

Financial Statements of the Government - 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the Government for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of financial performance, statement of changes in net assets/equity and cash flow statement 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 2025 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 17 October 2025 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 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 accompanying financial statements of the Government give a true and fair view of the financial position of the Treasury as at 31 December 2024 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 of the General Treasury.

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 state the following matters;

- 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 Requirements

As required by Section 6 (1) (d) of the National Audit Act, No.19 of 2018, I state the followings:

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

| Reference to Paragraph ----- | Recommendations ----- |
|---------------------------------|--|
| 1.7.1(a) | Statement of changes in net assets/equity should be prepared based on accounting principles. |
| 1.7.1(c) | The financial statements should be prepared so as to reveal the accurate information to users. |
| 1.7.1(e) | The financial statements should be prepared so as to reveal the accurate information to users of financial statements. |
| 1.7.1(f) | Since statement of financial performance is introduced on accounting basis, transactions and events should be recorded in accordance with accounting principles. |
| 1.7.1(g) | -Do- |
| 1.7.1(h) | Action should be taken to account only after the components of the financial statements have been properly identified and verified. |
| 1.7.1(i) | -Do- |
| 1.7.1(j) | The statement of cash flows should be prepared in accordance with accounting principles. |
| 1.7.1(k) | -Do- |
| 1.7.1(l) | Adjustments should be made to the statement of financial performance prepared on accounting basis. |
| 1.7.1(n) | Expenditure should be classified accurately. |
| 1.7.1(o) | Measures should be promptly taken to settle balances, and the existing system should be enhanced. |
| 1.7.1(q) | The statement of cash flows should be prepared in a manner that reflects its meaning, in accordance with accounting principles. |

- 1.7.1(t) Accounting of public borrowings and debt servicing, should be carried out in a systematic manner.

- 1.7.1(u) All debts should be accounted and the related expenditures should be accurately recorded.

- 1.7.1(v) Debts should be accounted in accordance with the periodical concept.

- a1.7.1(y) Borrowings should be properly accounted within the correct accounting period.

- 1.7.1(z) Accounting of public borrowings and debt servicing, should be carried out in a systematic manner.

- 1.7.1(aa) Government borrowing and debt servicing should be systematically accounted, and measures should be taken to minimize delays in disbursements.

- 1.7.1(ab) Assets acquired through borrowings should be accurately accounted.

- 1.7.1(ac) The reasons for the arising negative loan balances should be disclosed in the financial statements, and actions should be taken to settle these balances.

- 1.7.1(ah) Loan balances should be regularly reconciled with lending institutions and any necessary adjustments shall be made only after proper verification, and disclosed shall be made as required.

- 1.7.1(al) The financial position of state-owned institutions should be assessed periodically, and any decrease in their values should be appropriately reflected in the financial statements of the Government.

- 1.7.1(am) -Do-

- 1.7.1(ap) Balance confirmations with state-owned institutions should be periodically obtained and assessed to ensure appropriate action is taken and the accuracy of accounts is maintained.

- 1.7.1(aq) -Do-

- 1.7.1(ar) -Do-

- 1.7.1(as) Action should be taken in accordance with circular instructions, ensuring effective coordination and cooperation among the various departments under the Ministry, and appropriate action should be taken against parties acting contrary to these instructions.
- 1.7.1(at) Information significant to the users of financial statements should be appropriately disclosed.
- 1.7.1(aw) -Do-
- 1.7.1(ax) -Do-

1.6 Financial Statements

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

The following observations are made.

| | Audit Observation | Comment of the Management | Recommendation |
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| (a) | Adjustments relevant to the year under review including surplus or deficit of the year under review and other retrospective adjustments should be included in the opening balance of the General Fund shown in the statement of changes in net assets/equity which is prepared based on accounting principles. However, the closing balance of the General Fund, as presented in the statement of changes in net assets/equity, had been computed by excluding foreign exchange gains and variation balances in the Net Assets Adjustment Account that should have been set off with the variations in the Consolidated Fund during the year under review, and by adjusting the effects arising from assets and borrowings as retrospective adjustments. As a result, adjustments that are not to be retrospectively recognized had been indirectly incorporated into the Statement of Changes in Net Assets/Equity, and adjustments made during the year under review relating to financial and non-financial assets, foreign and domestic loan balances, and error corrections | Since the balance of the General Fund consists of the totaling of the balance of the Consolidated Fund and the balance of the Net Asset Adjustment Account, the changes in the Net Asset Adjustment Account during the year under review had also been adjusted to the General Fund. | The statement of change in equity/ net assets should be prepared based on accounting principles. |

had been indirectly adjusted for the General Fund. Accordingly, it was observed that the Statement of Changes in Net Assets/Equity had not been prepared in compliance with accounting principles, and thus, users of the financial statements are not able to obtain a clear understanding of those adjustments.

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| (b) | <p>A sum of Rs.476,457 million had been reported under the acquisition of property, plant and equipment or construction and other investment acquisitions, without being properly classified under respective asset categories in the Cash Flow Statement for the year under review. However, according to the relevant notes to the financial statements, the value of assets had increased only by Rs.433,708 million. Accordingly, a difference of Rs.42,749 million was observed, and this difference had been indirectly adjusted to the General Fund in the statement of changes in net Assets/equity.</p> | <p>It is the responsibility of the Chief Accounting Officers of the respective reporting entities to include the total values accounted under the expenditure objects from 2101 to 2108 relating to the acquisition of non-financial assets, under the individual balances of non-financial assets. The value of such assets reported thereunder is disclosed in Note No. 14 to the financial statements.</p> <p>The reasons for the variance pertaining to object No. 2301 relating to Capital Contribution have been presented under “Share ownership of State owned and Other Companies” in the Explanatory Notes.</p> | <p>Elements of financial statements should be properly identified and accounted only after verification.</p> |
| (c) | <p>According to the Cash Flow Statement, a sum of Rs.69,424 million had been incurred as capital contributions to public enterprises during the year under review. However, according to the Capital Contribution Account, the amount had been recorded as Rs.87,285 million. Consequently, a capital</p> | <p>The reasons for the variance pertaining to object No. 2301 relating to Capital Contribution have been presented under “Share ownership of</p> | <p>Accounting of these transactions should be done in compliance with accounting principles.</p> |

contribution of Rs.17,861 million, which had not involved a cash outflow during the year under review, had been indirectly adjusted to the General Fund in the Statement of Changes in Net Assets/Equity as an effect arising from assets, without being recognized as a liability, contrary to accounting principles.

State owned and Other Companies” in the Explanatory Note No. 05. In addition, several journal entries have been recorded for the correction of errors relating to previous years.

- (d) A loan balance amounting to Rs.788,682 million, obtained by the Ceylon Petroleum Corporation from two state commercial banks on treasury guarantees and subsequently taken over by the General Treasury, had been converted during the year under review into a term loan of Rs.547,127 million and treasury bonds amounting to Rs.224,358 million. However, the difference of Rs.17,197 million arising from the conversion had been indirectly charged to the General Fund without adjusting to the financial performance statement during the year under review.

The said balance represents the remaining amount after converting the relevant loan into a term loan of the Bank of Ceylon, a term loan of the People’s Bank, and Treasury Bonds. According to the accounting procedure currently in use, the loan amount and the comparative loans has been settled through the Investment Account.

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- (e) According to Note No. 13 of the budget performance statement, a loan balance obtained by the Ceylon Petroleum Corporation on treasury guarantees and subsequently taken over by the General Treasury, had been recorded as borrowings amounting to Rs.484,033 million from the Bank of Ceylon and Rs.167,162 million from the People’s Bank, totaling Rs.651,195 million during the year under review. Out of this, amounts of Rs.410,430 million and Rs.136,698 million respectively had been stated as conversions into term loans in respect of the Bank of Ceylon and the People’s Bank. As a result, amounts of Rs.73,603 million relating to the Bank of Ceylon and Rs.30,464 million relating to the People’s Bank, aggregating to Rs.104,067

When one borrowing instrument is converted into another, the transactions recorded through the General Ledger Accounts are included in the statement of cash flows. However, since the inflows and outflows of cash offset each other in this process, there is no impact on the closing balance of the Statement of Cash Flows.

The statement of cash flows should be prepared in accordance with the accounting principles.

million, had been presented as total domestic borrowings in the cash flow statement. However, it was revealed that the said amount represented default interest arising from the respective loan conversions.

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| (f) | <p>According to note no. 13 of the budget performance statement, it had been stated that treasury bonds had been issued in respect of the restructuring of a loan amounting to Rs.262,583 million, obtained by the Ceylon Petroleum Corporation from the People's Bank on treasury guarantees and subsequently taken over by the General Treasury. Out of the said amount, a sum of Rs.224,358 million had been deducted as loan restructuring. Accordingly, although a balance of Rs.38,225 million had been indirectly included under domestic borrowings in the year under review, it was observed that the said amount represented default interest capitalized from the loan restructuring.</p> | <p>During the loan restructuring of the Ceylon Petroleum Corporation, provided under the Government guarantee, the outstanding interest amount has also been included in the restructuring process.</p> | <p>Accounting should be done in a manner that reflects the true nature of the transactions.</p> |
| (g) | <p>A sum of USD 240 million equivalent to Rs.77,742 million obtained as a foreign currency banking unit loan (non-project) from the Bank of Ceylon, had been converted into treasury bonds amounting to Rs.82,551 million under the debt restructuring process, inclusive of the default interest during the year under review. Although actual cash inflow or outflow had not occurred in this regard, such amounts had been presented in the cash flow statement as borrowings and loan repayments.</p> | <p>When one borrowing instrument is converted into another, the transactions recorded through the General Ledger Accounts are included in the Statement of Cash Flows. However, since the inflows and outflows of cash offset each other in this process, there is no impact on the closing balance of the Statement of Cash Flows.</p> | <p>The statement of cash flows should be prepared in accordance with the accounting principles.</p> |

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| (h) | According to the audited financial statements as at 31 December 2023, the total value of non-financial assets amounted to Rs.2,537,167 million. However, the corresponding opening balance for the year under review had been stated as Rs.3,250,238 million. Accordingly, a difference of Rs.713,071 million was observed between the audited closing balance of non-financial assets in the preceding year and the opening balance in the year under review. | It is the responsibility of the chief accounting officers/ accounting officers of each reporting entity to properly account for non-financial assets so that the total of the asset balances reported by each entity is reflected in the financial statements of the Government. | Elements of financial statements should be properly identified and accounted only after verification. |
| (i) | According to Note No. 14 to the financial statements, the transfers out of assets had been shown as asset disposals. As a result, the value of assets actually disposed of by the Government during the year under review, was not disclosed in the financial statements. | It has been noted that necessary changes will need to be considered in the accounting system in the future. | Information should be accurately presented in the financial statements. |
| (j) | According to note no. 15 to the financial statements, a sum of Rs.79,728 million had been disclosed through the statement of changes in net assets/ equity as retrospective adjustments relating to the year 2023, and a further sum of Rs.26,003 million had been recorded as capital expenditure for the year under review. Accordingly, a total amount of Rs.105,731 million had been presented in the statement of financial position for the year under review as investment assets for the development of government infrastructure. However, based on the financial statements of the respective institutions in which these investments had been made, it was not confirmed that the government holds ownership or any interest therein. Further, according to the notes to the financial statement, a sum of Rs.14,942 million had been reported as investments made for the development of infrastructure facilities of provincial councils. Nevertheless, under the significant accounting policies disclosed in the financial statements, it had been stated that the government does not exercise substantial | This value represents an investment made using government expenditure to develop infrastructure through each institution, and not an investment intended to acquire ownership of the respective institutions. Accordingly, this investment is not recognized as the government's equity in the financial statements of each institution. However, the assets generated through such investments are reflected in the respective institutions' balance sheets. | When identifying the elements of financial statements, their assertions should be properly examined and verified. |

control over the financial and operational activities of provincial councils, and therefore, the income and expenditure of such councils are not considered as a part of these financial statements.

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| <p>(k) Negative balances amounting to Rs.990,491 million in the Consolidated Fund and Rs.14,040,298 million in the net asset adjustment account had been aggregated and presented as Rs.15,030,789 million under the General Fund in the statement of changes in equity/ net assets from 01 January 2022 onwards. Although disclosures had been made through the notes to the financial statements regarding other funds, the basis for the establishment or recognition of the General Fund had not been disclosed. Further, as at the end of the year under review, the balance of the General Fund had become a negative balance of Rs.20,951,036 million. In addition, an analytical reconciliation statement had not been prepared and presented to facilitate the use of financial statements by indicating how the balance of the Consolidated Fund could be derived based on the balance of the General Fund as at 31 December 2024.</p> | <p>It has been noted that an explanatory note on the introduction of General Fund will be incorporated in the future.</p> | <p>Financial statements should be prepared in a manner that enables users to obtain accurate information and a clear understanding.</p> |
| <p>(l) According to the information submitted by the Department of External Resources, under the foreign debt restructuring during the year under review, a sum of EURO 2.4 million, equivalent to Rs.738 million, relating to a loan agreement amounting to EURO 4.5 million had been written off by the creditors as a haircut. However, as per note no. 26 (ii) to the financial statements, it had been stated that a sum of EURO 1.9 million, equivalent to Rs.627,588 million, had been reversed in relation to the said loan agreement. Nevertheless, according to the footnote of that note, it had been disclosed that an amount of Rs.821 million out of the capitalized portion of the loan had been written off as a haircut under the said agreement. Further, the loan hair cut had not been recognized in the statement of financial performance and had</p> | <p>In the future, actions will be taken to enhance the existing accounting system and thereby remove nominal accounts.</p> | <p>Transactions should be recorded in accordance with accounting principles.</p> |

been indirectly adjusted to the General Fund in the statement of changes in equity/ net assets.

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| <p>(m) According to the note no. 11 to the budget performance statement, an amount of Rs.89,097 million relating to default interest on project loans arising from foreign debt restructuring had been presented in the cash flow statement as foreign loan proceeds during the year under review.</p> | <p>When one borrowing instrument is converted into another, the transactions recorded through the General Ledger Accounts are included in the statement of cash flows. However, since the inflows and outflows of cash offset each other in this process, there is no impact on the closing balance of the Statement of Cash Flows.</p> | <p>The statement of cash flows should be prepared on cash basis in accordance with the prescribed accounting principles.</p> |
| <p>(n) According to Note No. 26 (iv) to the financial statements, a payment of USD 12,281 million equivalent to Rs.3,362,306 million had been disclosed as made in respect of the international sovereign bonds. However, as per the information obtained from the Department of External Resources, such payment had not been made. Although any actual cash outflow had not occurred, this amount was shown in the statement of cash flow as a foreign loan repayment. Further, an exchange gain of Rs.624,319 million had been computed and adjusted to the financial statements in relation to this value which was stated as payment. However, the basis for this calculation and other relevant information were not made available for audit.</p> | <p>When one borrowing instrument is converted into another, the transactions recorded through the General Ledger Accounts are included in the statement of cash flows. However, since the inflows and outflows of cash offset each other in this process, there is no impact on the closing balance of the statement of cash flow.</p> | <p>Financial statements should be prepared in accordance with the prescribed accounting principles.</p> |

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| (o) A sum of Rs.3,206,577 million representing the restructured value of sovereign bonds during the year under review, for which no cash inflow had been generated, had been disclosed under financing activities in the cash flow statement as a loan obtained. | -Do- | -Do- |
| (p) The Foreign Loan Revolving Fund, which had presented as a nominal account in the statement of financial position in the years prior to the year under review, had been changed as the Foreign Loan Adjustment Account. Nevertheless, it had been disclosed under its previous name in the table of contents of the financial statements, under note no.09 of the explanatory notes, as well as in the cash flow statement. However, explanatory note had not been presented in respect of the new account titled, Foreign Loan Adjustment Account. Further, the foreign exchange loss of Rs.54,163 million incurred during the conversion of monetary assets held in foreign currency (excluding investments held in foreign currency) into local currency had been recorded under the Foreign Loan Adjustment Account and presented as a fund account in the statement of financial position, without being brought to account in the statement of financial performance for the year under review, in accordance with the accounting principles. | It was noted for correction. | The contents of the financial statements should be presented accurately. |
| (q) A sum of Rs.1,110 million received from the disposal of non-financial assets during the year under review had been disclosed in full as income in the statement of financial performance, without offsetting it against the corresponding cost and calculating the net effect. | Non-financial assets have been accounted in accordance with the existing accounting policy relating to their sale and market value. | Transactions and events should be recorded in accordance with accounting principles. |
| (r) Although foreign exchange gains or losses arising from the conversion of foreign currency into local currency are required to be adjusted to the statement of financial performance based on the accounting principles, exchange parity adjustments amounting to Rs.125 million under sundry | It was noted for correction. | Financial statements should be prepared in accordance with accounting principles. |

accounts referred to in note no. 27 had not been adjusted to the statement of financial performance.

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| (s) | Capital installment payments amounting to Rs.464 million made for leased vehicles during the year under review had not been included under financing activities in the cash flow statement, but had been presented as a cash outflow under investing activities. | Under the lease method, the total value of the assets acquired is not paid at once, and only the principal portion of the lease installments is recorded under object No. 2108. Accordingly, the relevant value has been shown under investment activities. | The statement of cash flow should be prepared in accordance with accounting principles. |
| (t) | A sum of Rs.41,899 million received as grants of material and equipment during the year under review had been erroneously presented as a cash inflow generated from financing activities in the cash flow statement. | Although the grant value of materials and equipment has been shown as a cash flow in the statement of cash flows, the related expenditure has also been recorded as a cash outflow. Accordingly, this has no effect on the closing balance of the statement of cash flows. | -Do- |
| (u) | Although a sum of Rs.4,730 million had been disclosed as non-operating account balances under the accounts operated with government departments, an age analysis thereof and the reasons for considering such balances as inactive had not been made available to audit. | The department is in the process of analyzing the existing historical information relating to these balances to identify the reasons for their inactivity. | Action should be taken promptly to clear these balances. |

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| (v) | It was observed that any adjustment had not been made in the accounts in respect of depreciable assets, in accordance with the prudence and matching concepts under generally accepted accounting principles with regard to non-financial assets aggregating Rs.993,765 million excluding work-in-progress and land, as stated in the financial statements. As a result, the expenditure for the year under review and the fair value of the assets had not been properly represented. | Under the existing accounting policy followed in the preparation of the financial statements of the Government, depreciation on assets is not recognized. | Transactions and events should be recorded in accordance with accounting principles. |
| (w) | Assets and liabilities presented in the statement of financial position had not been classified as current and non-current. As a result, users of the financial statements and other interested parties were unable to obtain a clear understanding of the extent of external obligations that the Government is required to settle during the subsequent year. | It is being studied on the possibility of classifying assets and liabilities as current and non-current in the future. | Financial statements should be prepared in a manner that provides users with proper disclosure of information. |
| (x) | According to the statement of financial position as at the end of the year under review, the total assets amounted to Rs.8,359,211 million, whereas the total external liabilities amounted to Rs.29,251,796 million. Accordingly, the net assets reflected in the financial statements was a negative value of Rs.20,892,585 million. | No assets are generated corresponding to the total value of external liabilities, and the relevant difference is represented through statutory and other funds. | Unrecognized government assets should be recognized in the financial statements. |
| (y) | Although the manner in which the financial deficit had been financed was not reflected in the statement of financial performance for the year under review, which had been prepared based on financial reporting requirements, it had been stated under Note to Readers in the financial statements of the Government that “the statement of financial performance reflects the manner in which the financial deficit for the year under review had been financed”. | It was noted for correction. | Financial statements should be prepared in a manner that provides users with proper disclosure of information. |

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| (z) | The foreign currency value related to domestic loans obtained through foreign currency had not been disclosed under note no. 26 to the financial statements. | It was noted that disclosures regarding domestic borrowings in foreign currency will be made in the coming years as required. | Information significant to users should be disclosed. |
| (aa) | As at the end of the year under review, the debit balances of sundry accounts and accounts generating with government departments had been deducted and stated under liabilities in the statement of financial position. | It was noted to take action in accordance with the audit observation. | Asset and liability balances should not be offset and presented net value. |

(ab) Unaccounted Foreign Loans

According to the Explanatory Note No. 02 to the financial statements, the value of unaccounted foreign loans as at 31 December 2024 had been disclosed as Rs.1,070 million. However, according to the information submitted by the Department of Treasury Operations during the year under review, the following variances were observed in the disbursement periods of those loans.

| Loan No. | Disbursement Period as per the financial statements | Disbursement Period as per the information of the Department of Treasury Operations |
|----------|---|---|
| 2012017 | December 2020 | 2024 |
| 2012025 | November 2023 | 2024 |
| 2016035 | September 2022 | September 2022, March and September 2023 |

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| (i) | According to the information submitted to audit by the Department of Treasury Operations from the year 2020 to 2023, it was not indicated that the above-mentioned loans had been disbursed. Accordingly, contradictory information with the Department of External Resources relating to the same loan transactions had been presented to audit, and it was revealed that | Each loan disbursement is accounted by the Department of Treasury Operations only after the relevant Project and Ministry certify the accuracy of such | Action should be taken to streamline the accounting of Government borrowings. |
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| <p>the respective responsible departments had not maintained proper and updated records regarding the disbursement of foreign loans. Further, based on the Stock and Flow Report No. 1 generated from the system used for reporting foreign loans, proper and updated information in relation to the above loans had not been maintained. Therefore, it was observed that, in addition to the above loan transactions, there is a high risk of existing other foreign loan transactions which have not been adequately reported.</p> | <p>disbursements. However, due to the non-certification by the Project Office and the respective Ministry regarding the accuracy of expenditure relevant to these disbursements, it was not possible to account for the corresponding loan amount. Nevertheless, necessary steps have been taken for the accounting of the respective loan amounts.</p> |
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| <p>(ii) It was observed that the value of foreign loans presented in the statement of financial position as at 31 December 2024 was not accurate, due to the continued existence of loan balances that had been disbursed during the year under review as well as in previous years, but had not been accounted.</p> | <p>Immediately after the loan disbursements are reported by the Treasury, such disbursements were communicated to the respective Ministry or Department and the Project concerned, and reminders in this regard had also been referred to the respective Ministry from time to time. However, due to the non-certification of the expenditure by the respective Ministry or Department, the corresponding loan liabilities could not be accounted accordingly.</p> | <p>The accounting of loans should be carried out in accordance with the periodical concept.</p> |
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| <p>(iii) Although it had been disclosed as per the accounting principle for recognition of expenses under the significant accounting policies of the financial statements that all expenses are recognized within the period in which the payments are made, it was observed that interest and other expenditures incurred by using foreign loans which had not been accounted, may not have been included in the financial statements.</p> | <p>Immediately after the loan disbursements are reported by the Treasury, the respective Ministries and Projects had been informed to take action to account for the related expenditure without delay. However, due to the failure of the respective institutions to certify the expenditure in a timely manner, those amounts could not be accounted. Nevertheless, as a result of the measures taken by the Treasury, the instances of non-accounting have been reduced to a considerable extent by now.</p> | <p>All expenditure relating to the year under review should be accounted.</p> |
| <p>(ac) According to the information made available by the Department of Treasury Operations, although 3 categories of loans which had been disbursed during the year 2023 or in prior years had been maintained outside the statement of financial position, a total amounting of Rs.15,211 million relating to these loans had been accounted during the year under review. However, any disclosure in respect of such transactions had not been made in the financial statements. Accordingly, it was observed in audit that certain foreign loan transactions had continued to be maintained without being accounted in the respective year of disbursement, and that interest and expenditure incurred relevant to such loans may not have been recognized within the corresponding period.</p> | <p>In respect of the foreign loans that were not properly disbursed, continuous instructions had been issued to the respective Ministries and Departments to take necessary action to bring those transactions into account, and the audit offices established in those Ministries had also been informed accordingly. Further, it was observed that the value of such unaccounted loan</p> | <p>The accounting of loans should be carried out in accordance with the periodical concept.</p> |

balances had been reduced to a considerable extent by now, and that action had been initiated to take further necessary measures in this regard.

- (ad) According to the Stock and Flow Report No.1 generated by the system used for reporting foreign loans, total net differences amounting to Rs.3,711 million were observed between the balances as at 31 December 2023 and the opening balances of the year under review, in respect of 18 loan agreements.

The aforesaid Accounting of public borrowings and debt servicing, should be carried out in a systematic manner. The situation had occurred due to reasons such as transactions relating to previous years being referred to the Department of External Resources during the year under review as revealed under the debt restructuring process, rectification of errors caused by the erroneous recording of higher exchange values, and the recording of disbursements that had been delayed.

- (ae) The following differences were observed between the foreign loan disbursements in the financial statements of the year under review and the disbursements reported in the Stock and Flow Report No.1 generated by the system used for reporting foreign loans.

The disbursements relating to the year 2023 had been reported to the Department of Treasury Operations in the year 2024, and the accounting of those disbursements in the year 2024 had caused these variations.

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| Loan Number | As per financial statements of the Government | Disbursements as per Information system | Difference |
|-------------|---|---|---------------|
| 2012024 | USD 947,057 | USD 709,147 | USD 237,910 |
| 2019019 | USD 28,717,515 | USD 24,938,700 | USD 3,778,815 |

| | | | |
|---------|------------|------------|---------|
| 2019043 | SAR | SAR | SAR |
| | 47,320,932 | 47,284,890 | 36,042 |
| 2015021 | EUR | Nil | EUR |
| | 28,227 | | 28,227 |
| 2012025 | SAR | SAR | SAR |
| | 570,876 | 272,171 | 298,705 |

It was not confirmed during the audit whether the differences were due to disbursements made within the year under review. However, the Department of Treasury Operations confirmed that there were no disbursements related to these loan agreements which had been received in prior years but not accounted and subsequently accounted during the year 2024. Accordingly, the audit could not verify the specific period to which these disbursements pertain. It was also observed that disbursements were remained unaccounted without the awareness of the Department of Treasury Operations.

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| (af) | According to Note No. 26 to the financial statements for the year under review, adjustments amounting to Rs.3,022 million had been made in relation to the balances of foreign loans. As a result of these adjustments, the foreign loan balances had been increased by the same net amount. However, the reasons for making such adjustments had not been disclosed in the financial statements. | This reconciliation had been carried out to rectify the differences identified during the comparison of the loan balances recorded in the CSDRMS system, which records loan information, with the loan balances shown in the financial statements. | Matters material to the users of the financial statements should be disclosed. |
| (ag) | According to the information made available, a sum of Rs.3,969 million relating to 20 foreign loans obtained had been refunded to the respective lenders due to various reasons during the year under review. However, the reasons for such refunds had not been adequately disclosed in the financial statements. Further, it was observed that interest on loans may have had to be paid for the period during which the disbursed loan amounts were retained from the time of receipt until the time of refund to the lenders. | According to the loan agreements, refunds to the lenders may arise in respect of the loans obtained from multilateral lending agencies, due to various reasons such as the repayment of unutilized loan funds remaining at the completion of the | Matters significant to the users of the financial statements should be disclosed. |

project, the repayment of ineligible expenditures to the lender, or the recovery of mobilization advances. However, since such refunds are not remitted to the lenders through the Department of Treasury Operations, the Department does not possess complete information on the specific reasons relating to those refunds.

- (ah) According to the financial statements, a sum of Rs.518,293 million relating to 08 categories of loans, which had been maintained entirely outside the statement of financial position, had been brought to account during the year 2022. However, either the manner in which such funds had been utilized or any asset acquired through the utilization of such funds had not been identified and brought to account in the financial statements up to now. It was further observed that this had contributed to the continued increase in the negative balance of the General Fund presented in the statement of financial position.
- According to a Cabinet Decision, these loan balances had been brought to account in the financial statements of the year 2022. The assets acquired through these loans have been included in the financial statements of the respective public enterprises.
- Assets or investments acquired through loans should be properly accounted.
- (ai) According to Note No. 26 (II) to the financial statements, the loan bearing number 2024001 had been disclosed as a loan obtained from the Asian Development Bank. However, as per Note No. 11 of the Budgetary Performance Statement included in the financial statements, and the Stock and Flow Report No. 01, this loan had been indicated as one obtained from the International Development Association.
- It has been noted for correction in the future.
- Information presented in the financial statements should be accurate.

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| <p>(aj) Although disclosures relating to domestic loan repayments had been made through Note No. 14 to the Statement of Budget Performance and Deficit Financing, a note had not been presented in respect of foreign loan repayments amounting to Rs.3,634,067 million during the year 2024.</p> | <p>It was informed that a separate note on the repayment of foreign loans could be presented in the future.</p> | <p>Consistency should be maintained in the presentation of information.</p> |
| <p>(ak) According to the foot note included under Note No. 26(iv) to the financial statements, relating to the international development bond restructuring carried out during the year under review, it had been disclosed that the amount of haircut by the creditors had been included within the exchange parity. Accordingly, it was observed that the users of the financial statements had been deprived of the ability to directly identify the amount of the haircut by the creditors during the restructuring of international development bonds.</p> | <p>During the restructuring of international sovereign bonds, the necessary information was not provided to directly identify the amount of the haircut by the creditors. As a result, the details of the amount of the haircut by the creditors could not be separately disclosed in the financial statements.</p> | <p>All information material to the users of the financial statements should be fully disclosed.</p> |
| <p>(al) When comparing the loan balance confirmations sent by the donors with the financial statements and the Stock and Flow Report No. 01 generated from the computerized debt management system, it was observed that the loan balance related to Loan No. 1990009 had been overstated by Rs.787,553 and the balance related to Loan No. 2024001 had been understated by Rs.87 million in the financial statements.</p> | <p>The relevant discrepancy had arisen due to exchange rate differences encountered by the system when converting information recorded in various currencies into the denominated currency of the respective loan. The said discrepancy has been rectified by present. Further, it was observed that a refund made on 20 December 2024 in the Stock and Flow Report as at 31</p> | <p>Reporting and accounting of public borrowings and debt servicing, should be carried out in a systematic manner.</p> |

December 2024 which was prepared on 31 January 2025, had been accurately updated in the system. However, it was noted that the said refund had not been updated in the balances submitted by the relevant creditor as at 31 December 2024 at the time those balances were obtained.

- (am) According to the financial statements of Head 122- Ministry of Tourism and Lands for the year under review, the statement of Lease and Work Advance Accounts (ACA 5 (b)) had not been included. However, as per the financial statements of the Government, a balance of Rs.2.8 million was reported under that expenditure head as at 31 December 2024.
- Since, for each expenditure head, the relevant information included in the statement submitted along with the statement of financial position has been certified by the Chief Accounting Officer, the Accounting Officer, and the Chief Financial Officer/Chief Accountant as reconciled with the treasury books when preparing and submitting the financial statements for audit, they shall bear personal responsibility for any information presented with the financial statements that does not reconcile with the treasury books.
- Reconciliations of lease and work advance balances should be carried out with the respective institutions, and necessary corrections should be made.

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| (an) It was observed that the sum of Rs. 586 million stated as the opening balance of rental and work advances under the ACA 5(b) format in the financial statements of Head 123- Ministry of Urban Development, Construction and Housing for the year under review, had been reported under additions for the year under review in the financial statements of the Government. | -Do- | -Do- |
| (ao) According to the financial statements of the Government, a sum of Rs.5.7 million, being the opening balance of the rental and work advances account of Head 219-Department of Sports Development, had been recovered during the year under review. However, it was observed that the said amount remained unchanged in the financial statements of the respective institution. | -Do- | -Do- |
| (ap) According to the financial statements of the Government, the opening and closing balances of the advances account of Head 337- Department of Cinnamon Development had remained unchanged at Rs.22 million during the year under review. However, any disclosure in that regard was not observed in the financial statements of the respective Department. | An answer has not been received. | -Do- |
| (aq) A total amount of Rs.218,245 million had been provided as capital contributions to 06 public enterprises as at 31 December 2024 by the General Treasury. The total value of those investments as at 31 December 2023 had been Rs.204,367 million. However, as per the financial statements of the respective institutions, the total net assets (total assets - total external liabilities) of those institutions as at 31 December 2023 had indicated a negative value of Rs.412,450 million. Accordingly, although the capital contributions had been shown as financial assets under the financial statements of the Government, it was observed that the value of such investments had been fully impaired and that the relevant institutions had operated entirely under external liabilities. | The Department of Public Enterprises has issued instructions to prepare and implement business plans for loss-making enterprises in order to reduce losses and bring them into a profit-making position. | The financial position of state-owned institutions should be assessed periodically, and any reductions in the values should be properly disclosed in the financial statements of the Government. |

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| (ar) Five public enterprises with a total government capital investment of Rs.1,935,429 million as at the beginning and the end of the year under review, had recorded a total net assets value of only Rs.550,744 million as at 31 December 2023. Accordingly, it was observed that the investment made in these enterprises were being impaired. | The Department of Public Enterprises has issued instructions to prepare and implement business plans for loss-making enterprises in order to reduce losses and bring them into a profit-making position. | -Do- |
| (as) According to direct balance confirmations submitted to audit in respect of 21 public enterprises, a difference of Rs.25,898 million was observed between the capital contributions and the government capital contributions included in the financial statements of the Government as at 31 December 2024. | Agreed. | Direct balance confirmations should be obtained and evaluated periodically from institutions under government ownership in order to take appropriate action and ensure the accuracy of the accounts. |
| (at) According to the direct balance confirmations received from the Sri Lanka Institute of Biotechnology (Pvt) Ltd, as at 31 December 2024, 52,472,574 shares with a share price of Rs.10 each were reported as being held by the General Treasury, and the total capital contribution as at that date was Rs.525 million. However, according to the financial statements of the Government as at 31 December 2024, there was an additional capital contribution balance of Rs.772 million over this amount. | Agreed. | -Do- |
| (au) As at 31 December 2024, the capital contributions of 08 public enterprises amounted to Rs.1,150,312 million according to the financial statements of the respective institutions, whereas according to the financial statements of the Government, the same balance was Rs.1,167,570 million, resulting in a difference of Rs.17,258 million. | Agreed. | -Do- |

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| <p>(av) As at 31 December 2024, the value of shares held in 06 public companies, calculated based on the number of government-owned shares and their issued value, amounted to Rs.6,549 million, whereas it was reported as Rs.15,893 million in the financial statements of the Government. Accordingly, a difference of Rs.9,344 million was observed when compared with the capital contribution in the financial statements of the Government as at 31 December 2024.</p> | <p>The causes contributing to these differences will be further investigated, and necessary corrections will be undertaken in due course.</p> | <p>-Do-</p> |
| <p>(aw) According to the financial statements, the increase in capital contributions to state-owned enterprises during the year under review amounted to Rs.87,285 million. Of this, a sum of Rs.33,674 million or 38 per cent comprised funds released by the General Treasury for recurrent nature payments, such as loan and interest payments and salary and wage payments of respective institutions.</p> | <p>In accordance with government policy, it is appropriate to treat the provision of funds by the General Treasury to cover the working capital requirements, that is, recurrent expenditure incurred for day-to-day business activities of public enterprises, as a government investment.</p> | <p>As the recurrent expenditure does not result in any increase in the capital contributions of the institutions, a proper procedure should be followed in this regard.</p> |
| <p>(ax) Although the Government capital contribution in respect of 12 public enterprises had been reported as Rs.11,601 million as at 31 December 2024, the number of shares owned by the General Treasury in respect of those entities had not been disclosed in the financial statements.</p> | <p>The value of investments made in respect of these institutions has been included in the financial statements of the Government, and action is taken to update the number of shares in the financial statements of the Government immediately after receiving of corresponding share certificates.</p> | <p>Action should be taken to obtain share certificates promptly for the capital contributions provided by the General Treasury, and the number of shares should be disclosed.</p> |

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| (ay) A difference was observed in the percentage of share ownership held by the General Treasury in respect of 09 public enterprises, when compared between the direct balance confirmations submitted and the financial statements of the Government. | In the future, greater attention will be paid to this matter, and after verifying the accuracy of the number of shares with the cooperation of the relevant companies, action will be taken to include them in the financial statements of the Government. | -Do- |
| (az) According to Note No. 17 of the financial statements of the Government as at 31 December 2024, capital contributions amounting to Rs.42,356 million had been made during the year under review to state-owned companies and other public enterprises. However, without making proper disclosure of relevant details including changes in shareholding relevant to the increase of Rs.10,699 million in capital contributions during the year under review, it had been stated as a part of closing value of capital investment. Further, information related to these investments had not been presented for audit. | It is stated that the increases in the Government's capital contributions reported in the financial statements of the Government for the year 2024 include both the value of investments made in cash during the year and the adjustments made to correct errors. | Complete information should be included in the notes to the financial statements. |
| (ba) According to the information submitted to audit by the Department of Treasury Operations, foreign grants amounting to Rs.14.6 million that remained in the deposit account had been credited to government revenue during the year under review without being utilized for the intended purpose. | A sum of Rs.1,860,000 received in relation to a deposit account on 22 October 2021 had been transferred to the Government revenue in accordance with Financial Regulations, subsequent to inquiries made from time to time from the respective Ministry, as the relevant project had not been | The coordination and regulation with regard to the utilization of foreign grants received for the intended purposes should be strengthened, so as to ensure the confidence of the donors. |

implemented even by the year 2024. Further, following the implementation of the remaining 06 projects, action had been taken, in terms of the agreements, to credit the unutilized balances amounting to Rs.12,752,424 pertaining to each project to the Government revenue.

- (bb) As at 01 January 2024, foreign grants amounting to Rs.36.8 million received by the Government of Sri Lanka had remained inactive without being utilized for the intended purposes even by 31 December 2024.
- In respect of a deposit account balance amounting to Rs.15,013,178, the Department of Treasury Operations had informed the relevant Department thereon, and by the letter dated 10 April 2025, the said Department had been instructed to retain the funds further. Further, in relation to a sum of Rs.782,916 remaining in another deposit account, the relevant Ministry had requested provisions from the Department of National Budget in the year 2025 for its utilization. In addition, with regard to the balances remaining in 08 other deposit accounts, Department of Treasury Operations had informed the relevant
- Action should be taken to manage the relevant institutions in order to achieve the objectives for which the relevant grants were received.

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| | | Ministries/Departments to utilize those funds for the intended purposes. | |
| (bc) | According to the State Accounts Circular No. 30/94 dated 20 April 1994, 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 Treasury. However, according to the information obtained from a sample test, foreign grants with a total value of Rs.1,047.6 million had been received directly by 08 institutions without the knowledge of the General Treasury during the year under review. Accordingly, it was observed that opportunities exist for various parties to obtain foreign grants directly without the awareness of the Department of External Resources. As a result, issues may arise regarding the accuracy and completeness of the nationally consolidated information relating to foreign aid, the risk of obtaining and utilizing foreign grants without proper regulation, the inclusion of inaccurate information in the financial statements of the Government, and the possibility of policy decisions being taken by the Government based on such inaccurate information. | As stipulated in Circular No. 30/94 dated 20 April 1994, as well as in various other circulars and instructions issued thereafter, the Department of External Resources records, in the prescribed manner, the grants obtained with the knowledge of the Department of External Resources in accordance with the proper procedure. In respect of grants reported only to other institutions, it is the responsibility of all Secretaries to Ministries, Heads of Departments, and Heads of Statutory Institutions to act in compliance with the provisions of the relevant circulars, series of instructions, and financial regulations. | The heads of the respective institutions should be continuously informed to act in accordance with the circular instructions. |
| (bd) | Even though, from 01 January 2019 to 31 December 2024, the General Treasury had entered into agreements with 03 foreign-funded projects with a total value of USD 18 million, Rs.290 million, and KRW 14.3 billion, respectively, the receipt of the corresponding foreign grants had not been confirmed to the audit even as at the end of the year under review. | The grants for these 03 projects had not been received even as at 31 December 2024. | Action should be taken to ensure that the foreign grants under the agreements entered by the Sri Lankan Government, are fully received and utilized to the |

maximum extent for their intended purposes.

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| <p>(be) According to the financial statements of the Government, though an imprest account balance amounting to Rs.43 million relating to 11 Expenditure Heads had been reported as at 31 December 2024, those balances had not been reflected in the financial statements of the respective institutions (ACA-3) in conformity with the Treasury books as at that date. Furthermore, instances were observed where the imprest account numbers disclosed under the financial statements of the Government in relation to the respective Expenditure Heads were not agreed with the imprest account numbers stated in financial statements of the respective institutions.</p> | <p>As these imprest balances had been settled to the Treasury during the period from 01 to 06 January 2025, no balance had been shown under the financial statements of each institution. However, the balances in the CIGAS computer-generated reports, had not been settled as per the Treasury books as at that date. Further, the information reported by each institution through the CIGAS accounting system is included in the financial statements of the Government, and it is the responsibility of the Accounting officer of the respective department to ensure that such information is properly incorporated into the departmental financial statements.</p> | <p>Action should be taken to properly settle the imprest balances at the end of the financial year, and reconciliations with each institution should be carried out periodically.</p> |
| <p>(bf) When comparing the deposit balances included in the financial statements of the Government with the deposit balances in the financial statements of the institutions, differences of Rs.19 million and Rs.16 million were observed in the opening and closing deposit balances respectively for the year</p> | <p>In terms of Financial Regulation 427, reconciliations should be carried out in respect of deposit accounts, and it is the responsibility of the</p> | <p>Balances should be reconciled with the institutions, and action should be taken in respect of long-outstanding deposit balances in</p> |

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| <p>under review. Further, balances amounting to Rs.2,284 million relating to 40 deposit accounts, pertaining to 14 institutions which had remained for over 2 years, were observed.</p> | <p>Chief Accounting Officers and Accounting Officers of the relevant institutions to maintain proper balances in the general deposit accounts and to take necessary action regarding lapsed deposits. Further, inquiries are being made from the institutions concerned where reasons other than justifiable causes have been given or no reasons have been submitted.</p> | <p>accordance with the Financial Regulations.</p> |
| <p>(bg) According to the financial statements of the Government as at 31 December 2024, the advance balance of Government officers under the Central Government amounted to Rs.32,268 million. However, as per the information submitted to audit, that balance was Rs.31,370 million, thus a difference of Rs.898 million was observed.</p> | <p>Action is being taken to instruct the relevant institutions to reconcile the differences between the individual balances of advance 'B' accounts submitted by the Ministries and Departments and the Treasury balances.</p> | <p>Prompt action should be taken to settle the advance balances, and the existing system should be improved.</p> |
| <p>(bh) According to a comparison made between the confirmations of balances received from institutions to which on-lending had been granted and the balances recorded in the financial statements of the Government, differences amounting to Rs.717.1 million at the beginning of the year and Rs.1,127.8 million at the end of the year under review were observed.</p> | <p>There are 03 loan agreements implemented under the Central Bank of Sri Lanka which are very old and have remained inactive for a long period, and it has been informed that, under the new Central Bank Act, the Central Bank is unable to take action</p> | <p>On-lending balances should be periodically reconciled with the respective institutions and properly accounted.</p> |

on these loans, and a report will be submitted to transfer the said balances to the Treasury. Further, under the Swashakthi Loan Scheme, a sum of Rs.12,470,795 was incurred by the Central Bank of Sri Lanka as grants, and after obtaining the relevant information, necessary accounting adjustments are to be made. In addition, variations in accounting of on-lending and recoveries between the Treasury books and the books of the respective institution have also contributed to these differences.

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| <p>(bi) A difference of Rs.23,350 million was observed in the value of treasury guarantees recorded in the financial statements of the Government as at 31 December 2024, due to the foreign exchange rates applied in the conversion of treasury guarantees received in foreign currencies to local currency in the financial statements of the Government differing from the exchange rates submitted to audit by the Department of External Resources.</p> | <p>It is informed that action will be taken to prevent such differences from occurring in the future.</p> | <p>Action should be taken to ensure that, for a single transaction, all Departments carry out the transaction at the same exchange rate on a specified date.</p> |
| <p>(bj) According to the policy decision taken by the Ministry of Finance, Economic Stabilization and National Policies on 12 April 2022 to temporarily suspend the repayment of foreign debt on an interim basis, debt repayments amounting to Rs.593,804 million comprising Rs.479,674 million as principal and Rs.114,130 million as interest relating to 334 loan agreements, had been temporarily</p> | <p>It has been noted to include the necessary disclosures in the future.</p> | <p>Information significant to the users of the financial statements should be disclosed.</p> |

suspended during the period from 13 April 2022 to the end of the year under review. However, any disclosure in this regard had not been made in the financial statements of the Government. It was further observed that, due to the temporary suspension of debt repayments, there is a risk that the Government may require to pay either normal commitment charges or a higher amount as a result of payment delays on unutilized loan balances under the aforementioned agreements from 12 April 2022 onwards.

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| (bk) | Although loan agreements amounting to Rs.128,663 million had been entered into with 04 lending institutions during the year 2024, it was observed that disbursements relating to those loan agreements had not been received within the year 2024. Further, it was observed that the financial statements did not disclose information pertaining to such loan agreements that had been entered into but remained undisbursed. | It has been noted to include the disclosures in the future. | -Do- |
| (bl) | As at 31 December 2024, 03 loans amounting to Rs.134 million, for which preliminary arrangements had been completed but agreements had not been entered into, had not been disclosed in the financial statements. | Discussions have been held with the lenders regarding the obtaining of loans, and as no loan agreements have been signed, the Government has not incurred any liability. | -Do- |
| (bm) | According to the financial statements of the public enterprises, a sum of Rs.3,690 million was payable to the General Treasury by 05 public enterprises. However, such balances had not been recognized in the financial statements of the Government as receivable balances from the respective institutions. | In the financial statements of the Government, under the 'Reporting Period and Measurement Basis for the Presentation of Financial Statements,' revenue is accounted on cash basis for the current and previous years. | -Do- |

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| (bn) Even though according to the information submitted to audit by the Department of Treasury Operations, interest amounting to Rs.10,733 million was receivable to the General Treasury as at 31 December 2024 in respect of on-lending granted to 28 institutions, it had not been disclosed in the financial statements of the Government. | It had only been informed that the value of interest receivable is disclosed in the statement of revenue deficit. | The value of interest receivable by the General Treasury for on-lending should be disclosed in the financial statements of the Government. |
| (bo) In the financial statements of the Government for the year under review, the Government's equity contributions had not been classified and presented as investments made in listed companies in the Colombo Stock Exchange and unlisted companies. Further, although the value of ownership in the listed companies in the Colombo Stock Exchange had been accounted based on the nominal value, the market value of such investments as at 31 December 2024 had not been disclosed in the financial statements. | In the preparation of the financial statements of the Government, no classification has so far been made between investments in listed companies on the Colombo Stock Exchange and investments in unlisted companies. It has been noted to disclose, in the future, the value of ownership in the listed companies based on the market value as at 31 December of the respective year. | Information that is significant to the users of the financial statements should be appropriately disclosed. |
| (bp) According to the financial statements of the Government as at the end of the year under review, commitments and liabilities had been disclosed as Rs.84,114 million. However, the audit tests revealed that commitments and liabilities amounting to Rs.58,367 million relating to 21 entities had not been included therein. | Clear instructions regarding the uploading of commitments and liabilities reported by each institution to the CIGAS system have been included in paragraph 4.8 of the Department of State Accounts Guideline No. 05/2024 for closing of Treasury books for the year 2024, as well as in Guideline No. | Commitments and liabilities should be fully and accurately disclosed in the financial statements of the Government. |

06/2024 for the preparation of financial statements for the year 2024, which specify the formats required for reporting the relevant commitments and liabilities. The amounts included in the financial statements of the Government represent the value of commitments and liabilities reported to the Treasury through the CIGAS accounting system by the reporting institutions.

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| (bq) | According to the information made available to audit, liabilities amounting to Rs.85,722 million relating to 15 entities, which had remained outstanding for more than 90 days without budgetary provisions, had not been disclosed in the financial statements of the year under review. | A proper answer has not been received. | -Do- |
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| (br) | In terms of the Third Schedule of the Appropriation Act, No. 34 of 2023, the minimum threshold for receipts in respect of the Government Officers' Advance Accounts under Head No. 204 had not been achieved. | The minimum threshold for receipts has been revised to Rs.4,850,000. However, the minimum receipts amounted to Rs.4,846,846. | Action should be taken in accordance with the limits prescribed under the Appropriation Act. |
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2. Operational Review

2.1 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 | Recommendation |
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| (a) Fiscal Management (Responsibility) Act, No.03 of 2003. | (i) In accordance with Fiscal Management (Responsibility) Act No. 3 of 2003 as amended by Fiscal Management (Responsibility) (Amendment) Act No. 15 of 2013 and Fiscal Management (Responsibility) (Amendment) Act No. 12 of 2021, 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 been 94.39 percent as at 31 December 2024. Details are given below. | An answer has not been received. | Provisions of the Act should be adhered to. |

| Liability | *Value of Liabilities as at 31 December 2024 Rs. Billion |
|---|---|
| ----- | ----- |
| Bank Overdraft | 105 |
| Government Debt | 29,627 |
| Unrecorded Foreign Loans in the financial statements | 01 |
| Total Liabilities | 29,733 |
| Estimated Gross Domestic Product | 31,500 |
| Total Liabilities as a Percentage of the Estimated GDP | 94.39 |

* A sum of Rs. 1,454 billion, being

the value of guarantees and letters of comfort issued to banks in respect of loans obtained by state owned enterprises, and a sum of Rs. 84 billion, being the value of liabilities disclosed in the Statements of Liabilities and Commitments submitted for audit by Ministries, Departments, and Special Expenditure Units, had not been included in the above liabilities

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| <p>(ii) According to Section 3(a) of the Fiscal Management (Responsibility) Act, No. 3 of 2003, the fiscal strategy adopted by the Government shall ensure that “the budget deficit at the end of the year 2006 does not exceed five per cent of the estimated Gross Domestic Product for that year, and that such level is maintained thereafter, thereby reducing Government debt to prudent levels”. This was identified as a key objective underpinning responsible fiscal management to be followed by the Government. However, it was observed that the Ministry of Finance, Planning and Economic Development had failed to ensure that the estimated budget deficit for the year under review was maintained at a level not exceeding five per cent of the estimated Gross Domestic Product, and that the actual budget deficit at the end of the year under review was similarly maintained. Accordingly, during the year under review, the estimated budget deficit stood at 9.93 per cent and the actual budget deficit stood at 6.75 per cent of the estimated Gross Domestic Product. The details are shown below.</p> | <p>An answer has not been received.</p> | <p>Provisions of the Act should be adhered to.</p> |
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| Estimated GDP | Budget Deficit | | Estimated Budget Deficit as a % of the Estimated GDP | Actual Budget Deficit as a % of the Estimated GDP |
|------------------|----------------|------------|---|--|
| | Estimated | Actual | | |
| Rs.Billion | Rs.Billion | Rs.Billion | % | % |
| ----- | ----- | ----- | ----- | ----- |
| 31,500 | 3,128 | 2,126 | 9.93 | 6.75 |

As the Public Financial Management Act, No. 44 of 2024, came into effect on 08 August 2024, the Fiscal Management (Responsibility) Act, No. 03 of 2003, is accordingly repealed.

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| (b) | Financial Regulations of the Democratic Socialist Republic of Sri Lanka | <p>As at 31 December 2024, unsettled debit balances amounting to Rs. 6,511 million were observed in 141 imprest accounts of Ministries and Departments. Out of that, balances amounting to Rs. 35 million had been brought forward over a number of years, and action had not been taken even by 31 December 2024 to settle those balances in terms of F.R. 373.</p> <p>.</p> | <ul style="list-style-type: none"> • Less than 1 year The relevant institutions have been informed in writing for immediate settlement • Between 1-2 years Cases have been filed by the relevant institutions for recovery and accordingly, it is not possible to recover this money until the judgments are received. • More than 5 years Necessary instructions for settlement of this balance have been given to the relevant institution and many | <p>Action should be taken in accordance with the financial regulations.</p> |
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discussions
have been held
with the
institution.

3. Management Activities

3.1 Restructuring of External Debts

The following observations are made.

| Audit Observation | Comment of the Management | Recommendation |
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| (a) According to information submitted by the Department of External Resources, 52 types of loans obtained from the Export-Import Bank of China were subjected to the debt restructuring process during the year under review. Of these, 48 project loans referred to in Note 26(ii), and 04 foreign currency term loan facilities referred to in Note 26(iii) of the financial statements of the Government, were included. The details are as follows. | | |
| (i) The unpaid interest and penalty interest, calculated in foreign currency for 44 projects, had been added to the loan balances as at 1 January 2024 and the resulting balances were subjected to debt restructuring. Subsequently, the maturity period had been extended and the interest rates had been reduced. Accordingly, the loan balances had increased by USD 236 million in respect of 33 projects and by RMB 275 million in respect of 11 projects. | These variations represent the differences before and after each respective debt restructuring. Accordingly, it is agreed with the audit observations. | This is a presentation of information. |
| (ii) The unpaid interest and penalty interest calculated for the 04 foreign currency term loan facilities, had been added to the | -Do- | This is a presentation of information |

loan balances as at 01 January 2024 and the resulting balances were subjected to debt restructuring. Subsequently, the maturity period had been extended and the interest rates had been reduced. Accordingly, the loan balances had increased by USD 258 million in respect of 03 facilities, and by RMB 180 million in respect of one facility.

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| <p>(iii) The unpaid interest and penalty interest of the loan balance of EURO 4.5 million as at 01 January 2024, amounting to EURO 573,924 had been added, and out of that, EURO 2.4 million, equivalent to 48 per cent, was subject to a haircut by the lenders and the remaining balance of EURO 2.6 million had been settled during the year 2024.</p> | <p>Agreed with the audit observation.</p> | <p>This is a presentation of information.</p> |
| <p>(iv) The loan balance of RMB 40 million relating to 03 projects was fully settled during the year 2024 without undergoing debt restructuring.</p> | <p>Agreed with the audit observation.</p> | <p>This is a presentation of information.</p> |
| <p>(b) According to the information submitted by the Department of External Resources, 11 international sovereign bond loans amounting to USD 12,550 million as at 01 January 2024, as disclosed in Note 26 (iv) to the financial statements of the Government, had been subjected to debt restructuring during the year 2024. Accordingly, the maturities of these 11 bonds were extended, a nominal haircut was applied by the lender, a minimum average interest rate was determined, and the bonds were converted into 08 new international sovereign bonds. Further, as at 31 December 2023, the</p> | <p>This information can be obtained from the press release dated 18 December 2024 issued by the Ministry of Finance, Planning, and Economic Development.</p> | <p>This is a presentation of information.</p> |

unpaid interest on these bonds amounted to USD 3,750 million, and following the debt restructuring, the value of the 08 new international sovereign bonds stood at USD 10,647 million.

3.2 Restructuring of Domestic Debts

| Audit Observation | Comment of the Management | Recommendation |
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| (a) The foreign currency banking unit (non-project) loan of USD 240 million equivalent to Rs.77,742 million obtained from the Bank of Ceylon as at 01 January 2024, along with the default interest amounting to Rs.6,601 million had been converted into Rupee-denominated treasury bonds. Accordingly, as at 31 December 2024, the value of treasury bonds payable to the Bank of Ceylon after the restructuring process amounted to Rs.82,551 million. | Agreed with the audit observation. | This is a presentation of information. |
| (b) In connection with the loan obtained by the Ceylon Petroleum Corporation from two State commercial banks on the security of Treasury guarantees and subsequently taken over by the General Treasury during the year 2022, the outstanding loan balance of USD 2,435 million equivalent to Rs. 788,682 million as at 01 January 2024 had been restructured as follows. | Agreed with the audit observation. | This is a presentation of information. |
| (i) The outstanding loan amount payable to the Bank of Ceylon amounting to Rs. 410,430 million together with the default interest thereon amounting to Rs. 73,603 million had been converted into a USD denominated term loan facility. | Agreed with the audit observation. | This is a presentation of information. |
| (ii) Out of the loan amount payable to the People's Bank, a sum of Rs. 136,698 million together with the accrued default interest amounting to Rs. 30,464 million had been converted into a USD-denominated term loan facility, while the | Agreed with the audit observation. | This is a presentation of information. |

remaining balance of Rs. 224,358 million together with the accrued default interest amounting to Rs. 38,225 million had been converted into Sri Lanka Rupee-denominated treasury bonds.

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| (iii) Subsequent to the said loan restructuring process, the value of the term loan payable to the Bank of Ceylon as at 31 December 2024 amounted to USD 1,582 million, equivalent to Rs. 462,783 million, and the value of the term loan payable to the People's Bank amounted to USD 546 million, equivalent to Rs. 159,823 million. Further, the value of treasury bonds payable to the People's Bank amounted to Rs. 262,583 million. | Agreed with the audit observation. | This is a presentation of information. |
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3.3 Compensation for damages caused to the properties of Members of Parliament due to the crisis situation prevailed in the country

| Audit Observation | Comment of the Management | Recommendation |
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| (a) Without any provision being made through the annual estimates, a sum of Rs. 1,050 million had been paid in the year 2023 on behalf of 41 Members of Parliament, and a further sum of Rs. 178 million had been paid during the year under review on behalf of 32 Members of Parliament, making a total of Rs. 1,228 million, for damages caused to private movable and immovable properties of Members of Parliament due to the crisis situation that prevailed in the country during the period from 31 March 2022 to 22 July 2022. These payments had been made by utilizing supplementary budget provisions received under the Supplementary Support Services and Emergency Liability Project of the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government. | If it is possible to carry out a prior assessment for such damages in the preparation of the budget estimates for any future year, and if it is feasible to defer the settlement of such damages until the following year, the required provision can be included in the budget estimates of the ensuing year. | Action should be taken to make provisions through the annual estimates based on a realistic assessment of the possible compensations that may have to be paid, by prudently considering the prevailing circumstances. |

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| (b) It was further observed that, although the funds had been approved and payment arrangements made, an amount of Rs. 39 million relating to 09 Members of Parliament had remained unpaid as at 31 December 2024. | -Do- | Do- |
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3.4 Restructuring of Public Enterprises

| Audit Observation | Comment of the Management | Recommendation |
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| <p>(a) In relation to the restructuring of Public Enterprises, a Public Enterprise Restructuring Unit had been established and was in operation from 01 December 2022. However, as per the Cabinet Decision dated 15 May 2023, although it had been proposed to establish a Holding Company (HOCO) to restructure 72 institutions listed as affiliated companies, such a holding company had not been established even by 30 May 2025. Nevertheless, despite the proposal that the restructuring of 08 listed institutions be undertaken by the said holding company, transaction consultants had been selected for divestment under the restructuring process without taking over to the proposed holding company. Although the primary objective of this was to operate loss-making and inefficient institutions more efficiently and productively, it was observed that 04 out of the 08 selected institutions had earned pre-tax profits in the years 2022 and 2023.</p> | <p>The establishment of the holding company could have been affected in accordance with the provisions that were to be included in the new Act introduced concerning the management of public enterprises. However, as the said Act could not be enacted during the tenure of the previous government, the establishment of the holding company had not been possible.</p> | <p>Action should be taken in accordance with the Public Enterprises Reform Policy, or necessary amendments should be duly introduced to it and implemented accordingly.</p> |
| <p>(b) Further, out of the 08 selected institutions, Cabinet approval had been granted in 2023 to appoint transaction consultants for 07 institutions. Accordingly, a total of Rs. 193 million had been paid during the year under review to two foreign institutions that were contracted as transaction consultants, through the General</p> | <p>Restructuring activities of 08 institutions initially identified by the Public Enterprises Restructuring Unit had been carried out, and most of those activities had reached their final stages by August 2024. However, the new government is in the</p> | <p>As stated in the Cabinet Memorandum, the primary objective of the restructuring process is to ensure the efficient and productive operation of loss-making and</p> |

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| <p>Deposit Account No. 18/62P maintained by the Ministry of Finance. Further, a total amount of Rs. 121 million had been spent for the operation of the Public Enterprise Restructuring Unit during the years 2023 and 2024, of which Rs. 58 million had been spent on salaries for the Unit. However, it was observed that the operations of the Public Enterprise Restructuring Unit had been temporarily suspended in the year 2025, and thus the expenditure incurred was identified as an uneconomic cost.</p> | <p>process of reviewing these inefficient projects, and approval has been granted to proceed with the restructuring of the Grand Hyatt Hotel out of the previously initiated projects. According to the economic policies adopted by the previous government, 08 institutions had been identified for restructuring, and it is emphasized that profitability or non-profitability should not be considered a determining factor in deciding whether an institution should be restructured.</p> |
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3.5 Waiver of Sovereign Immunity in obtaining Foreign Project Loans

| Audit Observation | Comment of the Management | Recommendation |
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| <p>Out of 755 project loans held by the Government of Sri Lanka as at 31 December 2023, it was observed based on information obtained from the Department of External Resources in respect of 549 project loans that the loan agreements of 78 foreign project loans contained clauses involving the waiver of sovereign immunity in various forms.</p> | <p>Prior to entering into these loan agreements, approvals were obtained from the Monetary Board of the Central Bank, the Cabinet of Ministers, and the Attorney General's Department. Further, as discussions on the debt restructuring with the Government of China and the Chinese lending financial institutions have not been concluded, it is unable to make a determination regarding the risks faced by the Government of Sri Lanka at this stage. During the bilateral debt restructuring process, the Government of Sri Lanka has appointed international consultants namely, Clifford Chance LLP and Lazard Inc. as its financial and legal</p> | <p>Special attention should be paid to the clauses relating to the waiver of sovereign immunity contained in the relevant loan agreements when obtaining foreign loans in the future.</p> |

consultants. In accordance with the proper advice of these consultants, the Government continues to conduct further debt restructuring discussions with the Government of China and the Chinese lending financial institutions, also in compliance with the clauses relating to the waiver of sovereign immunity stipulated in the respective loan agreements.

3.6 Other Observations

| Audit Observation | Comment of the Management | Recommendation |
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| (a) As at 31 December 2024, balances amounting to Rs. 1,344 million relating to 10 government-approved advance accounts under 04 Heads had continued to exist over a number of years without being properly settled or taking action as per F.R. 518. | The responsibility regarding the advances granted by the Government to the Ministries and Departments rests with the institutions maintaining such accounts. However, it is kindly informed that follow-up actions in this regard are being carried out. | Action should be taken expeditiously to settle the advance account balances that have remained unsettled for a long period. |
| (b) According to the financial statements, a sum of Rs. 191 million granted as advances to public officers who had been transferred to Provincial Councils had continuously remained unsettled. However, action had not been taken even during the year under review to recover or settle the said amount. | After verifying and accurately identifying this information, instructions are issued to the Provincial Councils to take action to settle the balances. | -Do- |
| (c) According to the records, unsettled balances under 03 Heads totaling Rs. 9 million in 03 advance accounts to government officers had continued to exist over a number of years without being settled. Further, under 02 other Heads, a negative balance amounting | These loan balances have arisen on various occasions due to the closure and transfer of Ministries and Departments. As these balances are very old, the Department is analyzing the information it holds, | Action should be taken expeditiously to settle the advance account balances that have remained unsettled for a long period. |

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| to Rs. 408,233 had also remained unsettled over several years. | | accurately identifying the reasons for their inactivity, and taking action to settle them. |
| (d) According to the financial statements of the Government, the on-lending balance as at 31 December 2024 amounted to Rs. 195,004 million. However, based on the information made available to audit, due to failure to make payments in accordance with the terms of the on-lending agreements, a sum of Rs. 1,304 million had remained recoverable for more than 05 years in respect of 03 institutions. | Agreed with the audit observation. | Action should be taken to collect on-lending installments in accordance with the relevant on-lending agreements. |
| (e) The total interest receivable relevant to on-lending as at 31 December 2024 amounted to Rs. 10,733 million. However, based on the agreements, unpaid interest for over a period of 05 years remained recoverable in respect of 03 institutions amounted to Rs. 912 million. | Agreed with the audit observation. | Action should be taken to recover the interest on on-lending without delay. |
| (f) The implementation of the Integrated Treasury Management Information System (ITMIS), aimed at automating Treasury operations, had commenced in the year 2010. The estimated total investment for the project amounted to USD 60 million, equivalent to Rs. 7,920 million. As at 31 December 2023, a cumulative expenditure of Rs. 5,647 million had been incurred for this purpose, while an expenditure of Rs. 957 million had been incurred during the year under review under the expenditure heads of the Department of Information Technology Management and the Ministry of Finance, Planning and Economic Development. Accordingly, the cumulative expenditure as at 31 December 2024 had amounted to Rs. 6,605 million. However, despite the | The court case management process in the system was developed solely for the Department of Legal Affairs of the Ministry and constitutes a limited process that is not relevant to the main flow of public financial management in the system. Although this process was initially used by the aforementioned Department, it is no longer actively operational due to its low significance. It is not practically feasible to implement a large-scale process like ITMIS simultaneously across all government institutions. Accordingly, the processes | Since, it has been already delayed, prompt action should be taken to fully develop and implement the system. |

lapse of approximately 14 years since the commencement of the project, it was observed that the 13 key functional areas expected to be fully developed and implemented under the said system had not been brought to a fully operational status by the end of the year under review.

related to budget implementation in the system were first expanded and completed by 2020, after which the processes related to expenditure management were initiated as a second phase. However, disruptions caused by the Covid-19 pandemic, instability due to social and financial crises, and interruptions in electricity and transport services significantly hindered the system's expansion activities. As a result, nationwide user training programs could not be conducted. Furthermore, due to studies conducted internally and by external experts/committees, delays occurred in updating the system's operations and maintenance service agreements, which in turn delayed the acquisition of additional user licenses required to complete the system's expansion until February 2025.

- (g) Further, without establishing and operationalizing the payroll management functional area initially expected to be implemented under the ITMIS system since its inception, a separate payroll management system named e-Payroll had been introduced exclusively for the Ministry of Finance in the year 2016. It was observed that an expenditure amounting to Rs. 6.7 million had been incurred in this regard as at 31 December 2024.

By the year 2016, the Ministry of Finance had identified the need to implement a new software system across the entire government sector to replace the outdated software currently used for salary management in the government sector. The salary management process developed within the ITMIS system was not technically suitable for expansion across the entire government sector. Furthermore, implementing it would have been

Implementation of a payroll management system for the entire public sector should be expedited with special attention to economy and efficiency.

economically disadvantageous due to the large expenditure required for additional user licenses. Accordingly, at the Ministry's policy meeting held in April 2016, it was decided to develop alternative software suitable for salary management across the entire government sector, and the limited salary management process within the ITMIS system was no longer further developed.

In line with the above decision, the e-Payroll salary management system has now been implemented as a pilot run at the Ministry of Finance and the Departments of Treasury. Further action is scheduled to be taken based on the success of this implementation.

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| <p>(h) According to the age analysis of advances to Government officers (8,493) submitted as at 31 December 2024, it was observed that a sum of Rs. 108 million remained outstanding for a period between 05 to 10 years, and a further sum of Rs. 232 million remained outstanding for over 10 years. These balances pertained to officers who had been transferred to other Ministries/Departments, officers internally transferred, officers transferred to institutions under Provincial Councils, deceased officers, retired officers, interdicted officers, officers who had vacated their posts, officers transferred or internally transferred on a secondary basis, officers on foreign/local leave, and others.</p> | <p>At the end of each year, after the Government Officers' Advance "B" Accounts are submitted to the Department of State Accounts, all outstanding balances are analyzed. The relevant institutions are informed to take necessary action to settle such balances in compliance with the Establishment Code, Financial Regulations, and other existing circular instructions. Further, it is the responsibility of the respective Chief Accounting Officers and Accounting Officers to ensure that the outstanding advances are settled without delay. The progress of those institutions</p> | <p>Continuous follow-up action should be taken on the measures implemented to settle the outstanding balances.</p> |
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is obtained on a quarterly basis, and continuous follow-up reviews are carried out by examining the progress of recoveries of loan balances and providing necessary technical guidance where required.

4. Performance

4.1 Estimation of Revenue

| Audit Observation | Comment of the Management | Recommendation |
|---|---|--------------------------------|
| (a) The Gross Domestic Product (GDP) for the year 2024 amounted to Rs.29,898 billion, whereas the GDP for the year 2023 had amounted to Rs.27,419 billion. Accordingly, when compared with the preceding year, an increase of Rs.2,479 billion or 9 per cent was observed in the Gross Domestic Product. | Agreed. | A presentation of information. |
| (b) According to the original annual budget estimate approved by Parliament for the year 2024, the Government revenue had been estimated at Rs.4,144 billion, whereas it had been Rs.3,408 billion in the preceding year. Accordingly, the Government revenue had been estimated by increasing Rs.736 billion or 22 per cent compared to the preceding year. | Agreed. | -Do- |
| (c) According to the Statement of Budgetary Performance and Deficit Financing included in the financial statements of the Government, the total Government revenue collected in the year 2024 amounted to Rs.4,061 billion. When compared with the annual revenue estimate presented to Parliament, it had been reduced by Rs.83 billion. Although this reflected an increase of 32 per cent when compared with the actual revenue of the year 2023, the reduction in the budget deficit for the year under review had been only 17 per cent. | The intensity of variation in government revenue as well as variation in government expenditure also influence for the increase or decrease of the budget deficit or surplus. | -Do- |

4.2 Deficit in Revenue

| Audit Observation | Comment of the Management | Recommendation |
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| <p>(a) According to the Statement of Budget Performance and Deficit Financing included in the financial statements submitted for audit for the year under review, the revenue deficit was amounted to Rs.1,309 billion, indicating a decrease in comparison to the revenue deficit of Rs.1,650 billion reported in the preceding year. The highest revenue deficit during the period from the year 2006 to the year 2023 had been reported in the year 2023. During this entire period, the revenue collected annually had not been sufficient to meet the recurrent expenditure of the Government. The lowest revenue deficit during the said period had been reported in the year 2007, amounting to Rs.43 billion, which represented 7.52 per cent of the total Government revenue collected in that year. The cumulative revenue deficit for the period from 2006 to 2023 had amounted to Rs.9,278 billion. In order to finance this deficit, domestic and foreign borrowings along with foreign grants had been obtained. Accordingly, borrowings and grants obtained during that period had amounted to Rs.30,878 billion as domestic borrowings, Rs.12,285 billion as foreign borrowings, and Rs.331 billion as foreign grants, totaling Rs.43,494 billion. During the respective years, the revenue deficit had been financed at rates ranging between 4.44 per cent and 45.59 per cent of the total borrowings and grants obtained. Out of such borrowings and grants, without being utilized for investment purposes, proportions used for the settlement of recurrent expenditure had amounted to 20.25 per cent in the year 2019, 45.59 per cent in 2020, 42.39 per cent in 2021, 30.59 per cent in 2022, 19.65 per cent in 2023, and 19.02 per cent in the year 2024.</p> | It was noted. | <p>Action should be taken to further enhance the efficiency of revenue collection and to identify opportunities for further rationalization of expenditure with a view to minimizing the revenue deficit.</p> |

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| (b) | <p>During the year under review, loan interest payments had amounted to Rs.2,689 billion, representing 50 per cent of the total recurrent expenditure. In comparison, loan interest payments for the preceding year had amounted to Rs.2,455 billion, which represented 51.91 per cent of the total recurrent expenditure. Accordingly, interest payments had increased by Rs.234 billion compared to the preceding year. Further, in line with the policy decision made by the then Ministry of Finance, Economic Stabilization and National Policies to suspend external debt servicing on an interim basis effective from 12 April 2022, certain debt instalments and interest payments had been suspended from 13 April 2022 up to the end of the year under review. It was observed that if such payments had been made, the revenue deficit would have further increased. Moreover, despite a 62 per cent decrease in the domestic borrowings obtained during the year under review compared to the preceding year, the interest applicable to such borrowings had increased by 49 per cent. Interest payments, which amounted to Rs.151 billion in the year 2006, had increased to Rs.2,689 billion by the year 2024, reflecting an increase of 1,681 per cent. As borrowings had to be obtained to finance the budget deficit, annual interest payments had continued to increase. According to the Statement of Budget Performance and Financing of Deficit for the year 2024, out of the total Government revenue of Rs.4,061 billion collected during the year, a sum of Rs.2,689 billion, or 66.21 per cent, had been utilized for interest payments.</p> | It was noted. | -Do- |
| (c) | <p>As at the end of the year under review, the total outstanding revenue to be collected by the main revenue-collecting institutions, namely, the Department of Inland Revenue, Sri Lanka Customs, the Department of Excise, and the Department</p> | <p>Special attention is drawn to the collection of arrears of revenue of these institutions and the progress thereof during the monthly meetings on</p> | -Do- |

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| <p>of Motor Traffic, amounted to Rs.1,217 billion.</p> | <p>revenue management and cash flow conducted under the supervision of the Department of Treasury Operations. However, in terms of the Fiscal Policy Circular No. 01/2015 dated 20 July 2015, the responsibility for the collection of arrears revenue has been assigned to the respective Accounting Officer. Accordingly, the responsibility for collecting arrears revenue pertaining to those institutions rests with the Accounting Officers of the respective institutions.</p> |
| <p>(d) Accordingly, delays in the recovery of outstanding taxes by the Department of Inland Revenue had been affected by several factors, including deficiencies in the Tax Administration Management Information System, prolonged durations in the unresolved tax appeals process, and the absence of a special judicial system specifically established to expedite legal proceedings related to outstanding tax collections.</p> | <p>As a result of the continuous implementation of stringent public financial management measures aimed at stabilizing the economy and minimizing unproductive public expenditure while also easing the burden on the people affected by the economic crisis, the total Government revenue estimated for the year 2024, comprising tax revenue, non-tax revenue, and foreign grants, has recorded a very high-performance level of 99.1 percent as per the economic classification. Compared to the year 2023, Government revenue has increased by 33.1 percent. Notably, the achievement of 13.7</p> |
| <p>(e) Failure to prepare revenue estimates more accurately, or failure to collect revenue in accordance with the prepared estimates, expenditure management not being carried out in the expected prudent manner, resulted in the necessity for the Government to obtain borrowings. The annual increase in such borrowings led to a rise in interest expenses, thereby contributing to the increase in recurrent expenditure. The inability to achieve the estimated revenue targets, combined with the increase in recurrent expenditure, resulted in government revenue being insufficient to meet annual expenditure needs, which resulted to a yearly increase in the revenue deficit.</p> | <p>-Do-</p> |

percent of Gross Domestic Product (GDP), the highest level in recent history marks a significant milestone in Government revenue performance. However, recurrent expenditure has increased by 13.6 percent compared to 2023, mainly due to the revision of public sector salaries, payment of pensions, and implementation of welfare programmes to safeguard vulnerable groups, the rise in prices of goods and services, and interest payments on public debt not under direct Government control. These expenditures have been incurred to ensure the continuous functioning of the public service, to strengthen social welfare programmes such as free education and healthcare, to protect vulnerable segments of society under new initiatives, and to sustain the ongoing national development process. Accordingly, public expenditure has increased by 14.5 percent. Therefore, it is practically challenging to prevent the increasing of the revenue deficit solely through Government revenue.

4.3 Budget Deficit

| Audit Observation | Comments of the Management | Recommendation |
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| <p>According to the financial statements of the Government, the budget deficit for the year 2024 amounted to Rs.2,126 billion, which represented 7.11 percent of the Gross Domestic Product (GDP). In comparison, the budget deficit for the year 2023 was Rs.2,584 billion, equivalent to 9.35 percent of GDP. A budget deficit has been recorded throughout the period from 2006 to 2024, increasing from Rs.300 billion in 2006 to Rs.2,126 billion by 2024. The highest budget deficit during this period was reported in the year 2023. When expressed as a percentage of GDP, the deficit during this period ranged from 5.55 percent to 14.08 percent. As per Section 3(a) of the Fiscal Management (Responsibility) Act, No. 3 of 2003, the actual budget deficit should have been maintained at a maximum of 5percent of the actual GDP. However, this threshold was not adhered to in any year within the reviewed period. However, during the years 2016, 2017, and 2018, it had been possible to maintain the deficit at levels close to the above limit, recording 5.55 percent, 5.69 percent, and 5.59 percent respectively.</p> | <p>Answer not received.</p> | <p>The budget deficit should be minimized in compliance with the relevant legal provisions.</p> |

4.4 Tax Appeals Process

| Audit Observation | Comments of the Management | Recommendation |
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| <p>As at 31 January 2025, there were 506 appeals registered with the Tax Appeals Commission that remained unresolved, involving a total tax amount of Rs.110,395 million. This included 29 appeals each exceeding Rs.1 billion, amounting to a total of Rs.70,494 million, and 107 appeals with tax amounts ranging between Rs.100 million and Rs.1000 million, totaling Rs.33,096 million. Among these, 27 appeals with a tax amount of Rs.3,408 million, which had been registered since 2011, had not yet been taken up for hearing. A further 483</p> | <p>The Tax Appeals Commission was established in May 2011, and the hearing of appeals commenced in March 2012. Prior to the establishment of the Commission, 71 appeals that had been under review by the Board of Review of the Department of Inland Revenue, in terms of the previous appeal</p> | <p>A mechanism should be established to expedite the completion of matters related to tax appeals.</p> |

appeals amounting to Rs.106,990 million had been taken up but were pending final determination. In addition, during the period between 2022 and 28 January 2025, there were 233 “Reserved Cases” for which hearings had concluded, but final determinations had not been issued, involving a tax amount of Rs.36,514 million. The prolonged delay in concluding the final stages of the tax appeals resolution process has resulted in significant delays in the collection of potential government revenue, and it was observed that this may lead the Government to incur unnecessary direct and indirect costs.

process, were transferred to this Commission for inquiry. According to the amendment made to the Tax Appeals Commission Act, No. 23 of 2011, in 2013, provisions were made to operate three panels of determination. However, up to the year 2019, the Commission functioned with only one panel consisting of three members. During that period, and particularly by the end of the three-year period from 2019 to 2022, the inquiry process of appeals had not been carried out continuously due to the failure to appoint new members in a timely manner.

4.5 Increase in the Debt Balance

| Audit Observation | Comments of the Management | Recommendation |
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| <p>As the budget deficit remained at a high level annually, the amounts of borrowings had also increased correspondingly. According to the financial statements of the Government, the total outstanding debt payable (domestic and foreign) by the Government as at the end of the year 2024 amounted to Rs.29,627 billion. Of this, a sum of Rs.18,893 billion represented domestic debt, while Rs.10,734 billion represented foreign debt. The total outstanding government debt as at the end of the year 2023 stood at Rs.29,150 billion. Accordingly, when compared with the year 2023, the debt balance had increased by Rs.478 billion or 1.6 per cent in the year 2024. The total outstanding government debt in the year 2006 amounted to Rs.2,431 billion, representing 82.72 per cent of the</p> | <p>A proper answer was not received.</p> | <p>Liabilities should be maintained in accordance with the relevant statutory provisions.</p> |

Gross Domestic Product (GDP), and by the end of the year 2024, it had increased to 94.39 per cent of the GDP. Further, as per Section 3(f) of the revised Fiscal Management (Responsibility) Act, No. 15 of 2013, the public debt should remain below 80 per cent of the GDP. However, excluding other liabilities and considering only the government debt, it had exceeded the aforesaid limit and reached 94.39 per cent of the GDP. This situation had prevailed during the years 2020, 2021, 2022, and 2023 as well.

4.6 Public Debt

| Audit Observation | | Comments of the Management | | Recommendation |
|---|---|---|--------------------|---|
| (a) According to the information submitted for audit, estimated and actual values of disbursement relevant to the year 2024 are as follows. | | | | |
| Development Partner | Disbursement Estimate including Grants 2024 (USD Mn.) | Actual Disbursement Value including Grants 2024 (USD Mn.) | Variance (USD Mn.) | Variance as a percentage of the Disbursement Estimate (%) |
| ----- | ----- | ----- | ----- | ----- |
| | - | | | - |
| World Bank | 397 | 564.9 | 167.9 | 42 |
| Asian Development Bank | 600 | 862.1 | 262.1 | 44 |
| China | 281 | 51.9 | (229.1) | (82) |
| Japan | 59 | 37.3 | (21.7) | (37) |
| Korea | 39 | 4.3 | (34.7) | (89) |
| Middle East countries and OPEC Fund | 83 | 39.3 | (43.7) | (53) |
| South Asian Countries | 124 | - | (124) | (100) |
| Russia, Australia and Western Countries | 122 | 7.94 | (114.06) | (93) |
| United Nations Agencies including IFAD | 48 | 16.4 | (31.6) | (66) |

| | | | | |
|-----------------------------|-------|-------|-------|-----|
| International Monetary Fund | 0 | 334 | 334 | 100 |
| | ----- | ----- | ----- | |
| | 1,753 | 1,918 | 165.1 | |
| | === | ===== | === | |

The following observations are made in this regard.

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| <p>(i) Although the total value of the disbursement estimates for the year 2024 was USD 1,753 million, the actual disbursement value was USD 1,918 million. Accordingly, the actual disbursement value had increased the disbursement estimate by USD 165.1 million or around 9 per cent.</p> | <p>The disbursement estimate for each year is prepared during the second quarter of the preceding year. In preparing these estimates, the expected disbursements for the upcoming year are considered relevant to each respective development partner for their projects. However, the actual disbursements for the year vary due to factors such as price fluctuations during project implementation affecting project costs and changes in exchange rates. Moreover, in certain instances, the acceleration of project implementation also results in actual disbursements deviating from the estimated disbursements.</p> | <p>A presentation of information.</p> |
| <p>(ii) When comparing the actual disbursement values of the loans obtained from the World Bank and the Asian Development Bank with the estimated disbursements, it was observed that they had increased by 42 per cent and 44 per cent respectively.</p> | <p>The expected disbursements for the World Bank- funded projects for the year 2024 had been prepared based on the budget estimates forecasted for the year 2024, and it was US\$ 397 million approximately. In line with the Extended Fund Facility of the International Monetary Fund, the World Bank had disbursed approximately US\$ 200 million in 2024 for the purpose of financing the budget deficit. This amount</p> | <p>-Do-</p> |

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| | had not been included in the forecast. Further, due to the continuation of provision under the Asian Development Bank concessional financing package, and as Sri Lanka continued to require budgetary support provisions, budgetary support provisions had also been obtained. | |
| (iii) The loans expected to be obtained from China, Japan, Korea, Middle Eastern countries, United Nations agencies including IFAD, Russia, Australia and Western countries had decreased by 82 per cent, 37 per cent, 89 per cent, 53 per cent, 66 per cent and 93 per cent respectively. | As the Government of Sri Lanka had temporarily suspended the payment of loan instalments, countries such as China, Japan, Korea, Russia and Australia had suspended disbursements. However, in preparing the estimates, it had been assumed that disbursements would recommence during the year 2024. | Foreign loan financing should be done in a properly planned and systematic manner. |
| (iv) Even though it had been estimated to obtain loans from South Asian countries during the year under review, such loans had not been obtained even by the end of the year. | Due to the prevailed economic conditions in 2024, the Government's fiscal policies, and the fact that the debt restructuring process had not been concluded, loans had not been obtained. | -Do- |
| (v) Although a sum of USD 334 million had been received from the International Monetary Fund (IMF) during the year under review, according to the disbursement estimates, no disbursement had been estimated from the IMF. | Disbursements from the International Monetary Fund will be determined based on the agreement between the Ministry of Finance and the International Monetary Fund. These amounts have not been included in the disbursement estimates prepared for development projects implemented by the Department of External Resources. | -Do- |

4.7 Profit and Dividends

The following observations are made.

| Audit Observation | Comments of the Management | Recommendation |
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| (a) According to the financial statements of the Government as at 31 December 2024, the capital contributions made by the Government to public enterprises amounted to Rs.2,493,232 million. However, a sum of Rs.41,080 million had been received during the year under review as profits and dividends in respect of such investments. That represented only 1.6 per cent of the total value of investments made. | Agreed. | Supervision and regulation of public enterprises should be carried out in a systematic manner. |
| (b) The estimated revenue for the year 2024, under profit incomes had been Rs.64,192 million, whereas the actual revenue amounted to Rs.33,191 million. Accordingly, the actual revenue represented only approximately 51 per cent of the estimated revenue. | Agreed. | -Do- |
| (c) As at 31 December 2023, the number of public enterprises and other institutions under the supervision of the Department of Public Enterprises had been 305. However, revenue estimates had been prepared for only 73 of those institutions, and out of them, only 43 institutions had remitted profits and dividends to the Treasury. | It was informed that the profit-earning institutions had been considered in the preparation of revenue estimates. However, as there exists a probability of variations in the actual financial performance of those institutions during the year, it had not been possible to realize dividend income as estimated. | Supervision and regulation of state-owned enterprises should be carried out in a systematic manner, and necessary measures should be taken to further streamline the functions of Treasury representatives in those enterprises. |
| (d) As per Section 5.3 of the Operations Manual for public enterprises issued by the Department of Public Enterprises on 16 November 2021, State-Owned Companies established under the Companies Act No. 07 of 2007 and certified as solvent are required to transfer not less than 30 per cent of their | Agreed. It is stated that action will be taken in the future to collect dividends, taking into consideration the financial position and future business plans of | Action should be taken to remit the relevant portion of profits accurately to the Treasury, and it should be regulated in a more precise |

post-tax profits to the Consolidated Fund. these institutions. manner.
However, contrary to that provision, during the year under review, it had been failed to collect a total dividend income amounting to Rs.13,010 million in respect of 11 such State-Owned Companies for the year 2023.

4.8 Treasury Guarantees and Letters of Comfort

| Audit Observation | Comments of the Management | Recommendation |
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| (a) The validity period of 25 Treasury guarantees, amounting to Rs.143,094 million and USD 2,678.29, and 15 letters of comfort, amounting to Rs.32,550 million and USD 210, which had expired during the year 2024 and earlier, had been extended as at 31 December 2024. | As at 31 December 2024, the number of letters of comfort that had been extended was 15. | In the future, action should be taken to ensure that Treasury guarantees and letters of comfort are issued under proper supervision. |
| (b) According to the financial statements of the Government for the year under review, it was observed that Treasury guarantees, issued on 11 occasions to external institutions, amounting to Rs.102,474.21 million, USD 2,824.31 million, and EUR 12.29 million, and letters of comfort, issued on 17 occasions, amounting to Rs.33,430 million and USD 210 million, had expired as at 31 December 2024. Action had not been taken to formally conclude or to extend the validity period prior to the expiry. | The current status regarding the Treasury guarantees and letters of comfort, which had not been extended even as at 30 May 2025, has been clarified and the audit observation has been accepted. | -Do- |
| (c) Payments of Rs.2,200 million had been made for the settlement of overdue loan installment and interest as at March 2024 in respect of the loan obtained by the General Sir John Kotelawala Defense University from the National Savings Bank for the construction of the University Hospital and the procurement of medical equipment. Further, for the settlement of overdue loan and interest payments of the Sri Lankan Airlines Ltd. to the Bank of | Pursuant to the Cabinet decision based on the Cabinet Memorandum, payments of Rs.2,400 million had been made in respect of the loan and interest payable by Sri Lankan Airlines to the Bank of Ceylon and the People's Bank, while payments of Rs.2,200 million had been made in respect of the loan and interest payable by the | -Do- |

Ceylon and the People's Bank, General Sir John Kotelawala payments of Rs.2,400 million, Defense University to the equivalent to USD 8 million had been National Savings Bank. made. Accordingly, during the year under review, a total sum of Rs.4,600 million had to be borne by the General Treasury for the settlement of overdue loan and interest balances arising from the issuance of Treasury guarantees and letters of comfort.

4.9 Domestic and Foreign Grants

| Audit Observation | Comments of the Management | Recommendation |
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| (a) A total sum of Rs.326.6 million received prior to the year under review from 07 donors in respect of 13 projects had not been utilized for the intended purposes, and the said amount had been refunded to the respective donors during the year under review. | In certain programmes implemented under the World Food Programme, the entire amount received had been refunded to the donor institution, due to non-implementation of the respective programme. Further, after the implementation of other projects/programmes, the balances remaining in each project had been refunded to the donor institution, based on the request of the donor, the concurrence of the Department of External Resources, and the request of the Implementing Agency of the respective project in terms of the agreements. | The foreign grants received should be utilized to the maximum extent. |
| (b) It was observed that a sum of Rs.146.5 million received as domestic grants as at 01 January 2024, had not been utilized for the intended purpose even by the end of the year under review. | Action has been taken to inform the relevant Ministries/Departments to utilize these domestic grant funds for the intended purposes. | The grants received should be utilized to the maximum extent. |

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| <p>(c) According to the financial statements of the Provincial Councils, during the year under review, government grants amounting to Rs.428,331 million had been provided to the 09 Provincial Councils. Excluding government grants, revenue collected by those Provincial Councils amounted to Rs.93,077 million, of which investment income amounted to Rs.8,355 million. As at 31 December 2024, the total cash and cash equivalents held by all Provincial Councils amounted to Rs.41,782 million, while 05 Councils held investments totaling Rs.67,511 million. Accordingly, it was observed that the 09 Provincial Councils possessed high liquid assets amounting to Rs.109,292 million, thereby generating higher investment income. During the audit, it was not revealed whether a systematic review had been carried out regarding this situation when funds obtained through various financial channels are provided as government grants to the Provincial Councils and the overall cost to the Government. Further, according to information from the Department of National Budget, the value of grants provided by the General Treasury to the 09 Provincial Councils during the year under review amounted to Rs.439,383 million, resulting in a difference of Rs.11,052 million when compared with the total value of grants presented in the financial statements of the Provincial Councils.</p> | <p>When providing grants to the Provincial Councils, allocation for 2024 had been made taking into account the recommendations submitted by the Finance Commission in terms of Article 154 'r' of the Constitution, as well as the limits of the available financial space.</p> | <p>A systematic review should be conducted regarding the overall cost to the Government when funds are provided as government grants to the Provincial Councils.</p> |
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