

Financial Statements of the Government - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the Government for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, statement of changes in net assets/equity and cash flow statement of the General Treasury for the year then ended and notes to the financial statements including a summary of significant accounting policies was carried out under my direction in pursuance of provisions in Article 154(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 summary report including my comments and observations on these financial statements was issued to the Chief Accounting Officer on 31 May 2024 in terms of Section 15 of the National Audit Act, No. 19 of 2018. The Annual Detailed Management Audit Report relating to the financial statements of the Government was issued to the Chief Accounting Officer on 30 October 2024 in terms of Section 11(2) of the Audit Act. This report will be presented in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, except for the effects of the matters described in Paragraph 1.7 of this report, the accompanying financial statements of the Government give a true and fair view of the financial position of the Treasury as at 31 December 2023 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Emphasis on Matters

In the significant accounting principles of financial statements under Change in Presentation Formats of Financial Statements, it had been stated that the presentation formats of the financial statements of the Government have been changed to improve fair presentation, and new reporting formats have been developed to meet financial reporting requirements, statutory requirements and budget performance reporting and also that the reconciliation statements have been prepared and provided where necessary. However, in the presentation of the comparative information of the previous year relevant to the financial statements of the year under review, although the restatement is not indicated above those values, it was stated in the significant accounting principles of the financial statements that the comparative figures had been restated as applicable.

Due to this matter, my opinion will not be qualified, and will be given special emphasis.

1.3 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.7 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.4 Responsibility of the Chief Accounting Officer for the Financial Statements

The Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and in terms of Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as the Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. As per Section 16 (1) of the National Audit Act, No. 19 of 2018, the General Treasury is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the General Treasury.

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

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

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

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

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the General Treasury’s internal control.
- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

1.6 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) Except for the effects of the Emphasis on Matters Paragraph in 1.2 of this report, the financial statements are consistent with the preceding year,
- (b) The recommendations made by me relating to the financial statements of the preceding year, had not been implemented.

Reference to Paragraph -----	Recommendations -----
1.7.1(e)	The financial statements should be prepared so as to reveal the accurate information to users of financial statements.
1.7.1(g)	The transactions and events should be accounted in compliance with accounting principals since the statement of financial performance is based on accounting basis.
1.7.1(k)	Cash flow statement should be prepared according to accounting principles.
1.7.1(t)	Accounting for Public borrowings and debt servicing should be formalized.
1.7.1(u)	All debts should be accounted and related expenses should be recorded correctly.
1.7.1(v)	Debt accounting should be done in accordance with the periodic concept.
1.7.1(ab)	Assets acquired through loans should be properly accounted.
1.7.1(ac)	The reasons for negative loan values should be disclosed in the financial statements and action should be taken to settle those balances.
1.7.1(ag)	Consistency should be maintained in presentation of information.

- 1.7.1(ah) Loan balances should be regularly reconciled with lending agencies, necessary corrections made after due diligence and disclosures should be made as required.
- 1.7.1(ak) Accounting for debts should be done in the correct period
- 1.7.1(ap) Action should be taken to obtain timely balance confirmations and evaluate with state-owned institutions and to take appropriate action and ensure the accuracy of accounts.
- 1.7.1(ar) -do -
- 1.7.1(as) Action should be taken according to the circular instructions, to act in a good relationship and coordination between the various departments under the Ministry and to take appropriate measures related to the parties who work contrary to it.
- 1.7.1(at) Information that is important to users of financial statements should be disclosed appropriately.
- 1.7.1(au) -do -
- 1.7.1(ax) -do -

1.7 Comments on Financial Statements

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

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
(a) Even though the surplus or deficit of the year under review and other retrospective adjustments should be included in the opening balance of the General fund shown in the statement of changes in equity/net assets prepared based on accounting principles, the statement of changes in equity/net assets had been prepared including variations in the net asset adjustment account during the year under review and removing the balances to be set off with the Consolidated Fund. Due to this, although the cumulative net foreign exchange gain of Rs.1,572,718 million on the conversion of the foreign loan balances, the domestic loan balances in foreign currency and on-lending balances to be adjusted in the statement of financial performance into local currency, was included in the	Since the balance of the General Fund consists of the totaling of the balance of the Consolidated Fund and the balance of the Net Asset Adjustment Account, the changes in the Net Asset Adjustment Account during the year under review had also been adjusted to the General Fund.	The statement of change in equity/net assets should be prepared based on accounting principles.

statement of changes in equity/ net assets, the basis for the same had not been properly disclosed by the accounting policies or notes. Nevertheless, if that adjustment was made, the revenue deficit of the year under review could have been reduced by Rs.1,572,718 million. Due to the preparation of the statement of change in equity /net assets in this way, adjustments made to financial and non-financial assets during the year under review, adjustments made in relation to loan balances and corrections of errors had been indirectly adjusted to the statement of change in equity /net assets. Therefore, it was observed that users of financial statements are not able to get a clear understanding about it.

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| (b) | In the statement of financial position of the year 2022, the Consolidated Fund balance had been included under statutory and other funds, and in the statement of financial condition of the year under review, which was prepared based only on the financial reporting requirement, the general fund had been stated under statutory and other funds. Accordingly, a reconciliation statement stating the balance of the Consolidated Fund based on the balance of the general fund as at 31 December 2023 had not been prepared and presented for ease of reference of financial statements. | The composition of the balance of the general fund is given under note number 23 of the financial statements and after adjusting the receipts and payments during the year under review to the opening balance of the Consolidated Fund, the year-end balance of the Consolidated Fund has been reached. This has been clearly indicated by the statement of receipts and payments to the Consolidated Fund during the year 2023. | The financial statements should be prepared so as to reveal the accurate information, clear understanding in correct manner to users of financial statements. |
| (c) | Even though it had been stated that the statement of financial performance shows how the financial deficit of the year under review has been financed under the notes to the financial statements of the government (Note to Readers), the statement of financial performance of the year under review prepared on the basis of the financial | It is noted for correction. | The financial statements should be prepared so as to reveal the accurate information to users of financial statements. |

reporting requirement did not indicate how the financial deficit has been financed.

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| (d) | Even though the deficit of Rs.2,172,190,285,821 arising from the statement of financial performance and the deficit of Rs.1,650,857,019,989 arising after deducting the recurrent expenditure from the total income of the statement of budget performance and financing the deficit are different to each other, both the deficits were presented under the same name as revenue deficit. | The statement of financial performance and the statement of budget performance and financing the deficit are 02 statements prepared for 02 purposes and revenue deficit should be defined according to the purpose of the respective statement. | Financial statements should be prepared and presented in a manner that does not confuse users. |
| (e) | Assets and liabilities included in the statement of financial position had not been classified as current and non-current. Due to this, financial statement users and interested parties could not get a clear understanding of the amount of external liabilities to be paid by the government in the coming year. | Financial statements of the government are not prepared on accrual basis and accordingly assets and liabilities are not classified as current and non-current. | The financial statements should be prepared so as to reveal the accurate information to users of financial statements. |
| (f) | The value of Rs.515,895,718 received from the realization of non-financial assets in the year under review had been accounted as income without removing the cost of the assets from the books, in contrary to the accounting principles. | The accounting policy currently in use regarding the sale of non-financial assets and accounting for the relevant sale value is clearly disclosed in the Statement of Accounting Policies. | Since statement of financial performance is introduced on the accounting basis, transactions and events should be accounted in accordance with accounting principles. |
| (g) | Provision for depreciation had not been made according to the Prudence Accounting Concept by systematically allocating the depreciable value for non-financial assets totaling Rs.882,576 million throughout their useful life except for lands, work-in-progress in the financial statements of the Government. Moreover, residual value and useful life of these assets should be | Financial statements of the government are not prepared on accrual basis and accordingly accounting of depreciation is not done on assets. | -do- |

reviewed at least at the end of each financial year. However, action had not been taken accordingly. Accordingly, the fair value of these assets is not represented in the financial statements. As such, the opportunity of getting a specific understanding of the carrying amount obtained after deducting accumulated depreciation and accumulated impairment losses of these assets, if any, had been lost by the users of the financial statements of the government.

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| (h) | <p>Even though the total value of non-financial assets in the financial statements of the government as at 31 December 2022 was Rs.2,093,287,997,716, this balance relevant to the year under review as at 01 January 2023 was Rs.2,017,866,940,344. Accordingly, a difference of Rs.75,421,057,372 was observed between the closing balances of the previous year and the opening balances of the year under review in non-financial assets.</p> | <p>It is the responsibility of the chief accounting officers of each reporting entity to properly account for non-financial assets so that the total of the asset balances reported by each entity is reflected in the government's financial statements. Required instructions has been given by the Department of State Accounts for reporting non-financial assets for the year 2023 and sufficient time has been given until 05 February 2024 to report the assets correctly.</p> | <p>Components of financial statements should be properly identified and accounted for only after verification.</p> |
| (i) | <p>Even though a value of Rs.385,393,946,314 under purchase of physical assets or acquisition of construction and other investments had been stated in the cash flow statement of the financial statements of the government, the relevant assets had been increased by Rs.377,486,249,808 only as per the financial statements. Accordingly, a difference of Rs.7,907,696,506 was observed.</p> | <p>It is the responsibility of the Chief Accounting Officers of the respective reporting entities to include the total value accounted under the objects No. 2101 to 2108 of acquisition of non-financial assets under single balances of non-financial assets, and the asset value reported accordingly, is shown in the note No. 13 of the financial statements.</p> <p>The reasons for the difference relevant to capital</p> | <p>-do-</p> |

contribution of object No. 2301 are stated under “Shareholding in government-owned and other companies” in the explanatory notes.

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| (j) | Even though the capital premium payment amounting to Rs.609,482,108 for leased vehicles in the year under review should be stated as a cash outflow under financing activities in the cash flow statement, it had been stated as a cash outflow under investing activities. | In case of asset acquisition under the lease method, the relevant value is not paid at once and only the amount of capital payment related to the lease installment is included under the object number 2108. Accordingly, the relevant amount is stated under investing activities. | The cash flow statement should be prepared in compliance with Accounting Principles. |
| (k) | A sum of Rs. 25,501,817,303 was included as grants in the cash flow generated from financial activities in the cash flow statement included in the financial statements of the Government. Nevertheless, the said value comprised receipts of materials and equipment valued at Rs. 11,208,048,717 as grants without cash inflow. | The value of grants received from materials and equipment was shown as a cash flow in the cash flow statement. Nevertheless, the expenditure as well relating thereto has been included as a cash outflow in the cash flow statement. As such, it does not affect the balance of the cash flow. | -do- |
| (l) | The foreign exchange gain or loss resulting from the conversion of the financial assets (Monitory Assets) denominated in foreign currency into local currency should be adjusted to the statement of financial performance according to the accounting principles. However, the cumulative value of Rs.57,388,881,470 that has arisen in that way, without making adjustments to the statement of financial performance in the respective years, had been accounted to the foreign debt revolving fund and continued to be presented as a fund account in the statement of financial position. This was not in accordance with the | According to the methodology currently used in the preparation of financial statements of the government, the foreign exchange gain or loss is not adjusted to the statement of financial performance. | These adjustments should be made to the statement of financial performance prepared on the accounting basis. |

accounting principles, and it was observed that it was not a statutory or non-statutory established fund.

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| (m) | The value of Rs.1,028,542,891 transferred to the government from the profit of the Central Bank of Sri Lanka, which was not accounted in the year 2022, had been accounted during the year under review in contrary to the periodic concept. | The amount of unaccounted dividends in the year 2022 was corrected by taking necessary measures to account in the revised income estimate of the year 2023. | Financial statements should be prepared in accordance with basic accounting practices. |
| (n) | A sum of Rs.1,167,945,184 calculated on the basis of the unutilized loan balances relevant to 39 foreign loan agreements, had been paid as commitment fee during the year under review. Even though, that value should be shown under the financial cost of the statement of financial performance, it had been shown under other goods and services. | A separate object has not been allocated for the commitment fee paid in respect of loan agreements and the value paid is accounted under expenses for miscellaneous services. | Classification of expenses should be done correctly. |
| (o) | As per the financial statements of the government as at 31 December 2023, the balance of advances (8493) of public officers of the central government was Rs.30,720 million, but according to the age analysis submitted to the audit, the balance was Rs.30,516 million. Accordingly, a difference of Rs. 204 million was observed. | The annual age analysis reports of all the institutions are checked, followed up regularly and informed to maintain the balances correctly by coordinating the relevant institutions. Action is being taken to analyze the old information available in the department regarding the inactive balances, identify the reasons for the inactive balances and resolve. | Prompt action should be taken to settle the balances and improve the existing system. |
| (p) | Even though capital contributions amounting to Rs.270,520,862,758 had been stated under investing activities in the cash flow statement of the financial statements of the government, according to note no. 15 of the financial statements, it was Rs.269,386,448,439 and a difference of Rs. 1,134,414,319 was observed. | Answers are not provided. | Capital contributions of the government should be accounted at correct values with the balances of the respective institutions. |

- (q) During the year under review, under domestic debt restructuring, Sri Lanka Development Bonds valued at USD 788,237,384 the loan amount of USD 85,943,611 obtained from the People's bank in relation to the foreign exchange banks issued under the domestic law of the government, and the treasury bonds which were Rs. 3,204,461,897,219 had been converted into new treasury bonds. Treasury bills with a value of Rs.2,368,416,351,609 purchased by the Central Bank of Sri Lanka and the advance amount of Rs.344,728,000,400 given by the Central Bank of Sri Lanka to the government, had been converted to as new treasury bonds with a value of Rs.2,492,347,352,009 and new treasury bills with a value of Rs.220,797,000,000. Even though cash inflows or outflows had not occurred in these conversions, the cash flow statement had been prepared considering those conversions as cash inflows and outflows.
- When converting one debt instrument into another debt instrument, the transactions recorded through the main ledger accounts are included in the cash flow statement and in this case, after adjusting the cash inflows and outflows, the closing balance of the cash flow statement is not affected.
- The cash flow statement should be prepared in accordance with accounting principles to reflect its meaning.
- (r) During the year under review, the advance amount of Rs.344,728,000,400 payable to the Central Bank of Sri Lanka had been converted into Treasury Bills or Treasury Bonds. Since the amount of advance payable to the Central Bank of Sri Lanka as at 31 December 2022 was Rs.235,638,700,400 the advance amount of Rs.109,089,300,000 obtained during the year under review, had not been stated in the cash flow statement.
- The net cash outflow related to central bank advances are included in the cash flow statement. (The cash flow statement is prepared on the basis of the year-end balance of the main ledger accounts.)
- The cash flow statement should be prepared in accordance with accounting principles to reflect its meaning.
- (s) Even though two reconciliation statements namely reconciliation statement for revenue deficit and budget deficit, reconciliation statement for cash flow statement and statement of receipts and payments to Consolidated Fund, have been submitted with the financial
- The purpose of preparing reconciliation statements is stated in the Statement of Accounting Principles under "Changes in Financial Statement Presentation Formats".
- Users should be properly disclosed about the purpose of presenting reconciliation statement.

statements of the year under review, a note had not been provided with the relevant reconciliation statements to make the purpose of preparing the reconciliation statements clear to the users.

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| (t) | When comparing the CSDRMS 854-1 report of the computer system used to record foreign public debt with the financial statements of the government, the value of unaccounted foreign loans as at 31 December 2023 was Rs.15,823 million. Furthermore, according to explanatory notes 24(II) of the financial statements of the government, the total value of unaccounted foreign loans as at 31 December 2023 was Rs. 17,103.2 million. Accordingly, the value of foreign loans in the statement of financial position as at 31 December 2023 had been understated by Rs.15,823 million due to the existence of unaccounted loan values that have been disbursed in the year under review as well as in previous years. | The value of unaccounted foreign loans is only 0.05 percent of the total value of foreign loans and it is noted to give instructions regularly to the relevant ministries and departments regarding the undisbursed foreign loans and to make arrangements to account for them. | Accounting for Public borrowings and debt servicing should be formalized. |
| (u) | According to the accounting policy related to the recognition of expenses under significant accounting policies of the financial statements of the government, although it has been stated that all the expenses have been accounted in the period in which the payments have been made, it was observed that the expenses incurred using unaccounted foreign loans had not been accounted in the year under review. | The treasury has informed the relevant ministries and projects to take steps to account the related expenses as soon as the disbursements of loans are reported. But due to the non-certification of the expenditure by the relevant institutions, the amount has not been accounted. | All loans should be accounted and related expenses should be recorded correctly. |
| (v) | Realizations of Rs. 10,645.2 million had been accounted in the year under review relating to 19 types of loans maintained outside the statement of financial position which were realized in the year 2022 or prior years and no disclosures whatsoever had been made thereon in | Agreed. | Debt accounting should be done in accordance with the periodic concept. |

the financial statements of the Government. Accordingly, it was further observed that even though it was realized during the relevant year, certain foreign borrowings had not been accounted continuously during the said year in contrary to the periodic concept.

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| (w) | Due to the use of an erroneous exchange rate related to loan number 2016035, that loan value had been understated by Rs. 962 million as at 31 December 2023. | Agreed with the audit observation. | Proper attention should be given while converting foreign currency into local currency. |
| (x) | According to the CSDRMS 854-1 report, although there is no disbursement related to the loan number 2018003 for the year 2023, it had been stated that € 727,053 has been disbursed as per Note No. 24(II) of the financial statements of the government and Note No. 11 under Budget Performance and Deficit Financing. According to the information submitted by the Department of Treasury Operations, the loan value disbursed in the year 2022 or earlier years and accounted in the year 2023 in relation to this loan amount was only € 335,930. Accordingly, a difference of € 391,123 was observed between the disbursements in the year 2023 in relation to this loan amount. | <u>Department of Treasury Operations</u>

The disbursement value stated as a difference of € 391,123 relevant to loan No. 2018003, was informed by the Department of External Resources to the Department of Treasury Operations in June 2023 and was accounted by the Summary of Accounts-August 2023.

<u>Department of External Resources</u>

A disbursement of € 391,122.75 relevant to the year 2021 and received lately on 18.07.2023 has been recorded in the year 2023 as revealed in the reconciliation of balances with the creditor. The closing balance values as at 31.12.2023 are reconciled with the respective creditor's records. Accordingly, the notes in 854-1 are correct. | Borrowings should be accounted correctly in the correct period. |

- (y) According to the CSDRMS 854-1 report, USD 19,273,240 had been disbursed related to loan number 2019020 in the year under review, and according to the information submitted by the Department of Treasury Operations, the value disbursed in previous years and accounted in the year 2023 relevant to this loan was USD 829,937. Accordingly, although value of the total borrowings accounted in respect of this loan agreement during the year under review was USD 20,103,177 it was stated as USD 34,140,577 in the financial statements of the government.
- The Department of External Resources has informed this department of this disbursement in relation to loan number 2019020 in January 2023, and it has been accounted by the account summaries of March and August 2023.
- Borrowings should be accounted correctly in the correct period.
- (z) According to the CSDRMS 854-1 report, USD 131,000,000 had been disbursed related to loan number 2022011 in the year under review, and according to the information submitted by the Department of Treasury Operations, the value disbursed in previous years and accounted in the year 2023 relevant to this loan was USD 434,861. Accordingly, although value of the total borrowings accounted in respect of this loan agreement during the year under review was USD 131,434,861, it was stated as USD 133,765,136 in the financial statements of the government.
- Disbursements amounting to USD 181,000,000 under the loan number 2022011 had been reported by the Department of External Resources to this department in January and March 2023 and out of that, USD 133,330,274 and unaccounted balance of USD 434,861 in the previous year which included in USD 133,765,136 had been recorded in the financial statements of the government.
- Accounting for Public borrowings and debt servicing should be formalized.
- (aa) In the CSDRMS 854-1 report, a difference of Rs.30,401 million was observed between the total balances as at 31 December 2022 and as at 01 January 2023 in respect of 23 loan agreements. Accordingly, it was also observed that the correct value of actual loan disbursements during the year under review is not depicted in the Note No. 24(11) of the government's financial statements for the year ended 31 December 2023 and Note No. 11 under Budget Performance and Deficit Financing.
- The following were the reasons.
- CS - DRMS data system had been correctly updated as per the disbursed values received with delay from the respective creditors to the Department of External Resources and as per modified disbursed values.
 - 2010117, 2010121 –
- Accounting for Public borrowings and debt servicing should be formalized and arrangements should be made to minimize the delays in the disbursement.

these loans obtained in USD currency, had been converted from USD currency to Special Drawing Rights (SDR) in the year 2010. At the time of the conversion in 2010, the balance existed in the Special Drawing Rights (SDR), had been paid off in the year 2022 through USD currency. However, due to the exchange rate difference, an unpaid balance of this loan was showed. The change indicated by the audit was due to the correction of this technical error in the CS-DRMS data system.

- The loans obtained in the French franc currency had been converted to the € currency in the year 2002 and the balance prevailed at the time of conversion had been paid off in € currency in the year 2019 and the resulting exchange difference had been corrected.
- Correction on 09.05.2023 by removing the repossession values of disbursement from the data system and matching them with the creditor's disbursement notes as revealed during the comparison with the relevant creditor, the Asian Development Bank.

- The CS-DRMS data system has been correctly updated according to a disbursed value in relation to these loan numbers as revealed during the comparison with the respective creditor.
- This loan agreed on 17.01.2019 is two loans from the Asian Development Bank for the Science & Technology Human Resource Development project. During the comparison with the creditor, it was observed that the entries related to the numbers SRI 3699 and SRI 3698 given by the Asian Development Bank had been erroneously recorded in the data system while recording the transactions of these two loans. This difference of loan balance was due to the correction of this matter.

The Department of Treasury Operations has been informed about the updates related to the above loan numbers for necessary action in the year 2023, and the measures taken to minimize the late disbursements have been submitted to the audit.

- (ab) In the year 2022, when accounting for the loan balances of Rs. 518,293 million relating to 08 types of loans maintained outside the financial statements of the government, the investments or capital grants made by the government
- These balances were recorded in the financial statements as per a decision of the Cabinet of ministers and the assets acquired through these loans are included in the financial
- Assets acquired through loans should be properly accounted.

corresponding to those loans had not been recognized in the financial statements of the government. Furthermore, as per the Cabinet decision No. MF/PE/001/CM/2023/05 dated 20 January 2023, relevant to the transfer of the loan obtained for the Mattala Airport project that included in the above loans to the government's financial statements, the Airports and Aviation Services Company be directed to remit an amount equal to the debt servicing amount to the General Treasury in accordance with the loan repayment schedule, and that the Airports and Aviation Services company was supposed to sign a new Memorandum of Understanding (MOU) with the General Treasury in this regard. However, such an agreement had not been submitted to the audit and the loan amount of Rs.29,852 million had not been accounted as on-lending.

statements of the respective state-owned enterprises.

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| (ac) | According to the financial statements of the government and CSDRMS 854-1 report, it was observed negative loan disbursements totaling Rs. 821,115,454 in respect of 04 loan agreements during the year under review. | Agreed. | The reasons for arising negative loan values should be disclosed in the financial statements and action should be taken to settle those balances. |
| (ad) | Even though a negative disbursement of EUR 77,385 had been included in respect of loan number 2017034 as per note no. 24(II) of the financial statements of the government and note no. 11 under budget performance and deficit financing, such negative disbursement had not been shown in the CSDRMS 854-1 report. | The disbursed amount of EUR 468,861.85 equivalent to Rs.180,665,083 in the year 2022, had been accounted through the account summary of December 2022. The Department of External Resources has informed this department that it will be revised to EUR 391,477.35 and Rs.150,846,753 in February 2023. According to that revision, the amount of | The reasons for arising negative loan values should be disclosed in the financial statements and action should be taken to settle those balances. |

EUR 77,384.05 equivalent to Rs.29,818,329, which was over-accounted, has been corrected in the account summary of August and it has been shown as a negative disbursement in the financial statements of the government.

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| (ae) | In addition to this, a negative disbursement of Rs.5,081 million was observed only in Note No. 11 under Budgetary Performance and Deficit Financing in the financial statements of the Government. | The amount returned to the lender under loan number 2015030 and 2017024 is stated in the note number 11, and the 854-1 report related to those loans shows the net borrowing after deducting the returns from the disbursements of that year. Also, the returns to lenders shown separately in Note No. 11 of the financial statements of the Government have been adjusted while recording the borrowings of the year under Note No. 24(11). | The reasons for arising negative loan values should be disclosed in the financial statements and action should be taken to settle those balances. |
| (af) | When comparing the Foreign Currency Banking Unit Loan (Project) balances presented in Note No. 24(I) of the financial statements of the Government with the CS-DRMS 854-1 report, a difference of USD 227,823 equivalent to Rs.82,724,927 had been observed as at 31 December 2022 and 01 January 2023 in relation to the Loan Agreement No. 2017045. Further, even though a difference of USD 227,823 was observed in the repayments of loans, a difference was not observed in its local currency value. Further, it was observed that an unusual foreign exchange rate of Rs.524.6050 per USD 1 had been used in converting the repaid amount of USD 332,704 into local currency as per the financial statements of the government. | <p style="text-align: center;"><u>Department of Treasury Operations</u></p> <p>Although this loan amount is maintained in USD, the loan is repaid in Sri Lanka Rupees. Thus, due to the use of an incorrect exchange rate in the conversion of the amount repaid in Sri Lanka Rupees to USD in the year 2022, an incorrect value for the relevant USD amount had been entered in the CS-DRMS report. Accordingly, the mistake of using the same exchange rate in the financial statements of the government has been corrected by adjusting the loan repayments in the year 2023.</p> | Accounting for Public borrowings and debt servicing should be formalized. |

Department of External
Resources

In relation to this loan number, which is serviced by different exchange currencies (Multicurrency), validation of USD currency in which the loan was obtained as per the Sri Lankan rupee currency is not done in system setup for a loan repayment on 30.12.2022 by mistake. This change has arisen due to its correction. The relevant exchange rates are correctly recorded.

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| (ag) | Even though detailed information related to domestic debt repayments had been disclosed in the Note No. 14 in the Statement of Budget Performance and Deficit Financing, such note had not been presented in relation to the foreign debt repayment value of Rs.337,296 million during the year 2023. | Notes No. 24(I) to 24 (IV) of the financial statements include foreign loan repayments and as such a separate note was not presented. | Consistency should be maintained in the presentation of information. |
| (ah) | When loan balance confirmations sent by the lenders are compared with the financial statements of the Government and 854-1 report of the computerized debt management system, it was observed that loan balances related to 13 and 14 loan types had been overstated and understated by Rs.4,775 million and Rs.5,126 million respectively in the financial statements of the Government. | <p>The reasons for overstatement of loan balances are as follows.</p> <ul style="list-style-type: none"> • 1990009 - The exchange difference incurred in the system in converting the disbursements received from each respective currency to Special Drawing Rights. • 1998037 - Offsetting a loan balance amounting to EUR 22,583.76 of the Study and Expert Fund II project, by repayment relevant to this loan amount on 30.12.2020. | Loan balances should be regularly reconciled with lending agencies, necessary corrections made after due diligence and disclosures should be made as required. |

- In relation to other loan number 11, the creditor has deducted the unpaid installments (Principal Arrears) since 13 April 2022 as the balance to be paid as at 31.12.2023. The balances on the 854-1 report also show the loan balance including unpaid premiums. Accordingly, the values in the 854-1 report are correct.

The reasons for understatement of loan balances are as follows;

- Fluctuating of the US Dollar and Special Drawing Rights foreign exchange rate prevailed at the date of issuance of loan repayment notice given by Asian Development Bank, the creditor institution related to loan number 9, and the relevant foreign exchange rates prevailed at the date the repayment was actually received by the creditor.
- The loan bearing number 1990003, which is serviced in different currencies (Multicurrency), the equivalent SDR amount of 770,000 sent by the respective creditor relevant to USD 1,012,534.60 for a repayment on 01.12.2023, had been mistakenly entered into the data system as SDR

7,700,000, and this had been corrected on 22.05.2024.

- 2012022, 2018047 - relevant creditors have been inquired in this regard. However, the respective creditor has not confirmed to us about the receipt of this disbursement up to now. The system will be rectified as soon as it is received from the respective creditors.
- 2012024, 2019019 - the data system is correctly updated by recording late disbursed values received from respective creditors.

(ai) During the sample test of loan balance confirmation letters received from lending agencies, it had been stated USD 50,793 as fee overdue amount and EUR 92,032 as liquidity fee. However, this was not either accounted or disclosed in the financial statements of the year under review.

In view of the policy decision taken by the government to temporarily suspend certain foreign loan payments, the unpaid installments, interest and penalties of the affected loans may be subject to discussion in the compromise negotiations related to the debt restructuring process, and instructions have not been received at this time relevant to the calculation of penalty interest or the servicing of the said debts.

Loan balances should be regularly reconciled with lending agencies, necessary corrections made after due diligence and disclosures should be made as required.

Regarding the loan number 2014007, it is observed that the amounts of service fee that should have been paid from 20.06.2022 to 20.12.2023 have been indicated.

- (aj) According to the loan balance confirmation letters relating to 18 types of suspended loans, submitted by the Embassy of United States, installments in arrears were subject to additional delay interest charges and the value of the loan balances as at 31 December 2023 was USD 58,784,368, and the value of suspended loan installments were USD 25,439,860. However, it was not either accounted or disclosed in the financial statements of the year under review.
- As per the government's policy decision to temporarily suspend certain foreign loan payments, unpaid installments, interest and penalties on the affected loans may be subject to discussion in the compromise negotiations related to the debt restructuring process, and instructions have not been received at this time relevant to the calculation of penalty interest or the servicing of the said debts.
- do-
- (ak) Considering the disbursement period, even though certain disbursed foreign loans related to the year 2023 were included in the 814-1 report of the computerized debt management system printed on 07 May 2023, it was observed that those disbursements were not included in the said report printed on 17 February 2024. Accordingly, foreign loans balance amounting to Rs.1,290 million had not been accounted for as disbursed loans in the financial statements of the Government.
- Disbursements notices from the respective exchange currency are received only from the respective creditor. There may be delays in sending disbursements notices from certain creditors. Accordingly, the outstanding balance taken at a certain time, may not be updated at that moment. Even though internal procedures are established to confirm most of the disbursed values, certain disbursed values received with delay as above, can be confirmed through reconciliations obtained by informing to the relevant creditor or repayment notices forwarded by them. Therefore, it is not appropriate to account or directly compare the exact disbursed values mentioned in any report issued by the CS-DRMS system (without confirmation from the relevant ministry).
- Accounting for debts should be done in the correct period.
- It is expected to further inform the multilateral

creditors who do not maintain online systems such as OPEC Fund, AIIB, etc. to forward relevant disbursements notices without delay. Furthermore, after the monthly planning process carried out in the CS-DRMS system in each month, action has been taken to inform the Department of Treasury Operations regarding the new disbursed values reported in that month and the loan balance at the end of each month since the year 2006. As it is observed that if this department is informed about the instances where the disbursed values so provided, are not compatible with the confirmations obtained from each ministry regarding these disbursements by the Department of Treasury Operations, it can be inquired from the relevant creditors. Accordingly, necessary arrangements will be made with the Department of Treasury Operations to minimize these delays.

- (al) As at 31 December 2023, the government had provided Rs.1,124,665,353,761 as capital contribution to 13 state enterprises and that value as at 31 December 2022 was amounted to Rs. 1,047,966,900,772. According to the financial statements of those enterprises, the value of net assets (Total Assets- Total External Liabilities) as at 31 December 2022 had been negative Rs.630,632,144,273. Accordingly, it was observed that these capital contributions have been shown under financial assets in the External liabilities, including long-term debt, of state-owned enterprises are about 7 percent of GDP. This is mainly due to the lack of a cost-reflective pricing system in public enterprises and the non-financing of the costs through direct government financial grants when supplying goods at a subsidized price instead of the market price and as a result, state-owned enterprises
- The financial position of the government-owned institutions should be evaluated in time and the decrease in their values should be properly included in the financial statements of the government.

government's financial statements, but their value has been fully impaired, and the related institutions have reached to a state of being operated under external liabilities. Furthermore, it was further observed that the main reason for this is that the retained profit is negative due to the losses of the respective institutions.

continuing to record losses and financing of such losses through state-owned banks. Meanwhile, the financing of continuous losses reported by strategically important state enterprises such as Ceylon Petroleum Corporation, Ceylon Electricity Board, Sri Lankan Air Lines through state banks, has been a notable trend in recent years. In addition to this, the effect of the government's policy decisions also led to the above situations.

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| (am) | The value of net assets of 05 public enterprises comprising government capital value of Rs.1,019,627,985,708 as at 31 December 2023, and Rs.892,034,785,542 at 31 December 2022, had been Rs.371,771,137,033 as at 31 December 2022. Accordingly, it was observed that the capital contribution value invested in these public enterprises is undergoing impairment. | -do- | -do- |
| (an) | According to the financial statements of the Government as at 31 December 2022, the value of capital contribution to public enterprises was Rs.2,165,981,657,905, and out of that, Rs.2,121,653,720,125 had been invested in government corporations, statutory boards and state-owned companies. Nevertheless, the total value of the net assets of these business entities had been Rs.1,669,676,388,290 by that date. Accordingly, it was observed that the government's capital contribution related to the above three types of institutions had been impaired by Rs.451,977,331,835 or 21 percent compared to the net assets of those institutions. | -do- | -do- |

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| (ao) | <p>In the year 2022, even though a net profit of Rs.117,718,706,426 had been earned by 32 statutory boards in which the government being invested, 36 state corporations and 30 state-owned companies have earned net losses of Rs.804,795,113,607 and Rs.133,722,486,417 respectively. It was observed that a total net loss of Rs.820,798,893,548 had been incurred in relation to the 98 institutions. According to the report of the Central Bank of Sri Lanka, the average annual population in the year 2022 was 22,181,000 and accordingly, it was further observed that the per capita net loss incurred for the year 2022 in respect of 98 government-owned business institutions was amounted to Rs.37,000.</p> | -do- | -do- |
| (ap) | <p>According to the direct confirmations of balances submitted by 8 public enterprises, the government's capital contribution of those institutions was Rs. 10,803 million as at 31 December 2023, and that balance was Rs. 4,323 million according to the financial statements of the government. As a result, the capital contribution had been understated by Rs.6,480 million in the financial statements of the government at 31 December 2023.</p> | <p>These differences between the balance according to the financial statements of the government and the balance according to the direct confirmations were also observed by us and the required actions are currently being taken to identify the reasons of the differences and after properly identifying the relevant differences, it is expected to be recorded in the general ledger accounts with a formal approval.</p> | <p>Action should be taken to obtain timely balance confirmations and evaluate with state-owned institutions and to take appropriate action and ensure the accuracy of accounts.</p> |
| (aq) | <p>According to the direct balance confirmations received from Sri Lanka Institute of Biotechnology Pvt Ltd as at 31 December 2023, it was mentioned that 52,472,573 shares with a price of Rs.10 per share, were owned by the treasury. However, it had been stated in the financial statements of the</p> | <p>This difference has arisen due to the non-recording of the capital contribution given under the capital expenditure object of the relevant line ministry to Sri Lanka Institute of Biotechnology Private Limited, in the main ledger</p> | -do- |

government that there is a capital contribution of 200,000 shares at Rs.100 per share. Accordingly, a mismatch of Rs.504,725,732 in share ownership and capital contribution was observed in relation to that institution as at 31 December 2023.

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| (ar) | <p>Although the share value as at 31 December 2023 had been Rs. 5,141 million in the calculation made according to the number of shares owned by 02 state companies and according to their nominal value, it had been indicated as Rs. 14,476 million in the financial statements of the Government. Accordingly, a mismatch of Rs.9,335 million in capital contribution was observed in the financial statements of the Government as at 31 December 2023.</p> | <p>It was observed that there has been an omission in the calculation of the share capital of Bogala Graphite Lanka PLC. It is noted to correct the relevant calculations.</p> <p>Although the capital contributions made to Mihin Lanka (Private) Company in the years 2021 and 2022 are recorded in the relevant main ledger accounts, share certificates have not been issued for it. However, the money given to the relevant institution as equity capital is recorded in the relevant main ledger accounts.</p> | -do- |
| (as) | <p>Although it has been stated that all the transactions related to foreign aid should be carried out by the Department of External Resources of the Treasury according to the State Accounts Circular No. 30/94 dated 20 April 1994, foreign grants totaling Rs.22,210 million had been directly received for 11 institutions in the year 2023 without making the Treasury aware of that as per the information obtained from an audit test check, and action had not been taken to make provision for those values and to include them in the financial statements.</p> | <p>The Department of External Resources make appropriate entries on the grants received. It is the responsibility of all Secretaries to Ministries, Heads of Departments and Heads of Statutory Institutions to act according to the circulars, instructions and financial regulations regarding the grants reported only to other institutions.</p> <p>In this regard, it is observed that, it is appropriate to check whether the recommendation of this Department has been obtained for grants before making allocations by the</p> | <p>Action should be taken according to the circular instructions, to act in a good relationship and coordination between the various departments under the Ministry and to take appropriate measures related to the parties who work contrary to it.</p> |

Budget department for the grants and/ or before releasing imprests as applicable by the Department of Treasury Operations and to make allocations or release funds only for the grants with such recommendations. Furthermore, it is also suggested that legal provisions on grants should be made in the Public Finance Management Act, which is currently being drafted.

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| (at) | Even though the payments of Rs.1,439,066 million as loan installments payable in relation to 401 loan agreements since 13 April 2022 to the end of the year under review and Rs.673,964 million as the interest of the loans had been suspended according to the policy decision of suspending the payment of foreign loans issued by the Ministry of Finance, Economic Stabilization and National Policies on 12 April 2022, a proper disclosure had not been made in the financial statements of the Government in this regard. | The policy decision of suspending the payment of foreign loans issued on 12 April 2022 has been disclosed under Explanatory Note No. (iii) on foreign loan balances in the financial statements. | Information that is important to users of financial statements should be disclosed appropriately. |
| (au) | Foreign loans amounting to SDR 148,500,000 which is equivalent to Rs.63,725 million under the loan number 2023015 that remained unrealized despite entering into agreements in the year under review, had not been disclosed in the financial statements of the Government. | This is a loan amount of SDR 148,500,000 contracted with the International Development Cooperation on 21.09.2023 for the social security project, and any realization has not been reported in the year 2023. The realization of this loan has commenced from 21.03.2024. | -do- |
| (av) | Although the negative value of Rs.990,490,932,444 in the consolidated fund and the negative value of Rs.14,040,298,131,574 in the net asset adjustment account as at 31 December | In order to reduce the deficiencies of the financial reporting system in the preparation of the financial statements of the government, | -do- |

2021 had been added and Rs.15,030,789,064,018 had been recorded as the General Fund in the statement of changes in equity /net assets, this accounting treatment had not been properly disclosed in the financial statements.

according to the decisions made by the committee appointed on the recommendations of the Committee on Public Accounts, it was decided to state the total value of the consolidated fund and the value of the net asset adjustment account as the General Fund.

In the statement of changes in equity /net assets, the opening balance of the year under review and the changes made during the year, as well as the opening balance and the changes made during the year relevant to the previous years, should be included. Therefore, the balance of the consolidated fund as at 31 December 2021 and the balance of the net assets adjustment account had been added up and presented.

(aw) While analyzing the financial statements of public enterprises, it had been indicated that a value of Rs.6,053,920,627 should be paid to the treasury in relation to 06 public enterprises. However, these balances had not been disclosed in the financial statements of the government as receivable from the relevant institutions.

In the financial statements of the government, under “Reporting Period and Measurement Methods for Presentation of Financial Statements”, it is clearly disclosed that the income for the year and previous years is accounted on cash basis. Accordingly, dividends and income to be received from public enterprises are not included in the financial statements of the government.

-do-

(ax) When presenting the Government equity contribution in the financial statements, it had not been classified as investments made in the listed companies in the Colombo Stock

We are unaware of the fact that the Government equity contribution is required to be classified as investments made in the listed companies

-do-

Exchange and unlisted companies. and unlisted companies in the Further, the share ownership value in Colombo Stock Exchange and we kindly request to companies listed in the Colombo Stock Exchange had been accounted on the make the our Department basis of its nominal value, and their aware of the applicable market value as at 31 December 2023 provisions and other had not been disclosed in the financial regulations in this regard. statements.

2. Non-compliance with Laws, Rules, and Regulations

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

Reference to laws, rules, and regulations	Non-compliance	Comment of the Management	Recommendation
(a) Fiscal Management (Responsibility) Act, No.03 of 2003.	In accordance with Fiscal Management (Responsibility) Act No. 3 of 2003 as amended by Fiscal Management (Responsibility) (Amendment) Act No. 12 of 2021 and Fiscal Management (Responsibility) (Amendment) Act No. 15 of 2013, the maximum liability as of the end of a particular year shall not exceed 80 per cent of the estimated GDP of that year, whereas that limit had been 104.06 percent as at 31 December 2023. Details are given below.	Noted.	Provisions of the Act should be adrered to.

Liability	*Value of Liability as at 31 December 2023
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	Rs. Billion
Bank Overdraft	80
Advance form the Central Bank	-
Public Debt	29,150
Liabilities not accounted for in the	

financial statements.		
- Unaccounted foreign borrowings		15
Total Liabilities		29,245
Estimated Gross Domestic Product		28,103
Total Liability as a percentage of GDP (%)		104.06

* The value of the collaterals and the letters of comforts given to banks for loans taken by public enterprises on General Treasury guarantees amounting to Rs. 2,034 billion and Rs.117 billion worth of liabilities according to the statement of liabilities and commitments submitted to the Audit relevant to ministries, departments and special expenditure units have not been included in the above liabilities.

It is specified in Section 3 (a) of the Fiscal Management (Responsibility) Act, No.3 of 2003 that “The reduction of Government debt to prudent levels, by ensuring that the budget deficit at the end of the year 2006, shall not exceed five per cent of the estimated Gross Domestic Product for the year and to ensure that such levels be maintained thereafter,” is an objective with responsibility that forms the basis to the financial management which is required to be followed by the Government. Nevertheless, the Ministry of Finance, Economic Stabilization & National Policies had failed to estimate the budget deficit in the year under review in a manner not to exceed five per centum of the

Noted.

Provisions of the Act should be adrered to.

estimated Gross Domestic Product and to maintain the actual budget deficit so as not to exceed five per cent of the GDP. Details appear below.

Estimated GDP	Budget Deficit		Estimated Budget Deficit as a Percentage of the Estimated GDP	Actual Budget Deficit as a Percentage of the Estimated GDP
	Estimated	Actual		
Rs.Billion	Rs.Billion	Rs.Billion	%	%
-	-	-	-	-
28,103	3,783	2,584	13.46	9.19

- (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
- Debit balance of Rs. 3,782 million remained unsettled in 99 Imprest Accounts of the ministries and departments as at 31 December 2023 as required by F.R.373. Out of this, a balance of Rs.50 million continued to exist over a number of years and no effort had been made to settle those balances even by 31 December 2023.
- **Less than 1 year**
The relevant institutions have been informed in writing for immediate settlement
 - **Between 1-2 years**
Cases have been filed by the relevant institutions for recovery and accordingly, it is not possible to recover this money until the judgments are received.
- Action should be taken in accordance with the financial regulations.

• **More than 5 years**

Necessary instructions for settlement of this balance have been given to the relevant institution and many discussions have been held with the institution.

3. Management Activities

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
(a) Foreign grants of Rs.73,426,055 received in the year under review from 07 donors relating to 10 projects, had been returned to the donors without being utilized on the intended purpose.	The amount remaining unutilized is not included in the foreign grant income as it is remitted back after notifying that it is not utilized furthermore by the project implementing ministry/department and at the request of the donor agency.	Action should be taken to ensure that the foreign grants received by the Government of Sri Lanka are used to the maximum extent for the relevant purpose.
(b) A balance totaling Rs.1,293,506,349 in government approved 07 Treasury advance accounts as at 31 December 2023 had been continuously carried forward over a number of years without being settled.	<ul style="list-style-type: none"> • All the information we have regarding the 5 accounts held by the Department of Agriculture has been given to the Department of Agriculture. It has been informed that after discussion about these accounts at the Committee on Public Accounts, the necessary approvals will be obtained and action will be taken to totally finalize these liquidated advance accounts. Follow up is being done. 	Prompt action should be taken to settle the advance account balances that remained unsettled over a long period of time.

- It had been informed by the letter No. FBF/05/2022 and dated 20.07.2023 that a committee has been appointed to settle the account, 7000-0-000-0-002-0 as per the instructions given by the Committee on Public Accounts. Follow up is being done.
- Action is being taken already to collect sufficient evidence to settle and close the 999 account.

- (c) A balance totaling Rs.9,027,522 in 14 advance accounts of public officers and a negative balance totaling Rs.408,233 under 2 other advance accounts had been continuously carried forward over a number of years without being settled. .
- It is observed that these loan balances have arisen on closure of Ministries and Departments at various times. Action is being taken to analyze the old information available in the department regarding these balances, to accurately identify the reasons for being inactive and settle these balances.
- do-
- (d) Paragraph 07 of the Extraordinary Gazette No. 1550/7 dated 22 May 2008 states that a surcharge of US \$ 60 or equivalent amount should be recovered on every passenger ticket issued or sold outside Sri Lanka for flights originating from Sri Lanka irrespective of how the ticket is issued or sold, and the surcharges so collected should be credited to the Consolidated Fund as directed by the Director General of Civil Aviation as per Paragraph 08 of the said Gazette. Accordingly, a sum of Rs. 22,113 million had been collected as surcharges by the Civil Aviation Authority relating to the period from 01 August 2008 to 31
- According to the decision at the meeting of the Cabinet of ministers held on 19.12.2023 relevant to the memorandum dated 30.01.2024 submitted by the Minister of Ports, Aviation and Shipping which was the Cabinet Paper No. CP/24/0226/628/015 titled “Arrangement of Funds for the Expenses of Sri Lanka Civil Aviation Authority”, action had already been taken to credit an amount of Rs.1,373,269,517 to the consolidated fund on 10.05.2024 after retaining an amount of Rs.393,000,000 from the foreign sales
- Plans should be made properly and implemented with respect to the collection of government revenue.

December 2023, but those surcharges had not been credited to the Consolidated Fund. Furthermore, Attorney General's Department had informed the Director General of the Department of Public Enterprises that it is still possible to recover the surcharges and it is a legal liability to credit the surcharges to the Consolidated Fund, by the letter dated 07 April 2017. Nevertheless, action had not been taken even by the date of audit to recover the said surcharge from the Civil Aviation Authority.

surcharge income of Rs.1,766,269,517 from November 2023 to March 2024. The Chairman of the Sri Lanka Civil Aviation Authority has informed that, this income will be collected from the airline companies for two quarters of two weeks, and the money of the second quarter will be received on the 15th day of the next coming month, and accordingly the remittances related to the coming months will be sent before the 20th day of the next coming month after the end of a certain month.

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| (e) | An on-lending balance of Rs.190,789,890,831 remained receivable as at 31 December 2023 as per financial statements of the Government. Due to defaulting on payments contrary to on-lending agreements, an on-lending balance of Rs.1,316,324,489 remained due over a period of 05 years relating to 03 institutions. | Agreed with the audit observation. | The on-lending process of the Government, control, and accounting for on-lending agreements should be formalized. |
| (f) | The value of interest receivable on on-lending, amounted to Rs.9,439,025,443 as at 31 December 2023 and as per the agreements relating to 03 institutions, the total of interest that remained unpaid over a period of 05 years, amounted to Rs.912,059,388. | Agreed with the audit observation. | -do- |
| (g) | As at 01 January 2023, the total value of on-lending balances under 4 on-lending agreements, related to 2 institutions was Rs.114,487,221 and out of that, any outstanding balance could not be recovered during the year under review. | <ul style="list-style-type: none"> • As the loan amount of Rs.11,114,479 of Sanasa Institute is not recovered, legal proceedings are being carried out. | -do- |

- The loan balance of Rs.455,065- It has been informed that there is no balance according to the system maintained by the Information Technology Department of the Central Bank of Sri Lanka.
- While funds are not available for repayment of Rs.4,496, the fund has been transferred to the Deputy Secretary to the Treasury as interest income.
- The amount of Rs.102,913,181 was previously financed by the Central Bank of Sri Lanka under an on-lending scheme, and it has been informed that those balances have also been removed from the records of the Central Bank of Sri Lanka.

(h) The domestic debt had been restructured according to the Cabinet Decision No. 23/1221/604/121 and dated 28 June 2023. Accordingly, according to the information submitted to the audit, the information related to domestic debt restructuring is as follows.

<p>(i) Treasury bills amounting to Rs.2,368,416,351,609 purchased by the Central Bank of Sri Lanka and advances amounting to Rs.344,728,000,400 given to the government, had been converted into new treasury bills valued at</p>	<p>As per the Cabinet decision No. 23/1221/604/121 dated 28.06.2023 and as per the Cabinet memorandum, the domestic debt restructuring program was implemented and accordingly agreed with your observation.</p>	<p>A presentation of information.</p>
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Rs.220,797,000,000 and new treasury bonds valued at Rs.2,492,347,352,009.

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| (ii) The treasury bonds with a total value of Rs.3,204,461,897,219 had been converted into new treasury bonds on 14 September 2023. | -do- | -do- |
| (iii) Sri Lanka Development Bonds valued at USD 788,237,384 had been converted into treasury bonds on 15 August 2023. | -do- | -do- |
| (iv) The loan amount of USD 85,943,611 obtained from People's Bank in relation to foreign exchange banks issued under the domestic law of the government had been converted into treasury bonds on 11 November 2023. | -do- | -do- |
| (v) Further, MoU had been signed on 02 November 2023 for restructuring foreign exchange banking unit loan amounting to USD 240 million obtained from the Bank of Ceylon under the above law. | -do- | -do- |
| (i) Supplementary allocation had been provided to the head 130- the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government under the object- supplementary ancillary services and emergency cases liability which is stated in the Clause 6(1) of the Appropriation Act No. 43 of 2022, for the damages caused to the private property of the Members of Parliament due to the crisis situation in the country during the period from 31 March 2022 to 22 | As per the CP No. 23/0732/601/010-III and the Cabinet decision dated 24.04.2023, a sum of Rs.714 million had been released through the letter No.186 dated 09.05.2023. Further, as per the CP No. 23/1683/605/035-I and the Cabinet decision dated 11.09.2023, it had been directed to the Secretary to the Treasury to provide an additional allocation of Rs.700 million for payment of | Action should be taken to identify the assessed compensation in advance and provision should be made through annual estimates. |

July 2022, without making any provision in the annual estimates of the year 2023. It was observed that a total of Rs.1,050,339,626 had been paid as compensation for 41 members of parliament through the said ministry in the year under review.

compensation to the Members of Parliament in future. Accordingly, an additional allocation of Rs. 300 million has been given by the letter dated 04.10.2023 through Power No. 341 based on the actual requirement. In addition, Rs.42 million had been transferred for the object 130-01-12-002-1508 on 12.12.2023 and Rs.24 million under F.R. 66 on 28.12.2023.

Accordingly, an allocation of Rs.1,080 million has been provided to meet this expenditure, out of which Rs.1,056 million has been incurred and it has been duly reported to Parliament as per provision 6 (i) of the Appropriation Act relating to the year 2023 regarding the supplementary allocations.

(j) In relation to the restructuring of public enterprises, a State-Owned Enterprise Restructuring Unit had been established under the Ministry of Finance, Economic Stabilization and National Policies and it had been operated from 01 December 2022. Accordingly, the following observations were made in relation to the restructuring of public enterprises.

(i) It had been decided to establish a holding company as per the Principle 02 of the State-Owned Enterprise Reform Policy and as per the paragraphs 4.2 and 4.3 of the Cabinet Memorandum No. MF/036/CM/2023/107 dated 08 May 2023 which was approved by the Cabinet on 15 May 2023, to

The above proposals have not yet been implemented as it is the government's policy that the establishment of a holding company should be commenced by including in the Public Enterprises Reform Act.

Action should be taken according to the decision of the Cabinet of Ministers.

transfer 72 entities listed in Annexure 02 and 03 of the Cabinet Memorandum to the holding company for restructuring as its subsidiaries. However, such Holding Company (HOCO) had not been established even as at 31 December 2023.

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| (ii) | <p>Furthermore, out of the 8 institutions listed in Annex 02 of the above memorandum, which were proposed to be transferred to the holding company (HOCO) and restructured, several stages of the bidding process for the divesting process of the government shares under the State-Owned Enterprise Reform Programme had been implemented for 07 institutions by hiring transaction advisors without acquiring by the holding company even up to present. It was observed that one of the institutions under this had been temporarily suspended on the advice of the Attorney General.</p> | <p>Out of the 08 institutions listed under this, 07 institutions have already engaged several stages of the bidding process for the divestiture under the State-Owned Enterprise Reform Programme by hiring transaction advisors. According to the government's priority in this regard, after obtaining the approval of the Cabinet of Ministers for the CP No. 23/0431/604/046 at the meeting held on 13.03.2023, these works have been started. Under this, Water Edge institution has been temporarily suspended on the advice of the Attorney General.</p> | <p>-do-</p> |
| (k) | <p>The introduction of an integrated treasury management information system (ITMIS) to automate treasury operations had been commenced in the year 2010, and the estimated cost of the total investment in this regard was amounted to US\$ 60 million equivalent to Rs.7,920 million. As at 31 December 2023, 13 years had elapsed approximately and as per the information received to audit, the 13 basic main activity areas expected to be implemented by this system had not been fully developed and implemented despite an expenditure of</p> | <p>ITMIS has been introduced by the Financial Management Efficiency Project (FMPEP) since the year 2010. The approval of the Cabinet of Ministers had been received in July 2019 for the expansion of the main functional areas of the system. By that time, the FMPEP project had already completed the expansion of the system's budget planning and activities related to budget allocation. The circumstances occurred after the Easter bomb attack in the 2019, the curfews and country lockdowns due to</p> | <p>Since, it has been delayed already, prompt action should be taken to fully develop and implement the system.</p> |

Rs.5,647 million been incurred. However, it was observed that, according to the agreements entered regarding the ITMIS system as at 31 December 2023, a sum of Rs.43,887,382 and US\$ 989,103 were still remained payable to the service providers as at 31 December 2023.

the spread of the COVID pandemic in the years 2020 and 2021, and the political and economic crisis in 2022 distracted the expansion activities of the ITMIS system. In the first half of the year 2023, the expansion of the system could not be done due to the project evaluation work done by the ministries. Accordingly, expansion of the ITMIS system could not be done properly for about 4 years.

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| (l) | In the year 2016, another payroll management system called e-Payroll had been introduced only to the Ministry of Finance without installing and implementing the salary management activity area which was expected to be implemented since the beginning of the ITMIS system, and an expenditure amounting to Rs.5,704,871 had been incurred for that as at 31 December 2023. | The Ministry of Finance had identified the need for a payroll management activity system for the entire public sector by the year 2016. The payroll management process that was to be introduced only for the Ministry of Finance through the above ITMIS system was limited and it was not appropriate to apply for the entire public sector. Further, expansion of that process through the ITMIS system in such a background is also disadvantageous from the economic point of view. Therefore, according to the decision to obtain another software for payroll management for the entire public sector at the policy meeting of the Ministry held in April 2016, the e-payroll salary management system is currently being implemented. | Implementation of a payroll management system for the entire public sector should be expedited with special attention to economy and efficiency. |
| (m) | The total amount of foreign grant expenditure received during the year under review was Rs.5,333 million under Note No. 05 Foreign | Only the custodianship and accounting of the money received in the form of foreign grants is related to the | To strengthen the coordination and regulation of the utilization of the |

Grants (Cash Receipts) in the financial statements of the year 2023, and according to the relevant deposit ledger, the total amount of that expenditure was Rs.5,302 million.

Department of External Resources and the implementation of the relevant grant projects is carried out by the government ministries/departments.

received foreign grants for the relevant purposes so as to confirm the trust of the donors.

Therefore, use of money for the intended purposes is the responsibility of the relevant ministries/departments.

(n) As at 01 January 2023, the value of foreign grants received by the Government of Sri Lanka but remained inactive without being used for the relevant purpose even as at 31 December 2023 was Rs.107.6 million.

The total value of 2 deposit accounts amounting to Rs.11,049,841 has been identified as inactive balances and action has been taken to credit to the government revenue on the recommendations of the relevant ministry and institution in the year 2024. Regarding the account with a deposit balance of Rs.57,696,383, this department informed the relevant ministry, and accordingly, the relevant ministry has applied to obtain budgetary allocation from the Department of National Budget in order to release the funds. After making the relevant allocations, steps will be taken to release the funds and accordingly, the prescribed amount under this deposit account will be utilized in the future.

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Furthermore, the relevant institutions have been informed to utilize the deposit amount of Rs.38,863,894 related to the remaining 07 deposit accounts for intended purpose.

- (o) According to the age analysis of advances (8493) of government officers submitted as at 31 December 2023, the balance between 5 and 10 years to be recovered from officers who have transferred to the institutions of provincial councils, officers who have been permanently released for corporations, boards and provincial councils, dead officers, retired officers, suspended officers, officers who left/terminated the service, officers employed on secondary basis, officers on expatriate/domestic leave and others, was amounted to Rs.112,939,218 and the receivable balance over 10 years was amounted to Rs.277,066,082.
- It is the responsibility of the Chief Accounting Officers and Accounting Officers of the respective institutions to follow the provisions in the Establishment Code, financial regulations and existing circulars and settle these loan balances. Follow up actions are being taken regularly by calling the progress of those institution on a quarterly basis, checking the recovery progress of loan balances and providing necessary technical advices.
- Prompt action should be taken to settle the balances and improve the existing system.
- (p) By the end of the year 2022, the current ratio relevant to 17 state-owned enterprises remained in a weak condition. In particular, it was observed that the current ratio of Sri Lankan Airlines is at a very low value of 0.15. Accordingly, it was further observed that these public enterprises have a high risk of facing liquidity difficulties.
- The treasury has very limited financial capacity to invest in public enterprises. In such cases, public enterprises had to access banking sources to meet their working capital requirements. Accordingly, due to the increase in loan premiums and interest payable to the banks, current liabilities were also taken a higher value compared to current assets. Thus, liquid assets are insufficient to meet the short-term liabilities of the respective public enterprises. However, as it is observed that Sri Lankan Airlines is no longer able to pay its liabilities, its balance sheet had been restructured by taking over liabilities of USD 210 million and USD 100 million to the government to attract potential investors.
- The financial position of the government-owned institutions should be evaluated timely, taken proper action and the decrease in their values should be properly disclosed in the financial statements of the government.

- (q) By the end of the year 2022, it was observed a high debt to equity indicating a levered condition in respect of 16 state-owned enterprises. In some institutions, the long-term debt to be paid was higher than the government's capital. Further, public enterprises were observed where the government's capital contribution was negative and those institutions were financed entirely by long-term debt. Accordingly, it was further observed that all these institutions are facing a high financial risk as well as a severe risk of going concern.
- These state-owned enterprises are facing a high levered condition due to financing their working capital required to carry out operations through long-term loans obtained from banks. Some public enterprises have even had to restructure their loans with the consent of the creditors in the failure to service the bank loans within the stipulated period. Although it is difficult to provide financial relief for the existing capital difficulties of state-owned enterprises in view of the limited financial space of the government, it was possible to bring the levered situation in the enterprises to a good condition through the reforms taken in the year 2023.
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- (r) According to the financial statements of the government, during the year under review, the increase in capital contribution of state-owned enterprises was Rs.269,386 million, of which Rs.34,090 million, or 13 per cent, was in the form of recurring nature which consisted of money released from the General Treasury to individual institutions for payment of loans, loan interest and payments of salaries and wages.
- All these institutions are fully owned by the General Treasury. Accordingly, the Treasury should provide the necessary financial contribution for the existing working capital problems or other recurring expenses of those institutions.
- As there is no increase in the capital contribution of the institutions through incurring recurring expenses, a proper method should be followed for that.
- (s) According to the financial statements of the government, capital contributions of Rs.176 million were made for 05 state-owned enterprises during the year under review, but there was no change in the number of shares held by the General Treasury.
- The previous method for recording the capital contribution made in the public companies in the main ledger account was that accounting takes place immediately after the relevant capital contribution is made and not until the share
- Prompt action should be taken to obtain the share certificates related to the investment in shares made by the government.

- certificates are issued as it takes considerable time for the process of issuing share certificates by the companies.
- (t) The proposal No. (a), (b), and (c) of the Cabinet Memorandum No. MOF/DG/LAD/CO/142/2017 and dated 30 October 2017 regarding the liquidation of Mihin Lanka (Private) Company had been approved by the Cabinet decision No. CP/17/2383/733/026-1 dated 08 November 2017. Accordingly, the Secretary to the Treasury had passed a special resolution for the liquidation of the company and according to the request made from the Commercial High Court, a liquidator had been appointed by the Court on 18 March 2018. In such a situation, a sum of Rs. 272 million and Rs.441 million in total amounting to Rs.713 million had been given by the Treasury in the year under review for that company to pay installments and interest for the year 2021 and 2022 respectively in relation to the loans taken by the company from the People's Bank.
- The capital contribution given to Mihin Lanka (Private) Company for the year 2021 was not recorded in the relevant main ledger account in those years. As there are cases where share certificates are not issued in the same year of capital contribution, related accounting activities are also delayed. Therefore, in order to avoid such omissions, in consultation with the Department of State Accounts, necessary steps were taken to include the share certificates in the main ledger accounts of the relevant note.
- In providing funds, the government should minimize the possible disadvantages and the existing conditions should be formally evaluated.
- (u) The number of shares invested in Sri Lanka Telecom was not recorded under accounting note 15 in the financial statements of the government of year under review and the value was stated as Rs.1,271,480,516. Furthermore, according to the balance confirmation letter received from Sri Lanka Telecom, although the Sri Lankan government's shareholding in Sri Lanka Telecom is 50.23 percent as at 31 December 2023, it was stated as 49.5 percent in the government's financial statements.
- Share certificates have not been received for this equity investment up to now. Due to an omission, the relevant number of shares has not been stated, and will be included that value in the future. This difference in percentage occurred due to a mathematical error in calculating the relevant percentage and is noted it for future correction.
- Accuracy of accounts should be ensured by obtaining timely balance confirmations from state-owned entities.

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| (v) | According to the government's financial statements, the increase in the capital contribution of state-owned enterprises during the year under review was Rs.269,386 million, of which Rs.228,771 million or 85 percent had been increased due to equity investments made in the Ceylon Electricity Board and Sri Lankan Airlines Limited under restructuring of balance sheets as per the decision of the Cabinet of Ministers No. 23/1812/604/118-1 dated 26 September 2023. | Agreed and noted. | As the government may be affected by a financial problem due to the government taking over the identified liabilities of the state-owned enterprises, a proper system should be established to settle those liabilities. |
| (w) | Even though the General Treasury had entered into agreements to obtain foreign grants from 01 January 2019 to 31 December 2023 with 13 foreign donor agencies in different currencies with aggregated values of Japanese Yen 984,000, EUR 134,810,000, USD 58,417,841, Korean Won 400,000, Chinese Yuan 2,000,000,000 and Rs.4,545,750, evidence was not presented to the audit even as at 31 December 2023 that those foreign grants had been received. | Even though agreements are entered some of the agreements of which grants not received, have been utilized so far and the relevant information has not been provided to this Department by the donor country/ institution for recording them. Further, | Action should be taken to obtain the full foreign grants that are entered into agreements and make arrangements to use them for the purpose as much as possible. |
- 2022209 and 2023209- Japan, Contracted with the Government of Japan to receive these two grants under the Japan Economic and Social Development Program. The procurement agent is in the process of purchasing this equipment, and a part of the project (1) equipment will be received this year and the rest next year. The equipment under the project (3) is to be received within the next two years.
 - 2023207- Japan, This is a long-term scholarship for Sri Lanka under the Human Resources Development

Scholarship (JDS) Japan Aid Program by the Government of Japan. Its first phase started this year, and currently the officers have been selected for the scholarship, and they are scheduled to go to university studies in Japan in August 2024.

- 2019241 - The Netherlands, Although contracts for this project were entered into in 2019, but due to subsequent circumstances, the implementation of the project was delayed until July 2021. It is planned to be completed in the year 2025.
- 20190211- Germany, this is a grant given by the German government for the construction project of Mahamodara Maternity Hospital. The construction period of the project had to be extended due to various reasons.
- For grants under Germany, European Union, European Community, United States of America, as per the instructions issued under the circular No. ERD/AE/GEN/16 dated 02.10.2020 of the Ministry of Finance, regarding “Streamlining the Fund Channeling Mechanism and Implementation Modalities of Grant Funded Projects”, providing the necessary information for monitoring and maintaining records is a

task to be performed by the ministry or institution implementing the relevant project. Due to non-availability of expenditure reports in the implementation of these projects, the amount utilized is not included in the data system of the Department of External Resources.

- 2021212 - Asian Development Bank, Not utilized due to delays in project implementation.
- 2021211- IFAD, there was no need to spend this amount as the work to be carried out from this grant (Technical Study) was done by the Project Management Unit.
- 20190206 - UNESCO, this information has not been reported to this department.

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| (x) | <p>Although it was informed to the audit that due to the temporary suspension of loan payments, the commitment fee has not been paid on the unused balances related to those loan agreements from 12 April 2022, it was further observed in the audit that there is a risk of having to pay a normal commitment fee or higher value due to delay in payment, on the unused balances related to these loans.</p> | <p>In accordance with the adopted interim policy of moratorium on certain loans declared by the Government of Sri Lanka, servicing of the affected foreign loans has been temporarily suspended from 12 August 2022. Accordingly, unpaid commitment fees and penalty interest loan balances may be discussed in the compromise negotiations related to the debt restructuring process, and instructions have not been received so far.</p> | <p>Additional costs related to suspension of loan payments should be identified in advance and appropriate strategic solutions should be provided.</p> |
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4. Financial Review

4.1 Estimation of Revenue

Audit Observation	Comment of the Management	Recommendation
(a) The GDP for the year 2023 amounted to Rs.27,630 billion whereas the GDP for the year 2022 amounted to Rs. 24,063 billion, thus indicating an increase in the GDP by 14.82 per cent or Rs. 3,567 billion as against the preceding year.	Revision of personal income tax structure, increase in corporate income tax rate and removal of exemptions given to each sector, revision of value added tax rates in 2022, revision of customs duty rates, revision of production tax rates, increased revenue from sales and fees and the newly introduced social security contribution tax in late 2022 led to increased revenue collection.	Estimates should be prepared accurately by assessing the revenue, attention should be brought in revising them as to how the budget deficit will be financed and the ability to amend revenue estimates approved by Parliament
(b) According to the initial annual budget estimate approved by Parliament for the year 2023, the value of Government revenue amounted to Rs. 3,408 billion and that value amounted to Rs. 2,084 billion in the preceding year. Accordingly, the government revenue had been estimated by increasing the government revenue by Rs. 1,324 billion or 64 per cent as against the preceding year.	With the economic crisis in 2022, the import restrictions imposed to reduce foreign exchange outflows continued until the latter half of the year for many goods and thus overall imports decreased by 8.1 percent in 2023 compared to 2022, inflation decreased earlier than expected, strengthening of the rupee value against foreign currencies, the conditions in the uncontrolled foreign market as well as the variations in consumer behavior were the factors that primarily affected the Parliament's inability to achieve the approved annual revenue estimate 100 percent.	without formal parliamentary approval should be limited.
(c) Although the budget deficit had been estimated based on that revenue estimate, the initial revenue estimate had been shown as Rs. 2,880 billion by the Revenue Accounting Officer by deducting a sum of Rs. 528 billion. According to the revised revenue estimate, the Government revenue represented 10.4 per cent of the GDP. Increase in the GDP should have been taken into account when preparing revenue estimates, but without doing so, it was observed that the revenue had been overestimated.	In estimating the government revenue, the tax elasticity and tax buoyancy of each revenue source and new tax policies are mainly focused on. Also,	

- (d) According to the budget performance and deficit financing statement included in the government's financial statements, the government revenue collected in the year 2023, amounted to Rs. 3,079 billion and it was an increase of Rs.199 billion over the revised revenue estimate. When compared to the original estimate presented to the Parliament, it had decreased by Rs.329 billion. The decrease in the collected revenue over the revenue estimation submitted to Parliament in each year during 2012 - 2023 ranged between 4.08 percent and 26.06 percent. The highest percentage during that period was recorded in the year 2021.
- (e) According to Financial Regulation 85 (2) (b), The Revenue Accounting Officer should only inform the Department of Fiscal Polices to revise the revenue estimate, and hence, lack of accountability was observed in estimating revenue realistically as a revenue estimate already approved by Parliament had been allowed to be revised without consent of the Parliament.

macroeconomic criteria and trends are considered. Assumptions about the behavior of macroeconomic variables such as economic growth rate, inflation, employment, exchange rate, behavior of the trade account, capital flows, foreign investment etc. are used in the estimation of government revenue. In addition to this, the impact of the public's purchasing power, effect of demand and supply, domestic and foreign market behavior, the government's short-term and long-term economic development directions, impact of capacity building in public institutions as well as the impact of unexpected disasters are considered in the estimation of government revenue.

Therefore, in preparing the revenue estimates for the year 2023, attention has been focused on the increase in GDP. However, predicting the behavior of economic variables in the extremely difficult economic environment that followed the economic crisis in 2022 was challenging.

Also, according to the Fiscal Policy Circular No. 1/2015, together with the preparation of the revenue estimates for the coming year, the revised revenue estimates for the current year are also prepared, and the approval is obtained for the revised revenue estimate by including in the draft appropriation bills

submitted for the approval of the Parliament for the upcoming year. In particular, when preparing the revised revenue estimates, the revised revenue estimate for the current year, which is referred to the relevant revenue Heads by the Revenue Accounting Officers, as well as the revenue trends of the previous years, the revenue performance of the first few months of the relevant year, and assumptions of the macroeconomic variables including economic growth and their short-term consequences, domestic and uncontrolled foreign market behavior as well as other existing conditions will be given special attention and prepared the revised estimate.

4.2 Deficit in Revenue

Audit Observation	Comment of the Management	Recommendation
<p>(a) As per the budget performance and deficit financing statement in the financial statements of the year under review, deficit in revenue amounted to Rs. 1,650 billion whereas the same amounted to Rs. 1,540 billion in the preceding year. The highest value in deficit of revenue for the period 2006-2023 was reported in the year 2023. During that period, the revenue collected in every year had not sufficed to settle the recurrent expenditure of the Government. The minimum of the revenue deficit amounting to Rs. 43 billion was reported in the year 2007, and that represented 7.52 per cent of the revenue collected by the Government. Deficit in the total revenue for the said period amounted to Rs. 7,969 billion; and, local and foreign loans and foreign grants had been obtained to</p>	<p>Noted. However, the revenue, expenditure and budget deficit being used for economic analyses, are computed based on economic classification. It is true that performance in collecting Government revenue is affected due to failure to recover/credit/default relating to revenue receivable under Heads of revenue in each year thus giving rise to outstanding revenue. Nevertheless, the Revenue Accounting Officers-directly responsible for the relevant Heads of revenue, and the Chief Accounting Officers of</p>	<p>Action should be taken to minimize the deficit in revenue by collecting revenue, and expenses should be incurred economically.</p>

overcome that deficit. As such, a total of Rs. 36,614 billion had been obtained during that period comprising local loans amounting to Rs. 28,025 billion, foreign loans amounting to Rs. 8,318 billion and foreign grants amounting to Rs. 271 billion. Deficit in revenue had been financed by utilizing the loans and grants obtained in each year, by 4.44- 45.59 per cent. In order to settle the recurrent expenditure, the loans and grants so obtained had been utilized by 20.25 per cent, 45.59 per cent, 42.39 per cent, 30.59 per cent and 19.65 per cent in the years 2019, 2020, 2021, 2022, and 2023 respectively, without being used to make investments.

all the Ministries / Departments, as well as all other Accounting Officers are responsible for the continuous accumulation of deficit in revenue.

- (b) An interest of Rs. 2,455 billion representing 51.91 per cent of the total recurrent expenditure, had been paid in the year under review whereas an interest of Rs. 1,565 billion equivalent to 44.22 per cent of the total recurrent expenditure had been paid in the preceding year. Interest payments had increased by Rs.890 billion compared to preceding year. In accordance with the interim policy decision taken by the Ministry of Finance, Economic Stabilization & National Policies on 12 April 2022 to suspend the settlement of foreign loans, settlement of some of the loan installments and interest had been suspended from 13 April 2022 up to the end of the year under review. However, it was observed that had the relevant payments been made, the said deficit would have been further increased. Payment of interest amounting to Rs. 151 billion in the year 2006, had increased by 1,526 per cent reaching Rs. 2,455 billion by the year 2023. Loans had been obtained to finance the budget deficit and payments of interest thereon had increased annually. According to the budget performance and deficit financing statement in 2023, a sum of Rs. 2,455 billion or 79.73 per cent of the Government revenue amounting to Rs. 3,079 billion collected in the year 2023, had been spend on the payment of interest. This

situation had been increasing annually, and an exponential growth was indicated after the year 2019.

- (c) The total of the revenue due from key institutions collecting revenue such as, Department of Inland Revenue, Sri Lanka Customs, Department of Excise, Department of Motor Traffic, amounted to Rs. 1,127 billion by the end of the year under review.
- (d) The Department of Inland Revenue should have collected a revenue of Rs. 1066 billion relevant to the year 2023, but that amount remained due without being collected. Had that revenue been collected in the year 2023, the revenue deficit in that year would have been decreased up to Rs. 584 billion or 35.39 per cent. The outstanding revenue amounted to Rs. 620 billion and Rs. 904 billion in the years 2021 and 2022 respectively. Had the said outstanding revenue been collected in the relevant years, the revenue deficit in the year 2021 would have been decreased to Rs. 670 billion by 51.94 per cent whilst the revenue deficit in the year 2022 would have been decreased to Rs. 636 billion by 41.30 per cent.
- (e) The delay of the Department of Inland Revenue in recovering the outstanding taxes had been attributable to the reasons such as, deficiencies in the revenue administration information system, outstanding tax appeal process was time-consuming, and lack of a court system specialized in legal affairs relating to recovery of outstanding taxes.
- (f) Due to reasons such as, failure in accurately preparing the revenue estimates or revenue had not been collected as per estimates, and failure in managing expenses economically, loans had been obtained. As obtaining loans had annually increased, the interest payable thereon had also been on the increase, and hence the recurrent expenditure had also increased. Accordingly, the revenue was not

sufficient to settle the expenditure annually and as a result, deficit in revenue had increased annually.

4.3 Budget Deficit

Audit Observation	Comments of the Management	Recommendation
<p>According to the government's financial statements, the budget deficit for the year 2023 stood at Rs.2,584 billion, accounting for 9.35 percent of the GDP. The budget deficit for the year 2022 was Rs.2,555 billion, representing 10.62 of the GDP. There was a budget deficit throughout the period from 2006 to 2023 and the budget deficit, which stood at Rs.300 billion in the year 2006, had increased to Rs.2,584 billion by 2023. During that period, the highest budget deficit was recorded in 2023. The budget deficit as a percentage of the GDP ranged from 5.55 per cent to 14.08 per cent from 2006 to 2023. The actual budget deficit, which should be 5 per cent of the actual GDP as stipulated in Section 3(a) of the Fiscal Management (Responsibility) Act, No.03 of 2003, was not maintained during any year within that period. It was possible to maintain that percentage at 5.55 per cent, 5.69 per cent, and 5.59 per cent in 2016, 2017, and 2018 respectively.</p>	<p>Despite the significant increase in government revenue, further reduction of the budget deficit remains a challenge due to the inflexibility of recurrent expenditure.</p>	<p>The budget deficit should be minimized in compliance with the relevant legal provisions.</p>

4.4 Increase in the Debt Balance

Audit Observation	Comments of the Management	Recommendation
<p>With the increase in the annual budget deficit, the quantity of borrowings had also increased. According to the financial statements of the government, the debt balance payable by the government as at the end of 2023 was Rs. 29,150 billion. The balance mentioned above included local debts amounting to Rs. 17,074 billion and</p>	<p>Due to the policy decision taken by the government on 12 August 2022 to service the foreign debt, the space to enter the foreign debt market in the year 2022 was reduced and the deficit had to be covered by taking</p>	<p>Liabilities have to be maintained in accordance with the prescribed provisions.</p>

foreign debts amounting to Rs. 12,077 billion. The public debt balance had reached Rs. 27,379 billion in 2022. Accordingly, the debt balance had increased by Rs. 1,771 billion, representing a 6 percent increase in 2023 compared to 2022. The debt balance, amounting to Rs. 2,431 billion in 2006, accounted for 82.72 per cent of the GDP and by the end of 2023, it had reached to 104.06 percent. Furthermore, in terms of Section 3 (f) of the Fiscal Management (Responsibility) (Revised) Act, No.15 of 2013, the government's liability should be below 80 per cent of GDP. However, the government's debt liability, excluding other liabilities, had reached 104.06 per cent of GDP. This situation persisted in the years 2020, 2021 and 2022 as well.

loans from the domestic debt market. Accordingly, there has been an increase in the domestic debt balance in the year 2023 as compared to the year 2022.

Revenue-based fiscal consolidation is expected to further reduce government debt levels by reducing government borrowing requirements in the coming years. Also, new public financial rules are to be introduced through the Public Finance Management Bill.

4.5 Public Debt

	Audit Observation	Comments of the Management	Recommendation
(a)	The loan disbursement estimate of the government including government grants and the actual value as per the Performance Plan for the year 2023 were as follows.		

Development Partner	Disbursement Estimate including Grants 2023	Actual Disbursement Value including Grants 2023	Variance	Variance as a percentage of the Disbursement Estimate
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	--- USD Mn.	USD Mn.	USD Mn.	Percent
World Bank	806	753.2	(52.8)	(7)
Asian Development Bank	1,011	856.9	(154.1)	(15)
China and the Asian Infrastructure Investment Bank (AIIB)	21	24.2	3.2	15
Japan	31	39.6	8.6	28

Korea	10	0	(10)	(100)
Middle East countries	47	28.9	(18.1)	(38)
South Asian Countries	90	142.5	52.5	58
Russia, Australia and Western Countries	30	32.2	2.2	7
United Nations Agencies including IFAD	15	9.7	(5.3)	(35)
International Monetary Fund	682	681.5	(0.5)	0.07
Total	-----	-----	-----	
	2,743	2,568.7	(174.3)	
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The following observations are made in this regard.

- (i) Although the total value of the disbursement estimate for the year 2023 was USD 2,743 million, the actual disbursement value was USD 2,568.7 million. Accordingly, the actual disbursement value had decreased the disbursement estimate by USD 174.3 million or around 6 per cent.
- (ii) The actual disbursement value of loans from South Asian countries, Japan, China and the Asian Infrastructure Investment Bank and Russia, Australia and Western countries had increased by 58, 28, 15 and 7 per cent respectively compared to the disbursement estimate.
- (iii) The loans, which were expected to be obtained from World Bank, Asian Development Bank, Middle East countries and UN agencies including IFAD had decreased by 7, 15, 38 and 35 percent respectively.
- (iv) Although it had been estimated to obtain loan from Korea during the year under review, loan was not obtained even by the end of the year.
- With the announcement of the Interim Policy on Foreign Debt Servicing Payments issued on 12 April 2022, most of the lending countries and institutions suspended the disbursement of funds for the projects that were currently being implemented, and currently adaptation to the program proposed to Sri Lanka by the International Monetary Fund and debt restructuring negotiations are held with those lending countries and institutions. Considering the progress of those discussions and expecting that some amount of disbursements will be made in the last quarter of 2023, disbursements were estimated for bilateral lending countries. Foreign debt financing should be done formally and with proper plan.

including Korea, Japan and China for the year 2023. But due to the fact that the negotiations did not end as expected, there has been a decrease in the actual disbursements in the Middle East and Korea than the estimated disbursements.

The projects being financed by Japan and the debt restructuring negotiations by the end of 2023 were unable to reach a final agreement, so the loan realization did not occur. However, since Japan has given more than the expected amount of grant money to Sri Lanka, there has been an increase in its actual disbursements.

Due to the delays in the implementation of the projects with the economic crisis in the country, the actual disbursements have been slightly different from the disbursement estimates made by the World Bank and the Asian Development Bank.

4.6 Profit and Dividends

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(i) Although the capital contribution of the state owned business enterprises stood at Rs.2,407,633 million in the government's financial statements as at 31 December 2023, only profits and dividends amounting to Rs.75,700 million were received for that investment during the year under review, representing 3.4 of the investment value.	Due to the limited financial position of the treasury, the capacity to make investments in state-owned enterprises is very low. In the year 2023, a capital contribution has been given to a very small amount of public enterprises, among which the restructuring of the balance sheets of public enterprises such as the Ceylon Electricity Board, Sri Lankan Air Lines, which are necessary to continue the government's activities, and for fulfillment of liquidity and working capital requirements faced by the public enterprises. In such an environment, it is informed that those institutions do not have the ability to earn returns on those investments in the same year.	Supervision and regulation of the Public Enterprises should be carried out systematically.
(ii) Even though the number of Government owned business and other institutions which are under supervision of the Department of Public Enterprises as at 31 December 2023 stood at 305, revenue estimates for 55 institutions of them had been prepared and only 47 institutions had remitted profits and dividends to the Treasury.	In the preparation of revenue estimates, it has been primarily evaluated whether there is a possibility of paying profits and dividends by the state-owned enterprises, and only those institutions that have such a capability have been taken into consideration in the preparation of the revenue estimates.	-do-

4.7 Treasury Guarantees and Letters of Comfort

Audit Observation	Comments of the Management	Recommendation
(a) The validity period had not been extended as at 31 December 2023 in relation to 17 treasury guarantees valued at Rs. 168,541.48 million which equivalent to USD 59.88 million and 09 letters of comfort valued at Rs.29,250 million which equivalent to USD 200 million that had been expired in the year 2023 and before that.	Agree with the audit observation.	The process of issuing treasury guarantees and letters of comfort should be maintained in a systematic and updated manner.
(b) As per the financial statements of the Government of the year under review, it was observed that treasury guarantees valued at Rs.115,977.35 million issued on 10 occasions to external institutions and letters of comfort valued at Rs.28,838.4 million issued on 10 occasions had expired by 31 December 2023 and action had not been taken to extended their validity period.	<p>The current situation regarding the non-extension of the validity period of the relevant treasury guarantees and letters of comfort even as at the date of audit is as follows.</p> <ul style="list-style-type: none"> • Ceylon Fisheries Corporation- The Corporation has been informed to expedite the settlement of outstanding balances and report the progress. • State Plantation Corporation of Sri Lanka- The validity period was extended from 16.10.2023 to 31.12.2028 on 05.01.2024. • National Water Supply and Drainage Board- According to the government's announcement that the servicing for bilateral external loans was temporarily suspended, the payment of loans has 	-do-

been suspended and any payment has not been made since April 2022 and the situation related to this will be informed by the Department of External Resources in near future.

- Sri Lankan Air Lines Company Limited-
On 18.01.2024, the validity period of these two guarantees has been extended from 11.11.2023 to 11.11.2024.
- Ceylon Petroleum Corporation-
Extended for a period of one year on 12.02.2024.
- Cooperative Wholesale Establishment-
The Department of Development Finance has informed to the Secretary to the Ministry of Trade, Commerce and Food Security in this regard by a letter dated 24.02.2023, but reply has not been received so far.
- Mihin Lanka Company-
The validity period of these guarantees has been extended to 31.12.2024 on 28.03.2024.
- Sri Lankan Air Lines Company Limited-
The validity period of these letters of comfort was extended from 31.12.2023 to 31.12.2024 on 18.01.2024.