Financial Statement of the Government - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statement of the Government for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, and cash flow statement for the year then ended was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions in Section 15 of the National Audit Act, No. 19 of 2018.The report including my comments and observations on these financial statements was issued to the Chief Accounting Officer on 30 May 2020 in terms of Section 15 of the National Audit Act. This report will be tabled in Parliament in pursuane of provisions in Artice 154(6) of the constitutions of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the Natinal Audit Act, No.19 of 2018.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Government as at 31 December 2020 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for 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 Emphasizing of Matters

Attention is drawn towards Note 11(a) to the financial statement – Foreign Borrowings – 2020 and it had been indicated that foreign debts totalling Rs. 209.98 billion obtained in the year 2019 or preceding years but not accounted, have been brought to account during the year 2020 by approving provision through Parliament.

In terms of Section 2 (1) (b) of the Appropriation Act, No. 6 of 2020, the balance outstanding of borrowing made in the financial year 2020, shall not exceed Rs.2,830 billion at any given time during the financial year 2020 or at the end of the year. As such, debts amounting to Rs.209.98 billion obtained during these preceding years but brought to account in the year 2020 have not been taken into consideration for computation of the credit limit of the year 2020.

My opinion is not qualified based on this matter.

1.4 Chief Accounting Officer's Responsibility for the Financial Statements

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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.

1.5 Auditor's Responsibility for the Audit of the Financial Statements

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

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

- Appropriate audit procedures were designed and performed identify and assess the risks 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 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.

1.6 Report on Other Legal Requirements

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

(a) Financial statements presented are consistent with that of the preceding year.

(b) Action had not been taken to adjust or comply with audit observations included in paragraphs 1.6.2.1 (a) (i) (ii) (iii) and (b), 1.6.2.3, 1.6.2.4 (b), 1.6.2.6, 1.6.2.7, 1.6.2.8 (c) of this report, which were pointed out by my report presented on the financial statements in the preceding year.

1.6 Comments on Financial Statements

1.6.1 Accounting Policies

Non-compliances with accounting policies are as follows.

Audit Observation		Comment of the Management	Recommendation
(a)	Non-financial assets totalling Rs. 731,732 had been stated in the financial statements of the Government. Provision for depreciation had not been made systematically according to the prudent accounting concept throughout the useful life of those non-financial assets. Accordingly, the carrying amount received after deducting the accumulated depreciation and accumulated impairment losses of those assets, if any, had not been fairly presented.	All the non-financial assets owned by the Government have been identified and those are being accounted for at present. An appropriate depreciation policy is expected to be introduced once the proposed accounting framework and standards are introduced.	Financial statements should be prepared in accordance with the basic accounting concepts.

(b)	Even though Rs. 811,773 million had been stated in the financial statements as investments during the year under review, only Rs. 42,864 million had been stated as non-financial assets in the financial statements. Accordingly, Rs. 768,909 million out of the investment expenditure shown in the financial statements had not been brought to account as non-financial assets. Similarly, as per Note No. 10 in the financial statements, a sum of Rs. 141,843 million had been stated for the acquisition of capital assets, whereas only Rs. 42,864 million had been shown as purchases during the year in Note No.16.	Although the Government investment expenditure includes rehabilitation and improvement of capital assets, capacity development and other capital expenditure, only the expenditure under the acquisition of capital assets is capitalized under the non-financial assets.	Only the expenditure on the purchase of assets should be reported as the capital expenditure.
(c)	Advances of the Central Bank of Sri Lanka not classified as public debt in the statements of financial position in preceding years, had been classified as public debt in the year under review. However, it had been accounted for contrary to the accounting system of receipt of other loans through the Consolidated Fund. As such, the value of the Consolidated Fund had been understated by Rs. 153,079 million.	Not replied.	Disclosures in the financial statements should be made on accurate and regular information.
(d)	The basis of preparing the cash flow included in the financial statements of the Government had not been disclosed and a sum of Rs.12,856 million had been shown under financial activities as changes in other liabilities and deposit accounts without directly indicating as cash inflow and outflow.	It was noted to make relevant structural changes in the future.	Financial statements should be prepared on accurate information.

1.6.2 Accounting Deficiencies

1.6.2.1 Public Debt

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
(a) According to the financial statements presented to Audit, the public debt balance payable by the Government as at 31 December 2020 amounted to Rs. 14,845,571 million, whereas it was observed at the audit test check that the debt amounting to Rs.170,726 million had not been brought to account. Details appear below.		
(i) On the approval of the Cabinet of Ministers dated 04 August 2017 for the Cabinet Memorandum No. MPS/SEC/2017/32 dated 20 July 2017 titled "Hambantota Port Relief Agreement" submitted by the Ministry of Ports and Shipping, the General Treasury had undertaken the responsibility of repaying the outstanding balance of the loans taken by the Government for the construction of the Hambantota Port with effect from the effective date of the said relief agreement. Accordingly, the balance of debt amounting to Rs.164,602 million thus payable as at 31 December 2020 had not been included in the financial statements of the Government. Similarly, the above debt balance had also been eliminated from the	Sri Lanka Ports Authority paid the loan obtained for the construction of Hambantota Port up to 2017 and the General Treasury carries out loan servicing in accordance with the Cabinet Decision dated 04 August 2017. As the Hambantota Port is an asset of the Sri Lanka Ports Authority, the Chairman has been informed to include it in the books of the Authority.	Public debt balance should be correctly brought to account in financial statements of the Government.

	financial statements of the Ports Authority as at 31 December 2020.		
(ii)	According to the statement of financial performance, the foreign debt repayment value in the year 2020 was Rs.504,209 million, whereas the above value had been stated as Rs.489,057 million in the Note 28 to Financial Statements (Foreign Debt Balance Statements). Accordingly, the difference of Rs.15,152 million in the repayment value of that foreign debt, that is, the instalments of loans paid by the Government relating to the construction of the Hambantota port had not been included in Note 28.	Repayment of loan made to the lending agency in 2020 for the loan balance of Rs. 15,152.44 million brought to account under the Sri Lanka Ports Authority has resulted in that difference.	Repayment of public debt should be accurately brought to account in the Financial Statements of the Government.
(iii)	Sums totaling Rs. 6,124 million related to 19 foreign loan agreements realized in the year 2020 and 5 foreign loan agreements realized in the year 2019 or before the year 2019, had not been accounted for as foreign debt even as at 31 December 2020.	Due to the lack of adequate budget provisions in the relevant Ministry in the year 2020 and not certifying the expenditure as at 31 December 2020 by the relevant projects, this loan had not been accounted for.	Local and foreign debts should be brought to account accurately.
(iv)	Differences totalling Rs. 5,736 million were observed between the CS-DRMS 2000 + Report 854 –1 of the Department of External Resources and the financial statements of the Government with respect to 04 foreign loan agreements.	Although the loan amount and interest applicable to 31.10.2019 had been paid on 01.04.2020 due to a delay of the lender of one project, it had been recorded in the CS-DRMS system of the External Resources Department as at the relevant date, thus resulting in the said difference.	All the values included in the reports relevant to the Public debts should be compared and the correct values should be included in the financial statements.

(b)	The total minimum value related to Treasury Bonds as at 31 December 2020 amounting to Rs.291,166 million had been brought to account as at 31 December 2020 without obtaining provision. Even though it had been informed that the aforesaid minimum value would be adjusted to the statement of financial performance during the year of maturity of the relevant Treasury Bonds, it was observed to be inconsistent with the current accounting policy of inclusion of the minimum value of the Treasury Bonds in the statement of financial performance pertaining to the year of their issuance.	As an initial step for settling the minimum price applicable to the Treasury bonds issued before the year 2016, this value was brought to account. As these bonds are due to be matured within the period up to the year 2045, the amount matured each year will be included in the budget estimate.	The accounting process should be updated in keeping with the relevant new policies.
(c)	In the conversion of the foreign debt included in the financial statements of the Government as at 31 December 2020 to the existed Closing Rate as at that date, an exchange loss of Rs. 282,565 million had been incurred. Although the above loss should have been adjusted to the statement of financial performance, that value had been adjusted to the Net Assets Adjustment Account	As accounts are not prepared on an accrual basis, the relevant loss is not adjusted to the statement of financial performance.	Financial statements should be prepared on proper accounting policies.
(d)	Differences of Rs. 212 million were observed between the debt balances shown in foreign currency as at 31 December 2020 in the Notes No. 28 (II) submitted together with the Government Financial Statements for the year under review and the calculations made during the audit. Accordingly, it was observed that due to the errors in the calculation, the foreign exchange variances related to certain foreign debts were erroneous and therefore, the total sum of the foreign exchange variance was incorrect.	Offsetting the differences caused in rounding up to the nearest foreign exchange value against the high realizable loan value of loans, offsetting 50 per cent of the loan installments to be paid in terms of loan agreements and offsetting the loan installments to be paid according to the agreements against the overpaid amount of export security installments have been cited as the reasons for these differences.	Amounts included in the financial statements and the relevant notes should be accurate.

1.6.2.2 On-lending

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
Out of on-lending balances in financial statements of the Government as at 31st December 2020, a sample of selected on-lending balances was examined. Accordingly, on-lending balances included in the financial statements had been overstated and understated by Rs.875 million and Rs.12 million respectively. The foreign exchange variance occurred in making adjustments to the foreign exchange rate had not been included in the statement of financial performance and that value had been adjusted to the Net Assets Adjustment Account.	The above difference has taken place in the conversion of the foreign currency into Sri Lankan Rupees in the project which had indicated an overstatement of Rs. 875.	Financial statements should be prepared on proper accounting policies.

1.6.2.3 Foreign Grants

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
In terms of the State Accounts Circular No. 30/94 dated 20 April 1994 relating to accounting for foreign grants, all transactions related to foreign aid should be carried out by the Director General of the External Resources Department of the General Treasury. Nevertheless, according to the information made available to the Audit in 2020, foreign grants totalling Rs. 1,266 million had been directly received by the other Ministries and Departments without the knowledge of the General Treasury. However, no steps had been taken to include those values in the financial statements by making provisions therefor. Similarly, foreign grants of Rs. 2,026 million directly obtained by 24 institutions for 77 projects without the knowledge of the General Treasury during the years 2018 and 2019 had not been brought to account even as at the end of the year under review.	In terms of State Accounts Circular No.30/94 dated 20 April 1994, all foreign aid should be obtained through the Director General of the External Resources Department.	The process of obtaining and accounting for foreign aid should be streamlined in accordance with the circular provisions.

1.6.2.4 Capital Contribution of the Government Owned Enterprises

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The following observations are made.

Audit Observation	Comment of the Management	Recommendation
(a) Even though capital contribution totalling Rs.783 million comprising Rs.773 million under the Object No. 118-2-3-50-2301/11 of the Ministry of Agriculture and Rs.10 million under the Object No. 421-2-4-12-2301/11 of the State Ministry of Skills Development, Vocational Education, Research and Innovations had been granted to the Paddy Marketing Board and the Nimithi Technology Programme during the year 2020 respectively, it had not been stated in the financial statements of the Government.	As these rights have been granted in accordance with the Cabinet Decision No. අමප / 20/0513/204/042 dated 05 March 2020, it has not been included in Note No. 21 in the Government Financial Statements. Necessary corrections will be made in the year 2021.	Financial statements should be prepared on proper accounting policies.
(b) Although the Government capital contribution made in the Urban Development Authority amounted to Rs.1,358 million, it had been stated as Rs.1,258 million in the financial statements of the Government, thus understating by Rs.100 million.	Although the General Treasury provided the sum of Rs. 1,257 million as a capital contribution to the institution, the Authority has identified and accounted for it as a grant received from the General Treasury. The institution will be informed in this regard.	The accounting of capital contributions is needed to be formalized under the correct guidance and instructions.

1.6.2.5 Liabilities and Contingent Liabilities

Audit Observation	Comment of the Management	Recommendation
(a) Liabilities of Rs. 152,826 million had been stated in Schedule IV of the financial statements. As the above liabilities were applicable to the expenditure on supplies and services procured during the year 2020, true	As government financial statements have been developed and prepared on cash basis at present, financial statements only include long-term loan	Financial statements should be prepared on proper accounting policies.

	and fairness of the financial statements of the Government substantiate, if such liabilities were brought to account as the expenditure for the year 2020. However, due to the failure to account for those liabilities, that requirement was not met.	repayments and liabilities for the acquisition of financial and non-financial assets.	
(b)	Even though the value of liabilities stated in Schedule IV of the financial statements amounted to Rs. 152,826 million, the value of total liabilities as per the statement of liabilities submitted to the Audit amounted to Rs. 181,906 million. Accordingly, liabilities in the IV Schedule of the financial statement had been understated by Rs. 29,080 million.	That difference has occurred as a result of closures, amalgamations and changes of ministries and changes in scope in 2020.	Financial statements should be prepared including accurate information.
(c)	In terms of State Accounts Circular No. 255/2017 dated 27 April 2017, liabilities can be incurred without exceeding the savings after the utilization of provision made. On the contrary, despite not being made provisions for 619 Objects under 49 Heads of Expenditure for the year 2020 by Parliament, liabilities totalling Rs. 29,369 million had been incurred under those Objects.	Instructions have been given in the Public Accounts Circular No. 255/2017 that liabilities should be incurred within the allocation or additional provision limit made under the Annual Appropriation Act.	Institutions should be motivated to act in accordance with the provisions in the circular issued.
(d)	Although the Government had incurred liabilities worth Rs. 44,253 million with 4 institutions, those values had not been disclosed in the financial statements of the Government.	Not replied.	Financial statements should be prepared including accurate information.
(e)	Due to the termination of the loan agreement bearing No. 2019011 of the Light Rail Transit Systems Project on a Government policy decision, the Consultancy Contract Agreement had been terminated and upon such termination of the agreement as at 31 December 2020, the relevant	The committee appointed for this purpose has met twice and the relevant future steps are being taken.	Financial statements should be prepared on the correct guidelines and instructions.

	consultancy firm had made a claim of Rs. 5,896 million for losses and damages. Nevertheless, it had not been disclosed in the financial statements of the Government.		
(f)	Instructions had been issued to the effect that no liability could be carried forward for the succeeding year in terms of the State Accounts Circular No. 255/2017 dated 27 April 2017. As the net provisions made under 86 Objects of 42 Heads of Expenditure had been fully utilized, savings were not reported. In spite of that, liabilities amounting to Rs. 41,601 million had been incurred without having provisions under those Objects.	Instructions have been given in the Public Accounts Circular No. 255/2017 that liabilities should be incurred within the allocation or additional provision limit made under the Annual Appropriation Act.	Institutions should be motivated to act in accordance with the provisions in the circular issued.
(g)	Provision of Rs. 10,262 million had remained after the utilization of net provision made for 676 Objects under 105 Heads of Expenditure. Liabilities worth Rs.80,013 million had been incurred by exceeding that savings by Rs.69,745 million.	-Do-	-Do-

1.6.2.6 Net Investments of the Government and Loan Refinancing

Audit Observation	Comment of the Management	Recommendation
As per the information of the Central Bank of Sri Lanka, the Audit was informed that the account balances totalling Rs.13,209 million of 10 accounts relating to revolving loan schemes maintained by the Department of Regional Development of the Central Bank of Sri Lanka on behalf of the Government had not belonged to the Central Bank of Sri Lanka, but were balances of investments of the Government of Sri Lanka and refinancing loans. Nevertheless, the said account balances were not included in the financial statements of the Government.	It is informed that after discussing with the officials of the Central Bank of Sri Lanka regarding the account balances pertaining to these loan schemes, if there are actual account balances to be taken into government accounts, action will be taken to credit them suitably into accounts after reaching an agreement.	Financial statements should be properly submitted in an updated manner including all necessary information.

1.6.2.7 Dormant Account Balances

Audit Observation	Comment of the Management	Recommendation
It was observed that balances of Rs.7,407 million relating to 10 accounts included in the financial statements of the Government- 2020 remain dormant for a long period.	A committee has been appointed under the chairmanship of the Additional Director General of the Treasury Operations Department to determine whether the principal ledger accounts, which have been dormant for a long time, should be retained in the system before they are written off from the books and action will be taken on receipt of the recommendations of that committee.	Clear and updated values should be included in financial statements.

1.6.2.8 Non-financial Assets

The following differences were observed at the audit test check carried out on the institutions relating to the assessment reports and the value specified in the schedules thereof which had been received by the State Accounts Department and submitted to the audit, and the non-financial assets stated in Note 11 included in the financial statements of the Government.

	Audit Observation	Comment of the Management	Recommendation
(a)	The value of lands included in the financial statements of the Government relating to 51 institutions selected on sample basis had been underestimated and overestimated by Rs.130,886 million and Rs.3,016 million respectively than the value assessed by the Valuation Department.	After the Valuation Department has assessed and reported on a land or building, it is the responsibility of the relevant institute to account for those values through the CIGAS system.	Non-financial assets should be accounted for on correct guidance and instructions.
(b)	The value of buildings included in the financial statements of the Government relating to 73 institutions selected on sample basis had been underestimated and overestimated by Rs. 22,936 million and Rs. 37,362 million respectively than the value estimated by the Valuation Department.	After the Valuation Department has assessed and reported on a land or building, it is the responsibility of the relevant institute to account for those values through the CIGAS system.	Non-financial assets should be accounted for on correct guidance and instructions.

(c)	The value of non-financial assets totalled Rs. 1,776,368 million as at 31 December 2020 as per the financial statements of the Government. As compared with the balance of non-financial assets as at 31 December 2020 shown in the ACA-6 Format - the "Statement of Non-financial Assets", presented with the annual financial statements, 2020 of 102 institutions selected on sample basis from the institutions shown in Note 16 to the financial statements relating to the said amount, 05 and 06 categories of assets had been overstated and understated in accounts by Rs. 15,220 million and Rs. 26,641 million respectively. As such, the balance of non-financial assets in the financial statements of the Government had been understated in accounts by Rs. 11,421 million.	When preparing financial statements, only the account balances which are tallied with the treasury books are included in those financial statements.	Financial statements should be prepared including correct information.

1.6.2.9 Non-reconciled Control Accounts or Reports

The following differences were observed.

Item		Value as per Financial Statements Rs.	Value as per the Report of Central Bank of Sri Lanka Rs.	Difference Rs.	Comment of the Management	Recommendation
(a)	Sri Lanka Central Bank Advances	153,079,071,400	153,061,900,000	17,171,400	Information will be obtained from the Central Bank of Sri Lanka and answers will be submitted later.	Comparisons should be properly made.
(b)	Government deposits maintained in the Central Bank of Sri Lanka	4,059,403,678	1,460,512,000	2,598,891,678	The balances of 05 DST accounts maintained by the Central Bank of Sri Lanka have been confirmed to be correct.	-Do-

1.6.3 Non-compliance with Laws, Rules, Regulations etc.

The following non-compliances with Laws, Rules, and Regulations etc. were observed at the audit test check carried out on the financial statements of the Government for the year ended 31 December 2020.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comment of the Management	Recommendation
(a) Fiscal Management (Responsibility) Act, No.3 of 2003	(i) In terms of Fiscal Management (Responsibility) Act, No.3 of 2003 as amended by the Fiscal Management (Responsibility) (Amendment) Act, No.15 of 2013, 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. However, when taking into consideration the foreign debts not accounted as at 31 December 2020 and the liabilities relevant to various public enterprises which had been brought to account outside the statement of financial position, it was observed that the relevant limit had been 97.7 per cent. Details appear below.	As the state fiscal process and the economy have been severely affected unexpectedly owing to the current outbreak of the Covid 19 epidemic, high expenditure has to be incurred on health and other sectors	Action should be taken in accordance with provisions of the Act.

Liabilities	Value of Liabilities as at 31 December 2020*
Bank Overdraft	464
Public Debt	14,845
Liabilities not accounted in the financial statements :	
- Foreign debts accounted outside the Balance Sheet	323
- Foreign debts not accounted	6
Total Liability	15,638
Estimated Gross Domestic Product	16,003
Total Liability as a percentage of the estimated Gross Domestic Product	**97.7**

*The value of guarantees and letters of comfort

amounting to Rs.1,059 billion granted to the banks in respect of the borrowings made by the public enterprises upon the guarantees of the General Treasury and the values totalling Rs.153 billion included in the statements of liabilities in the annual financial statements of Ministries, Departments and Special Expenditure Units were not included in the above liabilities.		
(ii) It is specified in Paragraph 3 (a) of the Fiscal Management (Responsibility) Act, No.3 of 2003 that the reduction of Government debt to prudent levels, by ensuring that the budget deficit at the end of the year 2006, shall not exceed 5 (five) per cent of the estimated Gross Domestic Product for the year and to ensure that such level be maintained thereafter, is an objective with responsibility that forms the basis to the financial management which is required to be followed by the Government. Nevertheless, it was observed that the Ministry of Finance had failed to maintain the estimated budget deficit of the year under review in a manner not to exceed five per cent of the estimated Gross Domestic Product and to maintain the actual budget deficit as at the end of the year under review in a manner not to exceed five per cent of the estimated Gross Domestic Product respectively. Details appear below.	The estimated budget deficit for the year 2020 is Rs. 1,266 billion, which is about Rs. 16,003 billion, or 7.9 per cent of then estimated Gross Domestic Product. The continued decrease in economic growth since 2015 and the downfall of the economy due to the impact of the Easter attacks in 2019 and the Covid 19 epidemic have had a severe impact on the state fiscal process and the economy, thus resulting in incurring high expenditure on health and other sectors.	Action should be taken in accordance with provisions of the Act.

Basis/Methodology of Computation	**Estimated Gross Domestic Product**	**Budget Deficit**		**Estimated Budget Deficit as a Percentage of the Estimated Gross Domestic Product**	**Actual Budget Deficit as a Percentage of the Estimated Gross Domestic Product**
		Estimated	**Actual**		
	Rs.Billions	Rs.Billions	Rs.Billions		
Accounting	16,003	3,163	2,116	19.76	13.20
Economic	16,003	1,687	1,668	10.54	10.42

(b)	Appropriation Act No. 06 of 2020	With the approval of the Government, the Minister may alter or modify any of the maximum limits set out in the Third Schedule to the Act and any of the minimum limits thereof on or before 31st May 2021, but according to the information submitted to the Audit, no action had been taken to alter /modify those limits of 07 institutions.	Requests for amendments of 06 Heads had not been submitted even by 31 December 2020 and there are non-submitted limits for amendment of 04 Heads.	Action should be taken in accordance with provisions of the Act.
(c)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
i.	F.R. 373	Balances in imprest accounts of the Ministries and Departments should be settled as at 31 December of every year. Nevertheless, balances totalling Rs.118 million in 03 imprest accounts brought forward for a number of years, had not been settled as at 31 December 2020.	The Secretary to the Ministry has stated that the balance of one of these 03 accounts could not be settled due to the severe financial difficulties prevailing in the Fisheries Corporation. It has been informed that further action will be taken by collecting information from foreign missions to settle another balance and letters have been sent to the relevant Ministry advising on how to settle the remaining balance.	Necessary guidelines should be given to act in accordance with Financial Regulations.

ii.	F.R. 518	Necessary action had not been taken in terms of Financial Regulations to wind up net balances totalling Rs.1,353 million in 19 Advance Accounts approved by the Treasury and brought forward for a number of years, in consultation with Ministries and Departments relating to those advance accounts.	The necessary guidelines have been issued by the Financial Regulations and it is informed that the relevant Heads of Expenditure should follow them.	The Department should provide necessary guidance and instructions.
iii.	F.R. 571	Although action should be taken in terms of Financial Regulations in relation to deposits older than 02 years, deposits totalling Rs. 2,804.73 million existed in 125 deposit accounts of 46 institutions selected on sample basis had continued to exsis for more than a period from 02 to 05 years.	According to the annual reconciliation statements and age analysis reports sent to the Department of Public Accounts by the Ministries, Departments and District Secretariats, the relevant institutions have been instructed to make an analysis in accordance with 570 on the balances older than 02 years and to act in accordance with 571 on the deposits which are not compliance with it. Similarly, it has been planned to take follow up measures on balances of more than 02 years based on the annual reconciliation reports on deposit accounts as at 31.12.2020.	The Department should provide necessary guidance and instructions.

2. Financial Review

2.1 Expenditure Management

2.1.1 Non-utilization of provisions made

(i) Saving of Entire Provisions

Net provisions of Rs. 18,730.15 million made by Parliament for 764 Objects under 146 Heads of Expenditure had been totally saved without being used for any purpose.

(ii) Saving more than 25 percent of the provision

Out of the net provision made for 2342 Objects of 199 Heads of Expenditure, capital provisions of Rs. 122,523.71 million ranging from 25 per cent to 99 per cent of the provision made had been saved due to not utilizing for the intended purposes.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) As at 31 December 2020, the Fuel Price Stabilization Fund had to pay Rs. 26,673.20 million to the Department of Treasury Operations. The face value of Treasury bills relevant to that amount was Rs. 29,200.75 million.Accordingly, this difference of Rs. 2,527.55 million which was the discounted value of the relevant Treasury Bills had become a cost burden to the Consolidated Fund in relation to this process.	Once the Cabinet decisions are taken, the relevant responsibilities will be the responsibility of the Treasury in the future and then action will be taken to settle 100 per cent of the relevant responsibilities.	Action should be taken in a manner that is not a cost burden to the Consolidated Fund.
(b) In terms of National Budget Circular No. 2/2014 of 23 July 2014, the registered ownership of motor cycles provided to Field Officers is transferred to their personal names after a period of 5 years and provisions had been made relating to sale or alienation of the said motor	Further action will be taken in consultation with the Department of National Budget.	Circular instructions should be followed.

	cycles during the said period. Nevertheless, action had not been taken to transfer the legal ownership of the said motorcycles worth 17,410 million to the names of those officers although the period of 05 years was due to be expired by the year 2020.		
(c)	Although the period of lease of vehicles valued totalling of Rs.3,099 million purchased on financial lease for other Government institutions in terms of National Budget Circular No.150 dated 07 December 2010 had expired, necessary arrangements had not been made to transfer them to the relevant institutions.	Further action will be taken in consultation with the Department of National Budget.	-Do-

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

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	Audit Observation	Comment of the Management	Recommendation
(a)	Preparation of financial statements in accordance with the account format introduced in 2005 had been initiated and according to the budget proposal 254 for the year 2018, it has been decided to transform system of preparation of financial statements to the accrual basis from the enhanced cash basis which had been in use for 10 years. Although the Department of Public Accounts had amended the time frame for the works included in the road map submitted with the approval of the Cabinet of Ministers, a formal approval had not been obtained for that purpose. According to the Cabinet Note, the progress of the relevant	Approval is expected to be obtained in the future. It is accepted that the progress has not been reported so far on the process and a note was made to report progress accordingly at the end o f this year.	Budget proposals should be implemented.

	processes should be reported to the Cabinet one month after the end of each year, but no such progress had been reported even as at 05 November 2021.		
(b)	There was no direct correlation between the statement of financial performance and the statement of financial position contained in the government financial statements. That is, the statement of financial performance had merely representated the actual situation relevant to the budget for the year under review.	It is expected that this situation will be corrected in the preparation of accounts in accordance with the accounting frameworks and accounting standards to be introduced in the future.	Financial statements should be prepared on formal accounting frameworks and accounting standards.
(c)	According to the statement of financial position, the value of total external liabilities was Rs. 15,321,652 million, whereas the value of total assets amounted to Rs. 2,671,465 million. Accordingly, the total external liabilities had exceeded the total assets by Rs. 12,650,187 million.	It is expected that this situation will be resolved in the preparation of consolidated accounts relevant to the entire public sector, including public enterprises.	Financial statements should be prepared including accurate information.
(d)	The debit balance of Rs. 12,072,662 million of the Net Asset Adjustment Account, which is included in the statutory and other funds in the Financial Statement had not been stated in the statement of changes in equity.	The nature and objectives of each reserve / fund in the equity have not been disclosed by the Financial Statement format presented. A note was made to make the necessary disclosures in the future.	Financial statements should be prepared including accurate information.
(e)	The assets and liabilities included in the statement of financial position had not been classified as current and non-current assets and liabilities.	It is expected to make relevant classifications in improving accounting process as per the accounting framework and accounting standards that are anticipated to be introduced in the future.	Accounts should be prepared on formal accounting framework and accounting standards.
(f)	A sum of Rs. 26,673.20 million recovarable to the Department of Treasury Operations from the Fuel Stabilization Fund as at 31	It is correct to show a negative balance of 26,673,196,758 as the fuel price stabilization account under the miscellaneous accounts in the	Financial statements should be prepared on proper accounting

	December 2020 had been misrepresented as fuel price stabilization account under miscellaneous accounts (stating as a negative value) in the liabilities of the financial statements of the Government for the year 2020.	Statement of Financial Position of the Financial Statements of the Government for the year 2020. Since the account was opened in the year 2020 as the Fuel Price Stabilization Fund as a ledger account in the principal ledger to account for these transactions, the balance of that account has been shown in this manner in the Government Financial Statements for the year 2020.	policies.
(g)	According to the Cabinet Memorandum No. 20/0684/204/060 submitted by the Prime Minister on 31 March 2020, the Summary of the Statement of Financial Position of the Fuel Price Stabilization Fund should have been published along with the Annual Report of the Ministry of Finance. Nevertheless, it had not been so done.	Agreed. A summary paragraph has been included in the Ministry Annual Report 2019. A note was made to include a report in this connection for the year 2021.	Action should be taken in accordance with the Cabinet decisions.