obtaining the approval of Parliament even by 31 December 2022.	Not replied.	Action should be taken in accordance with the Constitution.
(b) (i)	Fiscal Management (Responsibility) Act, No.03 of 2003.	In accordance with Fiscal Management (Responsibility) Act No. 3 of 2003 as amended by Fiscal Management (Responsibility) (Amendment) Act No. 12 of 2021 and Fiscal Management (Responsibility) (Amendment) Act No. 15 of 2013, the maximum liability as of the end of a particular year shall not exceed 80 per cent of the estimated GDP of that year, whereas that limit had exceeded up to 116.33 percent as at 31 December 2022. Details are given below.	Due to the depreciation of the Sri Lanka Rupee by about 80 percent against the foreign exchange in 2022 and the transfer of 8 identified loan agreements of state-owned enterprises to the financial statements of the Government according to Cabinet Paper No. 22/0154/604/014 and the decision dated 20.01.2023, the foreign debt balance as on 31.12.2022 has increased by Rs.518 billion. Apart from this, the increase in the domestic debt has also contributed to increase in the overall debt balance. Furthermore, according to the aforementioned Cabinet	Provisions of the Act should be followed.
	<b>Liability</b>	<b>Value of Liability as at 31 December 2022</b>		
	-----	-----		
	Bank Overdraft	84		
	Advance form the Central Bank	235		
	Public Debt	27,379		

Liabilities not accounted in the financial statements.		decision, the inclusion of the debt balance of Ceylon Petroleum Corporation amounting to Rs.884 billion in the government's debt stock has also led to the increase in the government's debt balance.
- Unaccounted Foreign Borrowings	39	
Total Liabilities	27,737	
Estimated Gross Domestic Product	23,843	
<b>Total Liabilities as a percentage of GDP</b>	<b>116.33</b>	

\* The value of the collaterals and the letters of comforts given to banks for loans taken by public enterprises on General Treasury guarantees amounting to Rs.1,292 billion and Rs.106 billion worth of liabilities according to the statement of liabilities and commitments submitted to the Audit of the Ministries, Departments and Special Expenditure Units have not been included in the above liabilities.



(ii) It is specified in Section 3 (a) of the Fiscal Management (Responsibility) Act, No.3 of 2003 that “The reduction of Government debt to prudent levels, by ensuring that the budget deficit at the end of the year 2006, shall not exceed five per cent of the estimated Gross Domestic Product for the year and to ensure that such levels be maintained thereafter,” is an objective with responsibility that forms the basis to the financial management which is required to be followed by the Government. Nevertheless, the Ministry of Finance had failed to estimate the budget deficit in the year under review in a manner not to exceed five per cent of the estimated Gross Domestic Product and to maintain the actual budget deficit so as not to exceed five per cent of the GDP. Accordingly, those percentages relating to the estimated budget deficit and the actual budget deficit stood at 9.78 per cent and 10.71 per cent, respectively, in the year under review. Details appear below.

Not replied.

Provisions of the Fiscal Management (Responsibility) Act, No.3 of 2003 should be complied with.

Estimated GDP	Budget Deficit		Estimate d Budget Deficit as a Percentag e of the Estimate d GDP	Actua l Budg Deficit a Percen e of tl Estima d GD
	Estimate d	Actual		
Rs.Billion	Rs.Billion	Rs.Billion	%	%
----- 23,843	----- 2,333	----- 2,554	----- 9.78	----- 10.7

(c) State Accounts  
Circular  
No.243/2015 dated  
24 June 2015

In terms of State Accounts Circular No.243/2015 dated 24 June 2015, it was expected to make the deposits under 6003 category zero and instructions had been received to do that task through the annual estimate from the year 2016. However, a balance of Rs.10 million had been carried forward without being settled in a deposit account under the category 6003 even by 31 December 2022.

It was observed after reexamining the debit balance of Rs.10 million in the General Deposit Account No. 6003/0/0/01/00/00 of the Colombo District Secretariat that this debit balance has arisen due to an erroneous account entry made in the transfer sheet accounted for in the year 2007 by the Colombo District Secretariat.

Action should be taken in accordance with provisions of the Circular.

(d) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

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| <p>(i) Debit balance of Rs. 3,893 million remained unsettled in 93 imprest accounts of the Ministries and Departments as at 31 December 2022. Out of this, a balance of Rs.121 million continued to exist over several years and no effort had been made to settle those balances as per FR 373 even by 31 December 2022.</p>   | <p>The observations in the audit query are agreed upon.</p>   | <p>Action should be taken in accordance with the Financial Regulation No.373.</p> |
| <p>(ii) In terms of F.R.387, overdrafts shall not be obtained from any official bank account of the government. Nevertheless, overdraft facilities had been obtained on 09 May 2022 from a Peoples’ Bank account of the Director General of Pensions and an overdraft interest of Rs. 30,925,253 had to be paid in respect of overdraft balance of Rs. 7,727,113,034 in the aforementioned account as at that date.</p> | <p>Due to the inadequacy of the liquidity in official bank accounts of the Deputy Secretary to the Treasury to pay pensions in May 2022 with beginning of the severe crisis in the country, funds intended for remittance to the official bank account of the Department of Pensions for pension payments had not been so remitted. As action was taken to pay pension amidst such situation, a bank overdraft had to be maintained to valid only for a few specific days in the related official bank account.</p> | <p>Action should be in accordance with the Financial Regulation 387.</p>          |

**2. Management Activities**

The following observations are made.

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
<p>(a) According to financial statements of the Government, the value of treasury bills and treasury bonds issued as at 31 December 2022 was Rs.4,126,383,805,527 and Rs.8,692,134,561,000 respectively. Among these, the value of treasury bills and treasury bonds purchased by</p>	<p>As a consequence of Sri Lanka’s credit rating downgrade amidst an overall economic recession, the country had to turn towards the domestic market to bridge the budget deficit due to the limitation on foreign borrowing. Though it was expected to rollover the total</p>	<p>Action should be taken to maintain the value of treasury bill and treasury bonds purchased by the Central Bank of Sri Lanka at a minimal level.</p>

the Central Bank of Sri Lanka was Rs.2,575,716,725,527 and Rs.22,461,378,516 respectively. Accordingly, it was observed that 62.42 per cent of the treasury bills and 0.26 per cent of treasury bonds issued as at 31 December 2022 had been purchased by the Central Bank of Sri Lanka.

matured treasury bills in the year through the market, there were instances where the full matured amount in each maturity could not be obtained through the market. In such cases, to prevent public debts from being defaulted, the deficit amount that could not be purchased from the market had to be issued to the Central Bank of Sri Lanka. As a result, 62.42 per cent of the issued treasury bills as at 31.12.2022 is born by the Central Bank of Sri Lanka. Nevertheless, the treasury bonds cannot be issued to the Central Bank of Sri Lanka through the primary market under the existing laws and regulations. Accordingly, the amount of bonds are those purchased by the Central Bank of Sri Lanka through the secondary market in their operational role.

(b) In accordance with the recommendations put forth by the Cabinet Appointed Negotiation Committee for addressing the claims made by the contractor for the completion of Light Rail Transit Project, the Cabinet made a decision on 22 November 2022 to disburse funds to the OCG-JV Company, including an amount equivalent to USD 2,390,307 for completed project work, Rs.3,733,128 as the relevant interest for the delayed VAT reimbursement and USD 492,749 from the amount requested for the expenditure incurred on overhead cost including the expenses related to staff termination of the OCG-JV Company resulting from the suspension of the project.

Agreed upon

Action should be taken to ensure the maximum utilization of the foreign borrowing obtained for projects.

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| <p>(c) In accordance with the budget proposal No. 254 in 2018, a decision had been made to transition from the advanced cash basis, currently used for the preparation of financial statements, to the accrual basis. Despite the revision of the related timeline for the activities included in the Road map submitted for that Cabinet approval by the Department of State Accounts, no formal approval had been obtained therefor. Furthermore, as per the Cabinet Note, the progress of the related process should be reported to the Cabinet after one month from the end of each year, the progress had not so reported even by 19 May 2023. The Department of State Accounts had informed to the Audit that the approval for the revised road map is to be obtained following a specific policy decision is made on the transition process.</p> | <p>The Cabinet Memorandum drafted to inform about the transition process and obtain approval for the revised road map, is to be submitted to the Cabinet for approval.</p>  | <p>Financial statements should be prepared as planned.</p>   |
| <p>(d) The debit balance of Rs. 3,995,094 that continued to exist over a long period as the cheques which were dishonored by banks under the accounts operated with the government departments had not been settled even in the year under review.</p>  | <p>This balance is a main ledger account balance belongs to the Sri Lanka Customs and the requisite instructions and accounting details for settling that balance have been provided to that department. Currently, relevant activities are in process to settle the relevant balance and a sum of Rs.152,941 of that balance has been settled by April 2023.</p> | <p>Action should be taken to settle the values of dishonored cheques that have persisted over a long period.</p>         |
| <p>(e) Under the advances to public officers, a sum of Rs.191,466,910 had been continuously carried forward in the financial statements as advances granted to the public officers who were transferred to the provincial councils. However, action had not been taken to settle that value even in the year under review.</p>  | <p>Necessary instructions to settle these balances have been given to the provincial councils and follow ups thereon are in progress.</p>   | <p>Action should be taken to settle the advance account balances that remained unsettled over a long period of time.</p> |

- (f) A debit balance totaling Rs.70,959,434 in government approved 08 Treasury advance accounts and a negative balance totaling Rs. 18,066,465 in 03 advance accounts had been continuously carried forward over several years without being settled. Instructions have been given to separately examine each account and correctly identify the institution that handled the account belongs to those head numbers and accordingly to take action to settle it as per F.R.518. Action should be taken to settle the advance account balances that remained unsettled over a long period of time.
- (g) There was a negative balance of Rs.455,036,103 in 06 advance accounts as at 31December 2022. These accounts are handled by the heads of each department. Three of the 06 mentioned accounts are dormant accounts and the relevant institutions are currently taking measures to close such accounts. After ascertaining the reasons to exist negative balances in the advance accounts, necessary settlement should be done.
- (h) Head 111 - Although there was an opening balance of Rs.1,222,599,026 in the Stores and Other Advance Account under the Ministry of Health, related age analysis or information concerning that matter had not been furnished to the Audit. The information that can be provided by the State Accounts Department to settle these balances has been furnished to the Ministry of Health and instructions have been issued to the Ministry of Health on 11.01.2023 to take steps to settle this inactive balance after examining that information. Having examined information on the opening balances of advances action should be taken to settle relevant balances.
- (i) Paragraph 07 of the Gazette Extraordinary No. 1550/7 dated 22 May 2008 states that a surcharge of US \$ 60 or equivalent amount should be recovered on every passenger ticket issued or sold outside Sri Lanka for flights originating from Sri Lanka irrespective of how the ticket is issued or sold, and the surcharges so collected should be credited to the Consolidated Fund as directed by the Director General of Civil Aviation as per Paragraph 08 of the said Gazette. Accordingly, a sum of Rs. 16,982 million had been collected as surcharges by the Civil Aviation Authority relating to the period from 01 August 2008 to 31 December 2022, but those surcharges had not been credited to the Consolidated Fund. Furthermore, the Department of Legal Affairs had informed the Director The task of recovering taxes and dividends from enterprises as non-tax revenue of the Government, is assigned to the Department of Public Enterprises. Collection of taxes is a responsibility of the Department of Fiscal Policies. Furthermore, it is observed that the said surcharge had not been credited to the Consolidated Fund and hence, it is informed that the Secretary to the Ministry of Shipping and Civil Aviation had been informed by the Secretary of the Treasury on 26.04.2023 with a copy to the Auditor General that the said surcharge be recovered and credited to the Consolidated Fund. Plans should be made properly and implemented with respect to the collection of revenue, the key function of the Department.

General of the Department of Public Enterprises on 12 June 2017 together with the letter of the Attorney General's Department dated 07 April 2017 which stated that, " it is still possible to recover the surcharges and it is a legal liability to credit the surcharges to the Consolidated Fund". Nevertheless, action had not been taken by the Department of Public Enterprises even by the date of audit to recover the said surcharge from the Civil Aviation Authority.

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| (j) | According to the schedule of age analysis on advances given to the Government officers presented as at 31 December 2022, a loan balance of Rs. 319 million remained due over 01 to 04 years from transferred officers, officers permanently released to Corporations, Boards, and Provincial Councils, deceased officers, retired officers, interdicted officers, officers vacated the service or interdicted and officers under other categories whilst the balance over 05 years amounted to Rs. 391 million. | The Accounting Officer and the Chief Accounting Officer are responsible for operations on the payments and recoveries relating to the Advances to Public Officers Account "B"; and, it is the responsibility of the Department of State Accounts to issue Guidelines to ensure efficiency in operating the Advance "B" Account and reporting on the transactions accounted for by the relevant units of payment. This Department provides instructions on the issues that arise in reconciling the Advance "B" Accounts. | Action should be taken to timely recover advances given to the public officers that remain due over extensive periods. |
| (k) | An on-lending balance of Rs. 491,503 million remained receivable as at 31 December 2022 as per financial statements of the Government. Due to defaulting on payments contrary to on-lending agreements relating to the relevant institutions, the value of on-lending installments receivable as at 31 December 2022 from 04 institutions relating to 05 on-lending agreements, totaled Rs. 260,503 million. The value of installments totalling Rs. 778 million remained due over a period of 05 years.        | Due to failure in settling loans in terms of on-lending agreements, the value of on-lending installments receivable as at 31 December 2022 from 04 institutions relating to 05 on-lending agreements, totaled Rs.260,503 million   | The on-lending process of the Government, recovery, and accounting for on-lending should be formalized.                |

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| (l) | The value of interest receivable on on-lending, amounted to Rs. 912 million as at 31 December 2022, and no amount whatsoever had been paid to the Treasury by 03 institutions as per the agreements relating to the year 2022. The total of interest that remained unpaid over a period of 05 years, amounted to Rs. 616 million.                           | The value of interest further receivable on on-lending, amounted to Rs. 912 million as at 31.12.2022.           | Recovery of interest on on-lending, should be formalized.                                       |
| (m) | A balance of on-lending totalling Rs.318,061 million had been granted in the year 2022, and of that, an on-lending balance of Rs. 285,191 million had been granted as a new on-lending balance to 06 institutions in the year under review. The value of that on-lending balance represented 90 per cent of the total value given in the year under review. | The value of on-lending balances during the year 2022 relating to 06 institutions, totaled Rs. 285,191 million. | Granting on-lending by the Government and accounting for such on-lending, should be formalized. |

- (n) According to financial statements of the Government, increase in the capital contribution of enterprises owned by the Government, amounted to Rs.1,405,204 million in the year under review, and 89 per cent thereof equivalent to Rs. 1,246,401 million had been a value that had been adjusted when the liabilities of the Government enterprises had been transferred to the balance sheet of the Government of Sri Lanka in terms of Cabinet Decision No. අමස/23/0154/604/014 dated 07 February 2023. Particulars are as follows.

Name of the Institution	Value Adjusted to the balance Sheet of the Government under Liabilities Recognized in Public Enterprises Rs.
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(i.) Ceylon Electr city Board	362,307,620,369
(ii.) Ceylon Petroleum Corporation	884,093,386,477
Total	1,246,401,006,846

- (o) Foreign grants of Rs. 34,740,561 received during the year under review from 04 donors relating to 05 projects, had been returned to the donors without being utilized for the intended purpose.
- Agreed with the audit query. According to Cabinet Memorandum No. MF/PE/001/CM/2023/005 of 20.01.2023 titled, “Transfer of liabilities recognized in public enterprises to the balance sheet of the Government of Sri Lanka”, liabilities of the Ceylon Electricity Board and Ceylon Petroleum Corporation had been transferred to the balance sheet of the Government.
- As the liabilities recognized in public enterprises, had been taken over by the Government, the Government would end up in a financial crisis. As such, a proper methodology should be put in place to settle such liabilities.
- In case of any saving after utilizing the funds received for projects, and the donor wants such a saving be returned to them, the saved funds should be returned to the relevant institution under consent of the Department of External Resources and request of the implementing agency.
- Maximum utilization of foreign grants should be ensured.



### 3. Financial Review

#### 3.1 Estimation of Revenue

Audit Observation	Comment of the Management	Recommendation
<p>The GDP for the year 2022 amounted to Rs.24,148 billion whereas the GDP for the year 2021 amounted to Rs. 16,809 billion, thus indicating an increase in the GDP by 43.66 per cent or Rs. 7,339 billion as against the preceding year. According to the initial annual budget estimate approved by Parliament for the year 2022, the value of Government revenue amounted to Rs. 2,213 billion. The value of Government revenue was estimated to be Rs. 2,084 billion as per the interim budget presented in the year 2022, and that value amounted to Rs. 1,961 billion in the preceding year. As such, the Government revenue had been overstated in the initial budget estimate and interim budget by amounts of Rs. 252 billion and Rs. 123 billion or 123 per cent and 6.27 per cent respectively as against the preceding year.</p>	<p>The revenue estimate could not be fulfilled due to reasons such as, Covid-19 outbreak affecting Sri Lanka as well as the entire world from first half of the year 2020 to 2022, unfavorable impact on public finance and funds following the economic crisis in 2022, decrease in import tax revenue following import restrictions imposed to minimize the outflow of foreign exchange in the wake of economic crisis, and decline in economic affairs.</p>	<p>Estimates should be prepared by accurately assessing the revenue, and attention should be brought in revising them as to how the budget deficit will be financed.</p>
<p>Although the budget deficit had been estimated based on that revenue estimate, the initial revenue estimate had been shown as Rs. 2,102 billion by the Revenue Accounting Officer by deducting a sum of Rs. 111 billion. According to the revised revenue estimate, the Government revenue represented 8.7 per cent of the GDP. Increase in the GDP should have been taken into account when preparing revenue estimates, but without doing so, it was observed that the revenue had been overestimated.</p>	<p>The Government revenue comprises income tax and revenue generated through non-taxable sources; and the factors such as basis of tax, tax ratio, tax elasticity, tax buoyancy, and Government policies which affect the Government revenue. The macro economic trends directly affect the Government revenue to fluctuate. Additionally, fluctuations in Government revenue are also caused by effect of demand , supply and purchasing power of the public, local and foreign affairs, short and long term development trends of the Government, capacity development in Government institutions, and unexpected disasters. As such, when forecasts are made on overall fiscal policies of a country including Government</p>	
<p>The Government revenue collected in the year 2022, amounted to Rs. 1,999 billion and it was decrease by Rs. 103 billion than the revised revenue estimate. The comparison of initial annual budget estimate presented to Parliament , with the interim budget estimate presented in 2022, it was indicated that the said decrease was Rs. 214 billion and Rs. 85 billion respectively. The decrease in the collected revenue over the revenue</p>		

estimation submitted to Parliament in each year during 2012 - 2022 ranged between 4.08 per cent and 26.06 per cent. The highest percentage during that period was recorded in the year 2021.

According to Financial Regulation 85 (2) (b), the Revenue Accounting Officer should only inform the Department of Fiscal Policies to revise the revenue estimate, and hence, lack of accountability was observed in estimating revenue realistically as a revenue estimate already approved by Parliament had been allowed to be revised without consent of the Parliament.

revenue, attention should be brought on macro-economic factors as well as other issues in that connection.

Furthermore, the Fiscal Policies Circular No. 1/2015 necessitates that the revised revenue estimates for the current year should be prepared in parallel with preparation of revenue estimates for the ensuing years. The revised revenue estimate, so prepared, is included in the draft Appropriation Act presented in Parliament for the ensuing year and approval is sought. The revised revenue estimate is prepared by considering the matters such as, the revised revenue estimate of the current year sent by the Revenue Accounting Officers under the relevant Heads of revenue, trends in revenue for the preceding years, performance in collecting revenue under each Head of revenue within the first few months of the relevant year, economic growth, assumptions on macro-economic factors and short term trends thereof, behavior of local and foreign market beyond control, and other existing circumstances having an effect thereon.

### 3.2 Deficit in Revenue

Audit Observation	Comment of the Management	Recommendation
<p>According to the financial statements of the year under review presented to the Audit, deficit in revenue amounted to Rs.1,540 billion whereas the same amounted to Rs.1,290 billion in the preceding year. The highest value in deficit of revenue for the period 2006-2022 was reported in the year 2022. During that period, the revenue collected in every year had not sufficient to settle the recurrent expenditure of the Government. The minimum of the revenue deficit amounting to Rs.43 billion was reported in the year 2007, and that represented 7.52 per cent of the revenue collected by the Government. Deficit in the total revenue for the said period amounted to Rs.6,319 billion; and, local and foreign loans and foreign grants had been obtained to overcome that deficit. As such, a total of Rs.28,218 billion had been obtained during that period comprising local loans amounting to Rs. 20,484 billion, foreign loans amounting to Rs. 7,487 billion and foreign grants amounting to Rs. 246 billion. Deficit in revenue had been financed by utilizing the loans and grants obtained in each year, by 6.89 per cent to 45.59 per cent. In order to settle the recurrent expenditure, the loans and grants so obtained had been utilized by 20.25 per cent, 45.59 per cent, 42.39 per cent and 30.59 per cent in the years 2019, 2020, 2021, and 2022 respectively, without being used to make investments.</p> <p>An interest of Rs.1,565 billion representing 44.22 per cent of the total recurrent expenditure, had been paid in the year under review whereas an interest of Rs.1,048 billion equivalent to 38.01 per cent of the total recurrent expenditure had been paid in the preceding year. In accordance with the interim policy decision taken by the Ministry of Finance, Economic Stabilization &amp;</p>	<p>Noted. However, the revenue, expenditure and budget deficit being used for economic analyses, are computed based on economic classification. It is true that performance in collecting Government revenue is affected due to failure to recover/credit/default relating to revenue receivable under Heads of revenue in each year thus giving rise to outstanding revenue. Nevertheless, the Revenue Accounting Officers-directly responsible for the relevant Heads of revenue, and the Chief Accounting Officers of all the Ministries/ Departments, as well as all other Accounting Officers are responsible for the continuous accumulation of deficit in revenue.</p>	<p>Action should be taken to minimize the deficit in revenue by collecting revenue, and expenses should be incurred economically.</p>

National Policies on 12 April 2022 to suspend the settlement of foreign loans, settlement of some of the loan installments and interest had been suspended from 13 April 2022 up to the end of the year under review. However, it was observed that had the relevant payments been made, the said deficit would have been further increased. Payment of interest amounting to Rs. 151 billion in the year 2006, had increased by 936 per cent reaching Rs. 1,565 billion by the year 2022. Loans had been obtained to finance the budget deficit and payments of interest thereon had increased annually. Out of the collected revenue of the year 2022 amount of Rs.1,999 billion, a sum of Rs.1,565 billion or 78.29 per cent had been spend as interest. This situation had been increasing annually, and an exponential growth was indicated after the year 2019. The total of the revenue due from key institutions of collecting revenue such as, Department of Inland Revenue, Sri Lanka Customs, Department of Excise, Department of Motor Traffic, amounted to Rs.971,330,513,621 by the end of the year under review. However, the Department of Inland Revenue, having the highest value of outstanding revenue, should have collected a revenue of Rs. 904 billion as at 31 December 2022, but that amount remained due without being collected. Had that revenue been collected in the year 2022, the revenue deficit in that year would have been decreased by Rs. 636 billion or 41.30 per cent. The outstanding revenue amounted to Rs. 698 billion and Rs. 620 billion in the years 2020 and 2021 respectively. Had the said outstanding revenue been collected in the relevant years, the revenue deficit in the year 2020 would have been decreased to Rs.606 billion by 46.47 per cent whilst the revenue deficit in the year 2021 would have been decreased to Rs.670 billion by 51.94 per cent.

The delay of the Department of Inland Revenue in recovering the outstanding taxes

had been attributable to the reasons such as, deficiencies in the tax administration information system, tax appeal process was time-consuming, and lack of a court system specialized in legal affairs relating to recovery of outstanding taxes. Due to reasons such as, failure in accurately preparing the revenue estimates or revenue had not been collected as per estimates, and failure in managing expenses economically, loans had been obtained. As obtaining loans had annually increased, the interest payable thereon had also been on the increase, and hence the recurrent expenditure had also increased. Due to reasons such as, failure in collecting revenue as per estimates, and increase in recurrent expenditure, the revenue was not sufficient to settle the expenditure annually. Accordingly, deficit in revenue had increased annually.

### 3.3 Budget Deficit

Audit Observation	Comments of the Management	Recommendation
<p>According to the Government’s financial statements, the budget deficit for the year 2022 stood at Rs.2,555 billion, and it was 10.58 per cent of the GDP. The budget deficit for the year 2021 was Rs.2,080 billion, representing 12.37 of the GDP. There was a budget deficit throughout the period from 2006 to 2022 and the budget deficit, which stood at Rs.300 billion in the year 2006, had increased to Rs.2,555 billion by 2022. During that period, the highest budget deficit was recorded in 2022. The budget deficit as a percentage of the GDP ranged from 5.55 per cent to 14.08 per cent from 2006 to 2022. The actual budget deficit, which should be 5 per cent of the actual GDP as stipulated in Section 3(a) of the Fiscal Management (Responsibility) Act, No.03 of 2003, was not maintained during any year within that period. It was possible to maintain that percentage at 5.55 per cent,</p>	<p>The impact of a number of economic changes in the local as well as in the global environment that have affected the Sri Lankan economy in the last few years has mainly contributed to the increase in the budget deficit. Moreover, the Sri Lankan economy contracted by 7.8 percent in the year 2022 due to uncontrollable factors such as the prevalence of the impact of the Covid-19 pandemic on the economy until the year 2022, the severe economic downturn that occurred in the year 2022, the fuel shortage in the country and the large changes in the exchange rate, the impact on global supply</p>	<p>The budget deficit should be minimized in compliance with the relevant legal provisions.</p>

5.69 per cent, and 5.59 per cent in 2016, 2017, and 2018 respectively.

chains due to the Russian-Ukraine conflict situation and adverse conditions on the domestic economy due to the instability of the financial system, and this has been the worst economic recession occurred in the economy of Sri Lanka. This economic downturn put pressure on the government revenue and expenditure in the budget, and it affected the inability to maintain the budget gap at the desired level. The budget deficit could not be sustained at 5 percent as a percentage of GDP in the context of increasing the expenditure in nominal terms and within the prevailing economic situation. However, it is expected that the budget deficit would reach a level of 5 per cent of GDP by 2025 with the IMF programme in the medium term.

### 3.4 Increase in the Debt Balance

Audit Observation	Comments of the Management	Recommendation
<p>With the increase in the annual budget deficit, the quantity of borrowings had also increased. According to the financial statements of the government, the debt balance payable by the government as at the end of 2022 was Rs.27,379 billion. The balance mentioned above included local debts amounting to Rs. 14,360 billion and foreign debts amounting to Rs.13,020 billion. The public debt balance had reached Rs.16,827 billion in 2021. Accordingly, the debt balance had increased by Rs.10,552 billion, representing a 63 per cent increase in 2022 compared to 2021. The debt balance, amounting to Rs.2,431 billion in</p>	<p>Public debt, i.e., the total amount of government debt as a per centage of GDP has exceeded the limit of 113 per cent, and the amount of public debt as a percentage of the gross domestic product in the year 2022 had been a very large value due to the changes in loan interest rates and the value of the Sri Lanka rupee has greatly been depreciated in the year 2022 due to the large change in the foreign exchange rate, the gross domestic product had</p>	<p>Liabilitites have to be maintianed in accordance with the prescribed provisions.</p>

2006, accounted for 82.72 per cent of the GDP and by the end of 2022, it had reached to Rs. 27,379 billion, representing 113.38 per cent of the GDP. Furthermore, in terms of Section 3 (f) of the Fiscal Management (Responsibility) Act, No.3 of 2003, the government's liability should be below 85 per cent. However, the government's debt liability, excluding other liabilities, had reached 113.38 per cent exceeding the aforementioned limit. This situation persisted in both 2020 and 2021 as well.

fallen to a very low level due to the contraction of the Sri Lankan economy by 7.8 per cent and the total foreign debt had not decreased due to the suspension of foreign bilateral debt repayment in the year 2022.

### 3.5 Public Investments

Audit Observation	Comments of the Management	Recommendation
<p>Despite the failure to collect sufficient revenue to settle recurrent expenditure during the period from 2006 to 2022, a sum of Rs. 9,213 billion has been invested as public investments during that period. The analysis of the financial statements reveals that the funds required for the aforementioned investment were financed through public debts. A sum of Rs. 1,014 billion was invested in public investments in 2022. Compared to the public investments amounting to Rs. 790 billion made in the preceding year, an increase of Rs. 224 billion is observed during the year under review. The public investments of Rs. 1,014 billion of the year 2022 were stated as construction and purchase of physical assets and acquisition of other investments under the financial expenses of the cash flow generated from investment activities in the cash flow statement. The public investments totaling Rs. 9,213 billion from the year 2006 to 2022 were specified as construction and purchase of physical assets and acquisition of other investments in the cash flow statements. Nevertheless, only Rs.2,093 billion thereof were recognized and accounted for as non-financial assets in the statement of financial position of 2022. Accordingly, assets worth Rs. 7,120 billion, which accounted for 77 per cent of the total</p>	<p>All the items such as rehabilitation and improvement of capital assets, acquisitions of capital assets, capacity development and other capital expenditures are included under the item of construction or purchase of physical assets and acquisition of other investments in the statement of cash flows. Out of these items, only expenditure under acquisition of capital assets is capitalized under non-financial assets. Furthermore, identification and accounting of all non-financial assets belonging to the government are being carried out.</p>	<p>Action should be taken to carry out public investments in a formal and planned manner.</p>

amount of Rs. 9,213 mentioned in the cash flow statements for the construction and purchase of physical assets and acquisition of other investments, were not recognized and brought to account. Furthermore, non-financial assets were not accounted for in the financial statements from the year 2005 to 2014, and their inclusion in the financial statements was initiated since the year 2015.

### 3.6 Public Debt

Audit Observation	Comments of the Management	Recommendation
<p>(a) <b>Obtaining loans in excess of the amount scheduled as per the Government Borrowing Programme.</b></p> <p>According to the Government borrowing program for the year under review, the scheduled Treasury bond value stood at Rs.1,976,800 million, whereas Treasury bonds worth Rs. 2,373,044 million was obtained as at 31 December 2022. Accordingly, loans were obtained in excess of the scheduled amount by Rs. 396,244 million representing 20 per cent through Treasury bonds.</p> <p>Although, it has not expected to obtain borrowings from the foreign currency banking unit as per the borrowing programme, the actual borrowing was Rs.339 million during the year under review. Further, the value of the Sri Lanka Development Bonds amounted to Rs. 66,686 million according to the borrowing program. But it had reached Rs.67,441 million by the end of the year under review. Accordingly, the value of the Sri Lanka Development Bonds had increased by Rs.755 million or 1.1 per cent in excess of the amount scheduled for the year under review.</p>	<p>The Department has functioned within the approved borrowing limits approved by Parliament, and there have been fluctuations in the planned limits of each borrowing instrument within that limit. This is primarily due to downgrading of credit ratings of Sri Lanka owing to overall economic recessions and the need to issue more treasury bonds by turning to the domestic market to finance the budget deficit due to restrictions on foreign borrowing. Furthermore, the bills in hand and bank overdraft expected to be settled by income during the year had to be settled by issuing treasury bonds due to insufficient income during the year. However, I would like to further mention that the total borrowing limit has not been exceeded due to this reason.</p> <p>Sri Lanka Development Bonds (SLDB) and Foreign Currency Banking Units (FCBU) are foreign exchange unit loans obtained through the local market and local banks, and borrowing forecasts have been prepared with the expectation that the relevant investors would express their interest at the end of the year for the rollover of the loans that have already been obtained during the year.</p>	<p>Borrowings should be made in accordance with formal plans.</p>



However, as mentioned above, the receipts from foreign sources were limited due to the recessions in the economy, and accordingly, the foreign currency banking units borrowings have not been obtained as the investors have not agreed to reinvest their money invested in the foreign currency banking units. However, Rs.339 billion has been recorded as actual borrowing within the borrowing programme in order to capitalize a part of the loan interest to be paid during the year. Furthermore, the reason for the increase in the real value of the Sri Lanka Development Bonds more than the planned amount has been the capitalization of a part of the loan interest payable during the year in addition to the actual loan amount.

(b) The disbursement estimate and the actual disbursement value as per the Performance Plan for the year 2022 were as follows.

The disbursement estimate of the year 2022 was revised later to accommodate the new circumstances arisen with the announcement on the Interim Policy on Foreign Debt Servicing Payments issued on 12 April 2022.

Development Partner	Disbursement Estimate 2022	Actual Disbursement Value 2022	Variance	Variance as a percentage of the Disbursement Estimate
	USD Mn.	USD Mn.	USD Mn.	%
World Bank	482	456.2	(25.8)	(5)
Asian Development Bank	550	741.4	191.4	35
China		101.3	101.3	
Japan		75.7	75.7	
Korea		4.9	4.9	
East Asian Countries	50	21.4	(28.6)	(57)
South Asian Countries	835	925.5	90.5	11
Russia, Australia and Western Countries	150	76	(74)	(49)
United Nations Agencies	8	11.1	3.1	39
<b>Total</b>	<b>2,075</b>	<b>2,413.5</b>	<b>338.5</b>	

The following observations are made in this regard.

- |       |   |  |   |
|-------|---|--|---|
| (i)   | Although the total value of the disbursement estimate for the year 2022 was USD 2,075 million, the actual disbursement value was USD 2,413.5 million. Accordingly, the actual disbursement value had exceeded the disbursement estimate by USD 338.5 million or around 16 per cent. | Many lending countries and institutions suspended the disbursement of funds for the projects that were currently being implemented with the interim policy announcement mentioned above. It is expected that foreign loan disbursements for projects can be resumed as usual once the debt is restructured in accordance with the programme proposed for Sri Lanka by the International Monetary Fund. | Disbursement estimates should be prepared in more realistic manner in the preparation of them and revisions should be made in more realistic manner . |
| (ii)  | Although estimates were not made to obtain loans from China, Japan and Korea as per the disbursement estimate, the actual borrowings stood at USD 101.3 million, USD 75.7 million, and USD 4.9 million, respectively.   | As a solution to the dollar crisis, action was taken to repurpose a part of the financial facilities provided for development projects in Sri Lanka by multilateral lending institutions such as the Asian Development Bank and the World Bank to use those funds for essential imports. Therefore, a difference occurs with the total estimates through this.   | Disbursement estimates should be prepared in more realistic manner in the preparation of them and revisions should be made in more realistic manner . |
| (iii) | When comparing the actual realizable value of the loans obtained from the Asian Development Bank, the South Asian Countries and the United Nations Agencies with the disbursement estimates, there were excesses of 35 per cent, 11 per cent, and 39 per cent, respectively.        | Some countries, including India, had agreed to provide the necessary funds to carry out essential imports through emergency loan assistance programmes to ease the crisis in the economy of Sri Lanka. Since that decision took place in the year 2022, the actual disbursements have changed due to the original disbursement estimates.  | Disbursement estimates should be prepared in more realistic manner in the preparation of them and revisions should be made in more realistic manner . |
| (iv)  | The loans, which were expected to be obtained from the World Bank, East Asian Countries and Russia, Australia and the Western Countries, had decreased by 5 per cent, 57 per cent, and 49 per cent, respectively.   | Not replied.   | Disbursement estimates should be prepared in more realistic manner in the preparation of them and revisions should be made in more realistic manner . |

#### 4.7 Profit and Dividends

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(i) Revenue of Rs. 34.7 billion and Rs.6.3 billion had been estimated from the profit revenue code 20.02.03.00 and the dividend revenue code 20.02.04.00, respectively for the year ended 31 December 2022. Out of that amount, the Public Enterprises Department was able to collect Rs.22 billion and Rs.6.08 billion, respectively during the year under review and it had been 63 per cent and 97 per cent of the estimated profit and dividend income, respectively.	Agree with the audit query.	Supervision and regulation of the Public Enterprises should be carried out systematically.
(ii) Although the capital contribution of the government owned business enterprises stood at Rs. 2,165,981,657,905 in the government's financial statements as at 31 December 2022, only profits and dividends amounting to Rs.28,092,481,811 were received for that investment during the year under review, representing 1.3 of the investment value.	Only the profit-making public enterprises, out of the total number of institutions supervised by the Department of Public Enterprises, were taken into account in the preparation of the annual estimate.	Supervision and regulation of the Public Enterprises should be carried out systematically.
(iii) Even though the number of Government owned business and other institutions which are under supervision of the Department of Public Enterprises as at 31 December 2022 stood at 300, revenue estimates for 63 institutions of them had been prepared and only 47 institutions had remitted profits and dividends to the Treasury.	Only the profit-making public enterprises, out of the total number of institutions supervised by the Department of Public Enterprises, were taken into account in the preparation of the annual estimate.	Supervision and regulation of the Public Enterprises should be carried out systematically.

- (iv) In terms of Section 10 (5) of the Finance Act, No.38 of 1971, all sums remaining out of the net surplus revenue of the state corporations should be credited to the Consolidated Fund. However, there observed instances where, the Public Enterprises Department had not taken adequate measures, according to the above provisions, to have such surplus credited to the Consolidated Fund from the public enterprises that reported such surplus.
- The funds are obtained without harming the working capital requirement of the institutions and the future development programmes of the institutions In obtaining a part of the profits or the whole to the consolidated fund for public expenditure.
- Supervision and regulation of the Public Enterprises should be carried out systematically.

### 3.7 Treasury Guarantees and Letters of Comfort

Audit Observation	Comments of the Management	Recommendation
<p>Treasury Guarantees worth Rs. 2,793,987 million and Letters of Comfort worth Rs. 114,527 million had been issued under 239 instances and 19 instances, respectively for external institutions as at 31 December 2022. According to the financial statements of the government for the year under review, it was observed that Treasury Guarantees worth Rs. 45,628 million and the Letters of Comfort worth Rs. 66,637 million issued to external institutions on 09 instances and 13 instances respectively had expired by 31 December 2022.</p>	<p>Agree with the audit observation.</p>	<p>The process of issuing treasury guarantees and letters of comfort should be maintained in a systematic and updated manner.</p>