

Financial Statement of the Government-2019

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statement of the Government for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 summary of significant accounting policies was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions in the National Audit Act, No. 19 of 2018. The summary report containing my comments and observations on these financial statements was issued to the Chief Accounting Officers on 30 May 2020 in terms of Section 15 of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report was issued to the Chief Accounting Officer on 12 November 2020 in terms of Section 11 (2) of the National Audit Act. This report 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 is presented to Parliament.

In my opinion, except for the effects of the matters described in Paragraph 1.6 in this report, the accompanying financial statements of the Government prepared in accordance with the provisions in the State Accounts Circular No.271/2015 dated 03 December 2019 give a true and fair view of the financial position of the Government as at 31 December 2019 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

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

1.3 Chief Accounting Officer's Responsibility for the Financial Statement

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 provisions in Section 38 of the National Audit Act, No. 19 of 2018 for such internal control as management 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 Ministry of Finance is required to maintain proper books and records of all income, expenditure, assets and liabilities of the Government, to enable annual and periodic financial statements to be prepared.

In terms of Sub-section 38(1) (c) of the National Audit Act, the Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists 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 Responsibilities for the Audit of the Financial Statements

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

individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

1.5. Report on Other Legal Requirements

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

- (a) Financial statements presented are consistent with that of the preceding year.
- (b) The audit issues included in this report under paragraphs 1.6.2.1(a) (i),(ii) and (iv), 1.6.2.1(c)(d),1.6.2.2, 1.6.2.3(a), 1.6.2.4(b), 1.6.2.6, 1.6.2.7(a)(b) and 1.6.2.8(a) (b)(c) those were highlighted in my report on the financial statements of the Government in the preceding year had not been adjusted or complied with.

1.6 Comments on Financial Statements

1.6.1 Preparation of Financial Statements

According to the Accounts Format introduced, the preparation of financial statements had been commenced since the year 2005 and according to Budget Proposal 254 of the year 2018, it had been decided to convert the method of Modified Cash Basis which is still used for the preparation of financial statements into the Accrual Basis within 10 years. However, two bases such as Cash Basis for Revenue and Expenses and Modified Cash Basis for Assets and Liabilities had been used in the preparation of financial statements of the year 2019.

1.6.2 Accounting Deficiencies

1.6.2.1 Public Debts

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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<p>(a) According to the financial statements presented to Audit, the public debt balance payable by the Government as at 31 December 2019 amounted to Rs. 12,187,858 million, whereas according to the matters observed at the audit test check, the aforesaid balance of debts had been understated by Rs.701,152 million in the accounts. Details appear below.</p>		

- (i) The Accounting Policy Process of accounting As provision of Rs.318 related to the Treasury for as per the relevant billion has to be allocated Bonds included in the new policy should be for this accounting process, financial statements of the updated. steps have been taken to Government had been corrected with effect from adjust the minimum value of the Bonds issued before the year 2016 and accordingly, in the issuance of Treasury Bonds, instead of their net value, accounting for at their face value had been initiated. Nevertheless, it was observed that the total liability relating to Treasury Bonds amounting to Rs.318,246 million had been understated in the financial statements by 31 December 2019 due to failure in further adjusting the face value of the Treasury Bonds issued before the year 2016 to the accounts.
- (ii) Out of the borrowings made Accounting for the Up to the year 2017, the by the Government for the public debts should be Sri Lanka Ports Authority construction of Hambantota formalized. paid the loan obtained for Port, a sum of Rs.172,717 million represents the balance payable as at 31 December 2019. The approval of the Cabinet of

Ministers for the Cabinet Memorandum No. MPS/SEC/2017/32 dated 20 July 2017 named “Hambantota Port Relief Agreement” presented by the Ministry of Port and Naval Affairs in this connection, had been granted on 04 August 2017. Accordingly, the General Treasury had undertaken the responsibility for the settlement of remaining balance of the debts made by the Sri Lanka Government for the construction of Hambantota Port so as to be effective from the date of enforcement of the said Relief Agreement, whereas that debt balance had not been included in the financial statements of the Government. Moreover, the above balance had also been eliminated from the financial statements of the Sri Lanka Ports Authority as at 31 December 2019.

Hambantota Port is an asset of the Ports Authority. Therefore, the Public Enterprises Department and the Secretary to the Treasury informed the Sri Lanka Ports Authority that the relevant loan amount should also be included in the books of the Ports Authority.

(iii) The foreign loan of Rs.8,159 million received during the year 2019 under the Phase II of the Hambanthota Port Development Project, had not been included either in the financial statements of the Government or in the financial statements of the Sri Lanka Ports Authority.

Accounting for the public debts should be formalized.

The foreign loan of Rs.8,158,687,137 received during the year 2019 under the Phase II of the Hambanthota Port Development Project is not a loan obtained under the Appropriation Act and as such, that loan is not required to be included in the books of the Sri Lanka Ports Authority.

(iv) Sums of Rs.176,844 million and Rs.33,345 million relating to 129 and 19 foreign loan agreements realized respectively during the year 2019 and during the year 2018 or previously had totalled Rs.210,189 million and it had not been accounted for as foreign borrowings even by 31 December 2019.

Domestic and foreign loans should be properly brought to account.

The relevant Ministries and Departments lacked adequate provisions to account for Rs.33,345 million realized within or prior to the year 2018 and Rs.64,557 million realized in the year 2019. Out of the amount realized in the year 2019, a sum of Rs.24,690 million had been accounted for as at 28.02.2020.

(b) According to the statement of financial performance of the financial statements of the Government, repayment of foreign borrowings stood at Rs.572,338 million during the year 2019, whereas value of the repayment of

Values included in the financial statements and the relevant Notes should be correct.

That difference is the repayments made to the loan granting agencies relating to the loan balances specified under the following Loan Numbers that had been

foreign borrowings in the year 2019 had been stated to be Rs.565,820 million in the Note 29 (Statement of Foreign Loan Balances) of the financial statements, thus observing a difference of Rs.6,518 million relating to the repayment of foreign borrowings between the financial statements and the Notes relevant thereto.

brought to account under the Sri Lanka Ports Authority.

Loan No.	Amount (Rs. Millions)
2007044	4,988.86
2013014	1,529.08
Total	6,517.94

- (c) According to the financial statements of the Government, the total debt balance of the Government amounted to Rs. 12,187,858 million as at 31 December 2019. However, the debt balance of the Government was Rs. 13,301,411 million as at that date in accordance with the information of the Central Bank of Sri Lanka, thus observing a difference of Rs. 843,553 million between the public debt balances according to the financial statements of the Government and the information maintained by the Central Bank of Sri Lanka.
- Action should be taken to adjust or reconcile each other the values regarding the public debts indicated in all the reports.
- Since the relevant two pieces of information are obtained using different principles to meet two different management requirements and legal requirements, there are differences of the information included in those statements and the way of presenting such information.
- (d) When comparing the Report 854-1 of the Department of External Resources and the Note 29 - the
- Action should be taken to adjust or reconcile each other the values
- The following reasons had attributed to understate the foreign loans in the

Statement of Foreign Loan regarding the public financial statements.

Balances of the financial debts indicated in all statements of the Government, the reports. sums of Rs.341 million and Rs.2,049 million had been understated and overstated respectively in the financial statements relating to 04 and 05 foreign loan agreements as at 31 December 2019. Moreover, a difference of Rs.01 million was observed relating to 02 foreign loan agreements.

- i. Although money had been paid during the year, it had not been reported to the Department of External Resources.
- ii. Using two values for a single US\$ in converting foreign circulating currency in to Sri Lankan Rupees.
- iii. Non-inclusion of a repayment made in the year 2020 to the donor in the report, 2019.

1.6.2.2 On-lending

Audit Observation -----	Recommendation -----	Comments of the Chief Accounting Officer -----						
According to the financial statements presented to Audit, the on-lending granted as at 31 December 2019 totalled Rs. 177,149 million. However, it was observed as per the audit test check carried out that when comparing the amounts included in the direct balance confirmations and the financial statements pertaining to the On-	Correct and updated records and books should be maintained.	The reasons for the differences relating to 05 accounts highlighted as favourable balances between Treasury books and balance confirmations in the audit query are as follows.						
		<table border="0"> <thead> <tr> <th style="text-align: left;">Institute</th> <th style="text-align: left;">Difference Rs.</th> <th style="text-align: left;">Reason for Difference</th> </tr> </thead> <tbody> <tr> <td>NLDB Importation of Dairy Animal</td> <td style="text-align: right;">1,759,303,217</td> <td>The balance indicated in the balance confirmation letter dated 11.03.2020</td> </tr> </tbody> </table>	Institute	Difference Rs.	Reason for Difference	NLDB Importation of Dairy Animal	1,759,303,217	The balance indicated in the balance confirmation letter dated 11.03.2020
Institute	Difference Rs.	Reason for Difference						
NLDB Importation of Dairy Animal	1,759,303,217	The balance indicated in the balance confirmation letter dated 11.03.2020						

lending as at 31 December 2019, a favourable balance of Rs.1,853 million was observed between the financial statements and balance confirmations in relation to 05 On-lending agreements whilst an unfavorable balance of Rs.27 million was observed relating to 02 On-lending agreements.

		submitted by the NLDB reconciles with the balance as per the Treasury books.
RDB SLP 81 SMILE III RF	9,000,000	The amount released for the project on 31.12.2019 had not been released to the Bank for granting loans during the year 2019.
HDFC/NHDA	3,410,430	The reasons behind the difference have been identified and action will be taken to make relevant corrections in the year 2020.
Jalthara Housing Loan NDB SLP 81 SMILE III RF	28,400,000	The amount released for the project on 31.12.2019 had not been released to the Bank for granting loans during the year 2019.
DFCC SLP 81 SMILE III RF	1,106,160	The amount released for the project on 31.12.2019 had not been released to the Bank for granting loans during the year 2019.

1.6.2.3 Capital Contribution of the Enterprises Owned by the Government

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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<p>(a) According to the financial statements presented to Audit, the capital contribution made in the Government-owned enterprises amounted to Rs. 611,961 million as at 31 December 2019. However, it was observed as per the audit test check carried out that the value of contribution relating to 05 institutions had been overstated by Rs.1,433.5 million in the financial statements whilst being understated by a sum of Rs. 25,857.5 million relating to another two institutions. Details are given below.</p>	<p>Correct and updated records and books should be maintained.</p>	<p>The Institute has identified the value of the grant made by the United Nations Development Programme (UNDP) as a capital contribution made by the UNDP in the financial statements.</p>
<p>(i) Although the General Treasury had made capital contribution of Rs.10,014,284 for the Export Development Board, it was Rs.7,904,002 as per the balance confirmations and the capital contribution of the UNDP was Rs.2,110,282. As such, the Government capital contribution had been overstated by Rs.2,110,282 in the financial statements as at 31 December 2019.</p>		

- (ii) It had been stated that the General Treasury made a capital contribution of Rs.1,016,825,160 to the Sri Jayawardanapura General Hospital. However, it was observed according to the direct balance confirmations that the following parties had made the above contribution.

	Rs.
Grant from Japanese Government	928,851,297
Grant received under Japanese International Co-operation	50,124,930
Donation to purchase a Hemo Dialysis Machine	799,233
Cars & Equipment donated by Kajima Corporation of Japan	260,000
Grants from Olympus Corporation of Japan	79,700
Central Bank Grants for Cardio-Thoracic Unit	30,000,000
Grants from President Fund	6,710,000
	1,016,825,160

- (iii) Although the capital contribution made to the Sri Lanka Export Credit Insurance Board by the General Treasury amounted to Rs.40,000,000, it was Rs.30,000,000 according to the direct balance confirmations. Accordingly, a sum of Rs.10,000,000 had been overstated in the financial statements.

- (iv) Although capital contribution made to the National Water Supply and Drainage Board by the General Treasury amounted to Rs.59,348,887,214, it was Rs.85,106,439,687 according to the balance confirmations. Accordingly, the Government capital contribution of Rs.25,757,552,473 had been understated.
- Correct and updated records and books should be maintained.
- Repayment of the loans granted by the General Treasury for the water and waste water projects and the interest has been identified by the Institute as the capital contribution made by the Treasury without recommendation of the Treasury and it resulted in the above situation.
- (v) According to the Treasury books, the capital contribution made to the National Film Corporation by the General Treasury amounted to Rs.10,000,000, whereas it had been stated according to the direct balance confirmation that a capital contribution had not so been made. Accordingly, it was observed that a sum of Rs.10,000,000 had been overstated in the financial statements.
- Correct and updated records and books should be maintained.
- The Sri Lanka Government's capital contribution made to the National Film Corporation amounted to Rs.10 million and it was taken down to obtain a correct balance confirmation letter from the Corporation.
- (vi) Urban Development Authority
- * According to the financial statements of the Urban Development Authority, the Government capital contribution stood at Rs.10,000,000.
- Correct and updated records and books should be maintained.
- The amount of Rs.1,257,651,060 granted to the Urban Development Authority for the implementation of development projects has

Nevertheless, such balance was not shown in the financial statements of the Government.

* Although a grant of Rs.1,257,651,060 made to the Authority by the Government had been stated in the financial statements of the Government under the capital contribution, as per the financial statements of the Urban Development Authority, that grant was a balance that had been annually writing off from the books. Accordingly, the balance as at 31 December 2019 was Rs.922,649,889, whereas it was Rs.863,079,889 as per the balance confirmation provided by the Authority.

been recorded as a capital contribution made to the Authority by the General Treasury. However, enquiry has been made from the Urban Development Authority as to whether approval has been granted for writing off and reply has yet to be received.

- (b) Even though the capital contribution made in the Government-owned enterprises during the year 2019 stood at Rs.29,145 million as per the financial statements of the Government, the value brought to accounts under the Object No. 2301 "Capital Contribution" during the year 2019 amounted to Rs.24,910 million. Accordingly, a difference of Rs.4,235 million was observed between the value specified in the financial Capital contribution of the Government-owned enterprises should be accounted for properly. Only the contributions made to the public enterprises by the Government under the budgetary provision are brought to account under Object No.2301. Nevertheless, other than the National Water Supply and Drainage Board, the other differences pointed

statements and the value brought to accounts under the Object No.2301.

out are the other adjustments and corrections made in the financial statements of the Government. Those adjustments are not recorded under the Object No.2301.

- (c) Although the shares, the Government capital contributions thereof at Rs.10 of a Plantation company had appreciated by 1,900,276 during the year under review, any appreciation in its capital value had not taken place as at 31 December 2019. Similarly, a difference of Rs.3 million was observed between the direct balance confirmations and the Treasury reports.
- The Government direct capital contribution should be correctly stated in the financial statements.
- It was taken down to properly adjust the differences to be made in the capital value in relation to the appreciation of shares up to 5,700,834 during the year under review.
- In the confirmation of balances, relevant value is presented on the market value and as such, there may be differences between the relevant two balances.

1.6.2.4 Liabilities

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(a) Since the liabilities of Rs.164,567.21 million stated in the Schedule III of the financial statements were applicable to the	Financial statements should be properly submitted in an updated manner by including all	Under the F.R.95 and 115, the payments for the liabilities incurred within the limit of annual

works, goods and services necessary information. procured during the year 2019, it should have been brought to accounts in the financial statements. As it had not been so done, the expenditure incurred on the works, goods and services actually procured during the year 2019 had not been included in the financial statements of the Government.

provision allocated by the Appropriation Act shall be, as far as possible, settled within the same year. As the financial statements of the Government are prepared on the improved cash basis at present, only the liabilities incurred for the acquisition of financial and non-financial assets on the agreements entered into for the settlement of loans over a long period are included as the liabilities in the financial statements.

However, due to not releasing imprests in commensurate with the annual allocations made by the Appropriation Act, the liabilities unsettled during the year cannot be disclosed in the statement of financial position and details on those liabilities are presented as Notes to the accounts.

- (b) According to a budget proposal, Financial statements 2015, interest at the rate of 15 per cent is paid for the fixed deposits with a balance of Rs.1.5 million or should be properly submitted in an updated manner by including all Due to non-receipt of adequate budgetary provisions since year 2015 to the programme for the

less than that maintained by the senior citizens in a licensed commercial bank or licensed special banks. Therein, an agreement had been reached to reimburse the money applicable to the difference between the normal interest rate and the 15 per cent interest rate to the relevant bank by the General Treasury. Accordingly, the total value to be reimbursed as the above additional interest to 07 State banks and 22 private banks as at 31 December 2019 totalled Rs.50,038 million and that amount had not been identified as a liability in the financial statements of the Government.

necessary information.

payment of interests relief for the fixed deposits of the senior citizens, non-receipt of imprests and carrying out budgetary management by re-taking over of the provisions, the value of total interest relief amounting to Rs.45,845,944,814.42 as at 31.12.2019 could not be settled.

- (c) Although sums totalling Rs.19,353 million receivable from the General Treasury to settle the loan installments and interests for the loans obtained by the Road Development Authority from the local banks on behalf of the Sri Lanka Government for the expansion and development of highways and construction of express ways had been stated in the financial statements of the Road Development Authority for the year ended 31 December 2019,

Financial statements should be properly submitted in an updated manner by including all necessary information.

In the events of lack of loan servicing capacity with the Road Development Authority, although the Treasury provided funds for the Road Development Authority as a capital contribution to cover the shortfall of the payment of loan, the Treasury does not pay the loans directly obtained by the Road Development Authority.

such payable amount had not been included in the financial statements of the Government.

However, details on the Treasury guarantees issued to the local banks on behalf of the Road Development Authority have been stated under the contingent liabilities in the financial statements of the Government.

(d) A total sum of Rs.5,150 million receivable from the General Treasury for the payment of loan installments and interests on foreign borrowings made by the Sri Lanka Ports Authority for the construction of Hambantota Port on behalf of the Sri Lanka Government, had been shown in financial statements of the Sri Lanka Ports Authority for the year ended 31 December 2019. Nevertheless, such an amount payable had not been included in the financial statements of the Government.

The Treasury provide funds under the capital provisions for the foreign borrowings and interests to be annually settled by the Sri Lanka Ports Authority relating to the construction of Hambantota Port and only the funds thus provided are recorded in the Treasury books. The amount of funds due to be provided for the Sri Lanka Ports Authority in the future will not be recognized as a liability of the Treasury.

1.6.2.5 Net Investments of the Government and Loan Refinancing

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
As per the information of the Central Bank of Sri Lanka, the Audit was informed that the account balances	Financial statements should be properly submitted in an updated	Only 02 loan schemes had been included in the financial statements of the

totalling Rs. 13,426 million relating to 12 loan schemes maintained by the Department of Regional Development of the Central Bank of Sri Lanka had not belonged to the Central Bank of Sri Lanka, but those balances were investments of the Government and refinancing loans. Nevertheless, the said loan balances were not included in the financial statements of the Government.

manner by including all necessary information.

Government and the entire loan has been settled at present and therefore, it is not included in the financial statements of the Government for the year 2019. It is informed that the matters on the account balances pertaining to the other loan schemes will be discussed with the officials of the Central Bank of Sri Lanka and if there are accounts balances absolutely to be taken to the State Accounts, action will be taken to include them in the accounts appropriately on reaching an agreement in that regard.

1.6.2.6 Unsettled Balances

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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<p>The debit balances totalling Rs. 1,146 million with respect to 08 accounts shown in the financial statements of the Government for the year 2019 as being dormant over an extensive period, had continuously been included in the statement of financial position without being settled.</p>	<p>Clear and updated values should be included in the financial statements.</p>	<p>A committee headed by the Additional Director General of the Department of Treasury Operations has been appointed and action will be taken in accordance with the recommendations of that committee once such recommendations are received.</p>

1.6.2.7 Foreign Grants

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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<p>(a) As per the State Accounts Circular, No. 30/94, dated 20 April 1994 relating to the accounting of foreign grants, all the transactions relating to the foreign grants should be performed by the Director General of the External Resources Department of the Treasury. However, according to the information collected through a test check, 24 institutions had directly obtained foreign grants totalling Rs. 2,026 million during the years 2018 and 2019 on 77 projects without the knowledge of the Treasury. Information relating to those grants had not been included in the reports of the Treasury. It was observed that the Treasury did not possess a methodology to ascertain as to whether the other Ministries / Departments had also received such grants.</p>	<p>Foreign grants should be properly obtained and accounted for in accordance with the circular provisions.</p>	<p>Action will be taken to issue instructions to the Secretaries to the Ministries to take measures regarding the Government institutions that directly obtain foreign grants irrespective of the Paragraph 2.0 as amended by the State Accounts Circular No.30/94 and provisions of Chapter XI of the Financial Regulations.</p>
<p>(b) Even though budgetary provision totalling Rs. 13,341 million had been allocated under each item of</p>	<p>Foreign grants should be properly obtained and accounted for in</p>	<p>In order to prevent/ minimize this situation, action will be taken to</p>

expenditure to execute the relevant activities from the funds received as foreign grants by miscellaneous Ministries and Departments, only a sum of Rs. 7,259 million had been utilized on the relevant activity during the year representing 54.41 per cent of the total provision.

accordance with the circular provisions.

include a clause in the instructions specified in (a) above to be given to the Secretaries to the Ministries that the acceptable explanations should be made regarding the underutilization of budgetary provisions made on the foreign grants except for the instances beyond control.

1.6.2.8 Non-financial Assets

The value of non-financial assets totaled Rs. 1,355,270 million as at 31 December 2019 as per the financial statements of the Government. The following matters were observed comparing the balance of non-financial assets as at 31 December 2019 shown in the ACA-6 Format - the statement of non-financial assets, presented with the annual financial statements, 2019 of 80 institutions selected on sample basis from the institutions shown in Note 16 to the financial statements relating to the said amount.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(a) As compared with the “statement of non-financial assets” included in the ACA-6 Format of the annual financial statements-2019 of 09 institutions selected on sample basis, there existed non-financial assets totalling Rs. 3,630 million that had not been accounted for in the financial statements of the Government.	Non-financial assets should be properly brought to accounts.	

- (b) Accordingly, the balance of non-financial assets pertaining to 10 institutions selected on sample basis, totaled Rs. 85,818 million. However, that balance amounted only to Rs. 50,868 million in the ACA-6 Format of the financial statements of those institutions; as such, the value of non-financial assets had been overstated by Rs. 34,950 million in the financial statements of the Government as at 31 December 2019.
- Non-financial assets should be properly brought to accounts. The value of non-financial assets incorporated in the final financial statements of the Republic includes only the value recorded to the database of the States Accounts Department by each expenditure unit by reconciling the balance non-financial assets control account of the relevant institution with the individual accounts balances. However, there may be assets which are further remained unreconciled with the control account balance and a period of 05 years has been given to report such unreconciled balances and the balances that have yet to be reported.
- (c) The Non-financial Assets Understated in the Financial Statements of the Government as Compared with the Financial Statements of the Relevant Institutions. Non-financial assets should be accounted for properly.

The balance of non-financial assets pertaining to 25 institutions selected on sample basis, totaled

Rs. 217,882 million. However, that balance amounted only to Rs. 366,981 million in the ACA-6 Format of the financial statements of those institutions; as such, the value of non-financial assets had been understated by Rs. 149,099 million in the financial statements of the Government as at 31 December 2019.

2. Financial Review

2.1 Non-compliances with Laws, Rules, and Regulations, etc.

The following non-compliances with Laws, Rules, and Regulations, etc. were observed in the examination conducted on the financial statements of the Government for the year ended as at 31 December 2019.

Audit Observation -----	Non-compliance -----	Recommendation -----	Comments of the Chief Accounting Officer -----
Reference to laws, rules and regulations			
(a) Appropriation Act, No. 6 of 2019 dated 05 April 2019.			
(i) Section 2 (1) (b)	From borrowing made in the financial year 2019, the balance outstanding of such borrowing at any given time during the financial year 2019 or at the end of the financial year 2019 shall not exceed Rs. 2,079 billion. However, According to the information made available to the Audit, the value of the borrowings made in accordance	Debt should be managed within the approved debt ceiling in terms of the provisions of the Appropriation Act.	Due to non-receipt of expected revenue in 2019 owing to economic drawback in the country, making payments in the year 2019 for unpaid bills pertaining to the work and services performed in 2018 and failure to manage the expenditure

with the provisions of the Act totaled Rs. 2,158 billion as at the end of the year under review, thus exceeding the aforesaid debt ceiling by Rs. 79 billion.

authorized by the Supplementary Estimates within the total borrowing limit, a Cabinet Memorandum had been submitted by the Minister of Finance and Economic and Policy Development to increase the approved credit limit by Rs. 200 billion to Rs. 2279 billion to cover the excess borrowing limit and the relevant Cabinet approval was received on the 27.11.2019.

(ii)Section 8 (1) (b)

The maximum expenditure (debit) limit authorized by Parliament under Item No.15 for Advance Account Activities under Schedule iii of the Appropriation Act, had been exceeded by Rs.1,277 million and it was observed that the limit of minimum receipts authorized by Parliament under Item No.12 had not reached by Rs.132 million. Further, the maximum debit balance limit authorized by Parliament under Item No.05 had been exceeded by Rs.123 million.

Advance activities should be carried out within the approved limits in terms of provisions of the Act. The matters regarding the excess / fall of the authorized limits pertaining to the advance accounts under Financial Regulation 503(1) have been submitted by the reconciliation statements of the advance accounts of the relevant Ministries / Departments.

Cabinet approval for exceeding and not reaching the limits which are not coming under Financial

Regulations 503(1) has been obtained in accordance with Financial Regulations 503(2) and as the Parliament is not currently in operation, it is looked forward to submit the revision of those limits and seek approval once the new Parliament is elected.

(b) Fiscal Management
(Responsibility) Act, No.3
of 2003

(i) Section 3 (f)

The maximum value of liabilities at the end of a certain year shall not exceed 80 per cent of the estimated Gross Domestic Product of that year. Even though the records of the Ministry of Finance demonstrate that the Ministry had complied with the above limit, when taking into consideration the foreign borrowings not accounted as at 31 December 2019 and the liabilities relevant to various public enterprises which had been brought to account outside the statement of financial position, the relevant limit had been exceeded.

Provisions of the Act should be complied with.

(i) Foreign loans which are accounted for outside the balance sheet

Liabilities amounting to Rs. 345, 453million as at 31December 2019in respect of 08loan agreements entered into by the Government have not been included in the Financial Statements of the Republic. Accordingly, following steps have been taken regarding those 08loan agreements.

(a) The construction of the Puttalam Coal Power Plant is a project implemented under the Ceylon Electricity

Board and the loan repayments and interest payments related to those projects will be considered as the capital contribution made to the Ceylon Electricity Board from the year 2019 and brought to accounts.

(b) The repayment loan pertaining to the Mattala International Airport project is made by the Airport and Aviation Services (Sri Lanka) (Private) Ltd. from the outset.

(c) Although the construction of the Hambantota Port has been awarded by the Sri Lanka Ports Authority under a lease agreement, the asset further remains with the Sri Lanka Ports Authority and the loan obtained for its construction is also the liability of the Authority.

(ii) Understating Treasury bond balance in the accounts

Steps have been taken to adjust the minimum price of Treasury bonds issued before 2016 in

the year of their maturity and to disclose the face value thereof as the Notes in the financial statements up to that time.

(iii) Unaccounted Foreign Loans

Even though adequate provisions had not been made in the Annual Appropriation Act for the year 2019, **disbursements** had taken place in the foreign aid projects implemented in certain Ministries beyond the control of the Treasury and despite the availability of provisions, those had not been presented at the time of closing of accounts in 2019 and further, an opportunity had not been received to obtain approval of Parliament for the Bill planned to be presented for increase in the debt ceiling. As such, some disbursements presented for accounting could not be brought to accounts.

(iv) Loans obtained to make payments for

**the construction of the
Sooriyawewa
International Cricket
Stadium**

Approval has been granted to enter into a loan agreement between the Sri Lanka Ports Authority and the People's Bank and the Ministry of Finance has approved the provision of a suitable consideration for interest and capital payments. Accordingly, the Treasury has released a Letter on Security debt services to the People's Bank on 12.17.2017.

As Rs.858 million worth of Treasury Guarantees and Letters of Comforts stated as non-specific liabilities of the Government is a contingent liability, it cannot be included in the liability limit.

(ii) Section 3 (b)

It has been specified in the Act to ensure that the budget deficit at the end of the year 2006, shall not exceed five per cent of the estimated Gross Domestic Product for the year and further to ensure that such levels be continuously maintained

Provisions of the Act should be complied with.

The statement specified in the Section 3 (b) of the Fiscal Management (Responsibility) Act No.03 of 2003 that the budget deficit shall not exceed five per cent of the estimated Gross

thereafter. Nevertheless, it had been failed to estimate the budget deficit in the year under review in a manner not to exceed five per centum of the estimated Gross Domestic Product and to maintain the actual budget deficit as at the end of the year under review so as not to exceed five per centum of the estimated Gross Domestic Product. Accordingly, those percentages stood at 6.28 per cent and 6.74 per cent in the year under review relating to the estimated budget deficit and the actual budget deficit respectively.

Domestic is correct. Herein, the term budget deficit means the budget deficit prepared as per the economic classification.

According to the Act, if it is found difficult to reach the above limits specified in the Act, explanations thereon should be made and Parliament should be educated on the future arrangements.

Accordingly, I would like to inform that the relevant explanations have been made Public Finance Management Report presented in accordance with the relevant Act.

(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

The imprest balances of Ministries and the Departments should be settled before 31 December each year. Nevertheless, imprest balances totalling Rs.2,606 million of 35 Ministries and Departments had not so been settled and it included accounts balances totalling Rs.324 million continued to exist over a number of years.

Action should be taken in accordance with the Financial Regulations.

Respective Ministries and the Departments have been informed to reconcile and settle the imprest balances which are further remained unsettled by 31.12.2019.

(d) State Accounts Circular No. 255/2017 of 27 April 2017

(i) Section 2(a)

Even though provisions had not been made for 64 Objects

Actions should be taken in accordance with the

State Accounts Circular No. 255/2017

related to 19 Expenditure circular provisions and specifically instructs Heads for the year 2019, accounting for of the that the liabilities liabilities totalling Rs.2.178 million were incurred under streamlined. should be incurred those Objects for the year 2019. should be within the provision limit allocated by the annual Appropriation Act or by additional provisions.

Accordingly, it is more suitable to call for explanations form those institution in respect of incurring liabilities in excess of those limits.

(ii) Section 2(d)

According to the Circular, even though it has been advised that any liability cannot be carried forward to the next year, the provision, totalling Rs. 17,783 million, the saving after utilizing the net provision made under 722 Objects of 177 Expenditure Heads, had been exceeded by Rs. 81,977 million in incurring liabilities amounting to Rs. 99,760 million.

Actions should be taken in accordance with the circular provisions and accounting for of the liabilities should be streamlined.

State Accounts Circular No. 255/2017 specifically instructs that the liabilities should be incurred within the provision limit allocated by the annual Appropriation Act or by additional provisions.

Accordingly, it is more suitable to call for explanations form those institution in respect of incurring liabilities in excess of those limits.

(e) State Accounts Circular No. 243/2015 of 24 June 2015

The deposit accounts of the 6003 series were expected to be annulled and it was advised to carry out the functions through the annual estimate from the year 2016 onwards. However, the balance totalling Rs. 10.111 million of 3 deposit accounts

Action should be taken in accordance with the circular provisions.

Action will be taken to write off debit balance of Rs.10 million of these balances belonging to the Colombo District Secretariat by submitting it to the

under number 6003 had been carried forward without settling.

Department of Public Finance and the balance of Rs.108,029.77 pertaining to the Ratnapura District Secretariat will be corrected by forwarding an application for making recovery from the revenue to the Department of Treasury Operations.

2.2 Management Inefficiencies

2.2.1 Recovery of On-lending

The following observations are made

Audit Observation

Recommendation

Comments of the Chief Accounting Officer

According to the financial statements of the Government, the balance of on-lending granted as at 31 December 2019 amounted to Rs.177,149,514,240. The following matters were observed in this connection.

- | | | |
|---|---|--|
| <p>(a) It was observed that the recovery of arrears due from institutions for on-lending installments and interests was not at a satisfactory level even at the end of the year under review. Accordingly, arrears totaling</p> | <p>Action should be taken to recover the outstanding loan balances through formal procedures.</p> | <p>The Treasury has taken all possible measures to settle this debt balances. Accordingly, the loan amounting to Rs. 50,000,000.00 granted to the defunct National</p> |
|---|---|--|

Rs. 12,182,138,085 comprising Rs. 10,047,406,029 to be collected in installments and Rs. 2,134,732,056 to be collected as interests had not been recovered. Details appear below.

Paper Company Limited and Rs. 8,676,923.00 given to the Sri Lanka Ceramics Corporation has already been written off with the approval of the Cabinet of Ministers. Action has been taken to recover Rs. 275,578,710.85 due for a long period from the loan given to the Urban Development Authority and arrears of interest amounting to Rs. 564,199,380.61 in the year 2019.

- | | | | |
|------|--|--|--|
| (i) | Sums totaling Rs.1,386,233,552 comprising Rs.550,990,000 and Rs.222,350,000 granted to the Sri Lanka Rubber Production and Export Corporation in the year 1999 and 2000 and the due interests of Rs.612,893,552 had not been recovered even by the end of the year under review. | Action should be taken to recover the outstanding loan balances through formal procedures. | In terms of the decision given by the Cabinet of Ministers on 09.04.2019 after considering the recommendations of the Ministry of Finance, it has been informed on 07.10.2019 that the entire proceeds from the lease of existing buildings and the sale of machinery should be remitted to the Treasury and the Ministry of Plantation Industries has informed that further activities are in progress accordingly. |
| (ii) | Sums totalling Rs.20,117,207 comprising on-lending of Rs.11,114,479 granted to the | Action should be taken to recover the outstanding loan | In order to take legal action to recover the on-lending given to Sanasa |

Badulla Sanasa Society in the year 1992 and the interest thereon of Rs.9,002,728 at the annual interest rate of 3 per cent had not been recovered even by the end of the year under review. It was further observed that the said should have been settled by 2006 as per the on-lending agreement.

- balances through formal procedures. Development Association and Sarvodaya Economic Enterprise Development (Guarantee) Limited, the facts have been forwarded to the Legal Affairs Department to send a Letter of Demand through the Attorney General.
- (iii) Sums totalling Rs.116,820,000 comprising loan installments of Rs.111,600,000 out of on-lending of Rs.116,000,000 granted to the Sri Lanka Fisheries Corporation on 03 occasions and interest of Rs.5,220,000 calculated at an annual rate of 5 per cent on Rs.11,600,000 of the above sum had not been recovered even by the end of the year under review.
- Action should be taken to recover the outstanding loan balances through formal procedures. At a meeting chaired by the Director General of the Treasury Operations Department with the officials of the Corporation, the Fisheries Corporations made a request to write off the relevant loans as they were unable to repay the loans due to the adverse financial position of the Corporation. Accordingly, a Cabinet Memorandum will be prepared and forwarded to the Cabinet to write off the loan and the interest and action will be taken to write off the loans after obtaining the approval of the Cabinet.

- (iv) Even though the on-lending granted to the Sarvodaya Economic Enterprise Development Services (Guarantee) Limited for Renewable Energy for Rural Economic Development Project (RERED) should be settled in full by 31 December 2018, sums totalling Rs.690,369,709 comprising installments of Rs.633,395,760 and interest of Rs.56,973,949 had not been recovered even by 31 December 2019.
- (v) Sums totalling Rs.3,605,661,335 comprising installments of Rs.3,041,432,228 and the interest thereon amounting to Rs.564,229,107 to be recovered by the end of the year under review out of the on-lending granted to the National Livestock Development Board under 06 on-lending agreements had not been recovered.
- Action should be taken to recover the outstanding loan balances through formal procedures.
- Action should be taken to recover the outstanding loan balances through formal procedures.
- In order to take legal action to recover the on-lending given to Sanasa Development Association and Sarvodaya Economic Enterprise Development (Guarantee) Limited, the facts have been forwarded to the Legal Affairs Department to send a Letter of Demand through the Attorney General.
- Since the National Livestock Development Board and Milco Ltd. are unable to settle the arrears of the on-lending given to those institutions, necessary steps are being taken to increase the Government's capital contribution and write off the interest by capitalizing the loans given to those institutions with the consent of those institutions and the Department of Public Enterprises

- (vi) Sums totalling Rs.6,362,936,282 comprising installments of Rs.5,476,523,562 and the due interest of Rs.886,412,720 pertaining to the on-lending granted to the renovation of factories (Part 1) of the Milco Ltd. under phase 1 and phase 2 had not been recovered.
- Action should be taken to recover the outstanding loan balances through formal procedures.
- Steps are being taken to increase the capital contribution of the Government and to waive the interest by capitalizing the loans given to those institutions with the concurrence of those institutions and the Department of Public Enterprises.
- (b) For the Rs. 8,189,000,000 paid to settle the payments of the Golden Key depositors from 2015 with the agreement of settling the relevant money to the Treasury by the Central Bank of Sri Lanka using the proceeds from the sale of the Company's assets, no action had been taken to enter into on-lending agreements or account as on-lending till the end of the year under review and no action had been taken to settle the relevant amount.
- Action should be taken to recover the outstanding loan balances through formal procedures.
- As per the decision of the Cabinet of Ministers dated 22.05.2018 given for the Cabinet Memorandum No.MF/PE/02CM /2018/86 dated 14.05.2018, approval had been granted to convert the money released to the Central Bank into an interest free loan and enter into an on-lending agreement with the Central Bank of Sri Lanka for the same. As such, the Central Bank of Sri Lanka (CBSL) was informed from time to time to complete the signing of the on-lending agreement and send it to the Treasury for accounting. Nevertheless, the Central Bank of Sri

Lanka had informed that it was not possible to reach an on-lending agreement. Accordingly, this amount has not been accounted for in the year 2019 as on-lending as it is not possible to account for the on-lending without entering into an on-lending agreement.

Accordingly, all parties have been informed by the letter dated 11.03.2020 to take necessary steps to keep accounts in accordance with the above approval (Annexure 03). Accordingly, it is no longer necessary to enter into on-lending agreements or account for as on-lending.

- (c) According to the Final Account Summary of the Treasury for the year 2019, an expenditure of Rs. 12,166,171,721 had been incurred under the Object No. 2302 (On-lending), whereas according to the Note No.20 of the Government Financial Statement, the value of the on-lending accounted for was
- Action should be taken to recover the outstanding loan balances through formal procedures.
- Above reply is applicable.

Rs.11,466,171,721. Accordingly, a difference of Rs.700,000,000 was observed in the cash value given between the final account summaries and the financial statements.

2.2.2 Contingent Liabilities and Commitments

Audit Observation	Recommendation	Comments of the Chief Accounting Officer																																																																				
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<p>Seven Letters of Comfort worth Rs. 8,476 million and 06 Letters of Comfort worth US \$ 75 million (Rs. 13,622.55 million) issued by the General Treasury to 02 Commercial Banks and one Institution had expired as at 31 December 2019. Details appear below.</p> <table border="0"> <thead> <tr> <th style="text-align: left;">Institution</th> <th style="text-align: left;">Date of Expiry</th> <th style="text-align: left;">Outstanding 31.12.2019 USD Mn.</th> <th style="text-align: left;">Amount Capital Rs.Mn.</th> </tr> </thead> <tbody> <tr> <td>Lanka Sathosa Ltd.</td> <td>31.08.2015</td> <td></td> <td>1,238.80</td> </tr> <tr> <td>Lanka Sathosa Ltd.</td> <td>30.04.2015</td> <td></td> <td></td> </tr> <tr> <td>Lanka Sathosa Ltd.</td> <td>31.07.2015</td> <td></td> <td>6,547.60</td> </tr> <tr> <td>Co-operative Wholesale Establishment</td> <td>11.01.2018</td> <td></td> <td>400.00</td> </tr> <tr> <td>Co-operative Wholesale Establishment</td> <td>22.02.2018</td> <td></td> <td>289.60</td> </tr> <tr> <td>Sri Lanka Air Lines Limited</td> <td>31.12.2019</td> <td>32.50</td> <td></td> </tr> <tr> <td>Sri Lanka Air Lines Limited</td> <td>31.12.2019</td> <td>32.50</td> <td></td> </tr> <tr> <td>Mihin Lanka Ltd.</td> <td></td> <td>2.50</td> <td></td> </tr> <tr> <td>Mihin Lanka Ltd.</td> <td></td> <td>2.50</td> <td></td> </tr> <tr> <td>Mihin Lanka Ltd.</td> <td></td> <td></td> <td>1,650.00</td> </tr> <tr> <td>Mihin Lanka Ltd.</td> <td></td> <td></td> <td>1,650.00</td> </tr> <tr> <td>Mihin Lanka Ltd.</td> <td></td> <td>2.50</td> <td></td> </tr> <tr> <td>Mihin Lanka Ltd.</td> <td></td> <td>2.50</td> <td></td> </tr> <tr> <td></td> <td></td> <td>-----</td> <td>-----</td> </tr> <tr> <td></td> <td></td> <td>75.00</td> <td>8,476.00</td> </tr> <tr> <td></td> <td></td> <td>=====</td> <td>=====</td> </tr> </tbody> </table>	Institution	Date of Expiry	Outstanding 31.12.2019 USD Mn.	Amount Capital Rs.Mn.	Lanka Sathosa Ltd.	31.08.2015		1,238.80	Lanka Sathosa Ltd.	30.04.2015			Lanka Sathosa Ltd.	31.07.2015		6,547.60	Co-operative Wholesale Establishment	11.01.2018		400.00	Co-operative Wholesale Establishment	22.02.2018		289.60	Sri Lanka Air Lines Limited	31.12.2019	32.50		Sri Lanka Air Lines Limited	31.12.2019	32.50		Mihin Lanka Ltd.		2.50		Mihin Lanka Ltd.		2.50		Mihin Lanka Ltd.			1,650.00	Mihin Lanka Ltd.			1,650.00	Mihin Lanka Ltd.		2.50		Mihin Lanka Ltd.		2.50				-----	-----			75.00	8,476.00			=====	=====	<p>Guarantee and Letters of Comfort should be issued under a formal methodology.</p>	<p><u>Expired Treasury Guarantees and Letters of Comfort</u></p> <p>According to the Cabinet Memorandum No. 19/1659/108/147 dated 05.30.2019, the Cabinet of Ministers has granted approval on 25.06.2019 to convert the sums totalling Rs. 9.8 billion payable for loans and interest pertaining to the loans obtained under three Letters of Comfort issued on behalf of Lanka CWE Ltd. to a term loans and pay it to the Bank of Ceylon and the People's Bank by the Treasury at an annual interest rate of 11% and to make the necessary</p>
Institution	Date of Expiry	Outstanding 31.12.2019 USD Mn.	Amount Capital Rs.Mn.																																																																			
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provisions for the same.

The Department of Development Finance and the relevant Ministry in charge of the subject and the CWE have been informed to settle the money related to the stocks of paddy obtained under two Letters of Comforts of Rs. 880 million issued by the Cooperative Wholesale Establishment (CWE) to obtain stocks of paddy from the Paddy Marketing Board. Accordingly, the CWE has stated that the loan will be settled after selling the present stock held by the Establishment and after receiving the dues from the Lanka CWE. Its unsettled balance has now been reduced to Rs. 689.6 million.

The validity period of the two Letters of Comfort worth Rs. 32.5 million each issued to Bank of Ceylon and People's Bank on behalf of Sri Lankan Airlines has been extended up to 31.12.2020.

The Department of Public Enterprises has been informed to extend the validity period of the Letter of Comfort issued to Bank of Ceylon and People's Bank on behalf of Mihin Lanka Ltd and the necessary arrangements thereon are currently being made.

2.2.3 Advances to Public Officers' B Account

Audit Observation -----	Recommendation -----	Comments of the Chief Accounting Officer -----
As revealed at the audit test check, the total outstanding balances held in advance B accounts belonging to 70 institutions over a number of years relating to the retired, deceased, interdicted and the service vacated employees amounted to Rs.602,462,162.	Recovery of arrears should be streamlined.	After analyzing the advance B accounts, 10 top level institutions have been selected as the first category and 7 of them have been convened and necessary instructions have been given by conducting meetings. The remaining 3 institutions will be called for in the future.