

Head 249 – Department of Treasury Operations - 2024

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Head 249 - Department of Treasury Operations for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024, the statement of financial performance and cash flow statement for the year then ended was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No.19 of 2018. The Summary Report including my comments and observations on the financial statements of the Department of Treasury Operations was issued to the Accounting Officer on 31 May 2025 in terms of Section 11(1) of the National Audit Act, No.19 of 2018. The Annual Detailed Management Audit Report was issued to the Accounting Officer on 07 August 2025 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. This report is tabled in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, the financial statements of the Department of Treasury Operations for the year ended 31 December 2024 give a true and fair view of the financial position, financial performance and cash flows, in accordance with the basis of preparation set out in Note 1 to the financial statements, in all material respects.

1.2 Basis for Opinion

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

1.3 Emphasis of Matter- Basis of Preparation of Financial Statements

Attention is drawn to Note 1 of the financial statements detailing the basis for preparation of these financial statements. These financial statements have been prepared in accordance with Financial Regulations 150 and 151 of the Government and the State Accounts Guideline No. 06/2024 dated 16 December 2024, as amended on 21 February 2025, for the requirement of the Department of Treasury Operations, General Treasury, and the Parliament. Therefore, these financial statements may not be suitable for other purposes. My report is intended solely for the use of the Department of Treasury Operations, General Treasury, and the Parliament of Sri Lanka. My opinion is not modified on this matter

1.4 Responsibilities of the Accounting Officer for the Financial Statements

The Accounting Officer is responsible for the preparation of financial statements that give a fair view in all material respects in accordance with Financial Regulations 150 and 151 of the Government and the State Accounts Guideline No. 06/2024 dated 16 December 2024, as

amended on 21 February 2025 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

As per Section 16(1) of the National Audit Act, No.19 of 2018, the Department of Treasury Operations is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable the preparation of annual and periodic financial statements.

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

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

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

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

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department'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 disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

2. Report on Other Legal Requirements

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

- (a) The financial statements are consistent with the preceding year,
- (b) The recommendations made by me on the financial statements of the preceding year had been implemented.

3. Financial Review

3.1 Management of Revenue

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) When comparing the original estimates with the actual revenue, variations in respect of 11 revenue codes ranged from a decrease of 6 per cent to an increase of 1,398 per cent.	Agreed with the audit observation.	Accurate and realistic income estimates should be prepared by considering the provisions of F.R 85.
(b) As at 31 December 2024, arrears of revenue amounting to Rs.2,376,435,947 relating to 05 revenue codes (Revenue from Government Properties- Other Rent, Sales and Charges- Administrative Charges and Payments- Miscellaneous, Sales and Charges- Other Receipts, Interest- Lending, and Loan Recoveries) were observed. Out of this, arrears of revenue amounting to Rs.2,230,969,063 had remained outstanding for more than one year. Further, it was observed that arrears of revenue amounting to Rs.2,226,572,432 representing 99.8 per cent of the arrears outstanding for more than one year, had remained outstanding for more than 03 years.	Agreed with the audit observation.	Action should be taken to recover the arrears of revenue efficiently.

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| (c) When compared with the arrears of revenue disclosed in the financial statements as at 31 December 2023, the total arrears of revenue as at 31 December 2024 had varied within a range from a decrease of 100 per cent to an increase of 656 per cent. | Agreed with the audit observation. | Action should be taken to recover the arrears of revenue efficiently. |
| (d) The arrears of revenue balance of Rs.540,981 under Revenue Code No. 2003.02.99 as at 31 December 2023 had increased by Rs.4,087,297, that is, by 656 per cent, as at 31 December 2024. | Agreed with the audit observation. | Action should be taken to recover the arrears of revenue efficiently. |
| (e) Under Revenue Code No. 20.06.04.00, Capital Revenue- Loan Recoveries, a balance of arrears of revenue amounting to Rs.11,114,479 was observed in respect of the Badulla District Cooperative Society Ltd. Further, under Revenue Code No. 20.02.02.01- Interest on Loans, arrears of revenue amounting to Rs.612,893,552 and Rs.2,814,035 were observed in respect of the Sri Lanka Rubber Products and Export Corporation and the Badulla District Cooperative Society Ltd, respectively, and arrears of revenue amounting to Rs.296,351,801 were observed in respect of Sarvodaya Economic Enterprise Development Services (Guarantee) Limited, aggregating to a total arrears of interest income of Rs.912,059,388. These arrears had been outstanding since prior to 2018, and it was further observed that there was uncertainty regarding their recovery. | Agreed with the audit observation. | -Do- |

3.2 Management of Expenditure

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) Due to over allocation for 18 recurrent expenditure objects and 02 capital objects, there was a balance of Rs. 63,850,948,140 after the allocation was used in the year and the balance was between 09 percent and 69 percent of the net allocation.	Agreed with the audit observation.	Accurate and realistic estimates should be prepared as per the provision of F.R 50.
(b) When comparing the initial expenditure estimate with the net provision, the variance in relation to 16 expenditure objects varied from a decrease of 100 percent to an increase of 917 percent.	The reasons for the variances are as follows. <ul style="list-style-type: none"><li data-bbox="820 775 1118 1032">• During the year 2024, the value of the Sri Lankan Rupee against the United States Dollar depreciated beyond the expected level.<li data-bbox="820 1088 1118 1615">• A significant portion of foreign loans was restructured, whereby the interest payable under such loans that had not been settled up to that date was converted into a part of the restructured principal amount. The provisions made for such capitalized interest were not adequate.<li data-bbox="820 1671 1118 2002">• Due to the insufficiency of provisions made for the restructuring of international sovereign bonds, it was necessary to make additional provisions.	Accurate and realistic estimates should be prepared as per the provision of F.R 50.

- (c) During the year under review, provisions amounting to Rs.9,500,000,000 had been transferred to the expenditure object bearing No. 249-1-2-0-1409-32 by transfer notes bearing warrant Nos. 2024-2490000-BCUV-00000003 dated 23 August 2024 and 2024-2490000-BCUV-00000016 dated 24 December 2024 for Rs.5,000,000,000 and Rs.4,500,000,000 respectively. In addition, a provision of Rs.18,000,000,000 had been made through a Supplementary Estimate on 11 December 2024. However, in the financial statements, under ACA 2(ii) – Statement of Expenditure by Programme, the Supplementary Estimate provision had been erroneously shown as Rs.9,500,000,000 and the transfer under F.R. 66/69 had been erroneously shown as Rs.18,000,000,000.
- It was noted these deficiencies to prevent recurrence, and instructions had been issued to the relevant officers in this regard.
- Action should be taken to ensure proper reporting of the manner in which provisions are made.

3.3 Deposits Balances

Audit Observation	Comment of Accounting Officer	Recommendation
During the year under review, 13 deposit accounts comprising 10 accounts relating to foreign grants, 02 temporary deposit accounts maintained for re-payments to third parties, and 01 deposit account relating to domestic grants, aggregating to Rs.335 million, had been maintained without any transactions.	Agreed with the audit observation.	Grants should be arranged to apply to the purpose for which they were provided or, if it is not possible, as per the F.R 570, it should be credited to the relevant account or to the government revenue as the case may be.

4. Operational Review

4.1 Performance

The primary responsibilities entrusted to the Department of Treasury Operations include accounting for borrowings and debt repayments on behalf of the Government of Sri Lanka, the proper allocation of funds received as foreign loans and grants to the Government, facilitating the Government in obtaining domestic and foreign commercial loans, maintaining the fund flows relating to on-lending programmes, and issuing Treasury guarantees and

letters of comfort required in respect of borrowings obtained by public enterprises. However, it was observed that instances where the Department had not satisfactorily discharged those responsibilities. Details are given below.

Audit Observation			Comment of Accounting Officer	Recommendation												
<p>(a) Unaccounted Foreign Loans</p> <p>According to the Explanatory Note No. 02 to the financial statements of the Government, the value of unaccounted foreign loans as at 31 December 2024 had been disclosed as Rs.1,070 million. However, according to the information submitted by the Department of Treasury Operations during the year under review, the following variances were observed in the disbursement periods of those loans.</p> <table border="1"> <thead> <tr> <th>Loan No.</th> <th>Disbursement Period as per the financial statements of the Government</th> <th>Disbursement Period as per the information of the Department of Treasury Operations</th> </tr> </thead> <tbody> <tr> <td>2012017</td> <td>December 2020</td> <td>2024</td> </tr> <tr> <td>2012025</td> <td>November 2023</td> <td>2024</td> </tr> <tr> <td>2016035</td> <td>September 2022</td> <td>September 2022 March and September 2023</td> </tr> </tbody> </table> <p>According to the information submitted by the Department to the Audit for the period from 2020 to 2023, it was not indicated that the above-mentioned loans had been disbursed. Accordingly, for the same loan transactions, inconsistent information had been submitted to the audit, revealing that the respective responsible departments had not maintained proper and updated information regarding foreign loan disbursements. Furthermore, according to Stock and Flow Report No. 1 of the system used to report foreign loans, proper and updated information on the above loans had not been maintained. Consequently, it was observed that, in addition to the above foreign loan</p>			Loan No.	Disbursement Period as per the financial statements of the Government	Disbursement Period as per the information of the Department of Treasury Operations	2012017	December 2020	2024	2012025	November 2023	2024	2016035	September 2022	September 2022 March and September 2023	<p>Each loan disbursement is accounted for by this Department only after the relevant Project and Ministry certify the accuracy of such disbursements. However, due to the non-certification by the Project Office and the respective Ministry regarding the accuracy of expenditure relevant to these disbursements, it was not possible to account for the corresponding loan amount. Nevertheless, necessary steps have been taken for the accounting of the respective loan amounts.</p>	<p>Action should be taken to streamline the accounting of Government borrowings.</p>
Loan No.	Disbursement Period as per the financial statements of the Government	Disbursement Period as per the information of the Department of Treasury Operations														
2012017	December 2020	2024														
2012025	November 2023	2024														
2016035	September 2022	September 2022 March and September 2023														

transactions, there was a potential risk of other foreign loans not being properly reported.

- (b) The following variances were observed between the disbursements reported in the financial statements of the Government and the disbursements according to the Loan Management System, due to the recording of disbursements made in the previous year as having been made during the year under review in the Loan Management System.

Loan Number	As per the financial statements of the Government	Disbursements according to the Loan Information System	Difference
2012024	USD 947,057	USD 709,147	USD 237,910
2019019	USD 28,717,515	USD 24,938,700	USD 3,778,815
2019043	SAR 47,320,932	SAR 47,284,890	SAR 36,042
2015021	EUR 28,227	Nil	EUR 28,227
2012025	SAR 570,876	SAR 272,171	SAR 298,705

Disbursements made during the year 2023 had been reported to this Department in the year 2024, and the accounting thereof in the year 2024 had resulted in these variations .

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- (c) According to the information made available to audit by the Department, foreign grants amounting to Rs.14.6 million retained in the deposit account had not been utilized for the intended purpose, and the said amount had been credited to the Government revenue during the year under review.

A sum of Rs.1,860,000 received in relation to a deposit account on 22 October 2021 had been transferred to the Government revenue in accordance with Financial Regulations, subsequent to inquiries made from time to time from the respective Ministry, as the relevant project had not been implemented even by the year 2024. Further, following the implementation

The coordination and regulation with regard to the utilization of foreign grants received for the intended purposes should be strengthened, so as to ensure the confidence of the donors.

of the remaining 06 projects, action had been taken, in terms of the agreements, to credit the unutilized balances amounting to Rs.12,752,424 pertaining to each project to the Government revenue.

(d) As at 01 January 2024, foreign grants amounting to Rs.36.8 million received by the Government of Sri Lanka had remained inactive without being utilized for the intended purposes even by 31 December 2024.

In respect of a deposit account balance amounting to Rs.15,013,178, this Department had informed the relevant Department thereon, and by the letter dated 10 April 2025, the said Department had been instructed to retain the funds further. Further, in relation to a sum of Rs.782,916 remaining in another deposit account, the relevant Ministry had requested provisions from the Department of National Budget in the year 2025 for its utilization. In addition, with regard to the balances remaining in 08 other deposit accounts, this Department had

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informed the relevant Ministries/Departments to utilize those funds for the intended purposes.

(e) A total sum of Rs.326.6 million received prior to the year under review from 07 donors in respect of 13 projects had not been utilized for the intended purposes, and the said amount had been refunded to the respective donors during the year under review.

In certain programmes implemented under the World Food Programme, the entire amount received had been refunded to the donor institution, due to non-implementation of the respective programme. Further, after the implementation of other projects/programmes, the balances remaining in each project had been refunded to the donor institution, based on the request of the donor, the concurrence of the Department of External Resources, and the request of the Implementing Agency of the respective project in terms of the agreements.

The foreign grants received should be utilized to the maximum extent for the intended purpose.

(f) It was observed that a sum of Rs.146.5 million received as local grants and remaining as at 01 January 2024, had not been utilized for the intended purpose even by the end of the year under review.

This Department has taken action to inform the relevant Ministries/Departments to utilize these

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local grant deposit funds for the intended purposes.

- (g) According to the financial statements of the Government, the balance of on-lending receivable as at 31 December 2024 amounted to Rs.195,004 million. Based on the information made available to audit, a balance of Rs.1,304 million in respect of 03 institutions, representing overdue on-lending installments exceeding 05 years, had been outstanding due to non-payment by the respective institutions in terms of the on-lending agreements.
- Agreed with the audit observation.
- Action should be taken to recover the Government's on-lending in accordance with the on-lending agreements.
- (h) As at 31 December 2024, the total interest receivable on on-lending amounted to Rs.10,733 million, and out of that, Rs.912 million relating to 03 institutions, represented interest overdue for more than 05 years in terms of the agreements.
- Agreed with the audit observation.
- Action should be taken to recover the interest receivable in respect of the Government's on-lending without delay.
- (i) As at 01 January 2024, out of the total on-lending balance of Rs.1,282 million, relating to 07 on-lending agreements of 04 institutions, it had not been able to recover any of the outstanding balances during the year under review.
- The clarifications regarding the failure to recover on-lending are as follows:
- Action should be taken to ensure proper recovery of the Government's on-lending.
- It was inquired regarding possibility of repayment in installments the outstanding loan amount of Rs.11,114,479 of the Badulla Sanasa Institution.
 - The loan agreements under the Central Bank of Sri Lanka are very old, and

these balances have remained largely inactive for a long period. It has been informed that, under the new Central Bank Act, the Central Bank is unable to take action on these loans, and a report will be submitted to transfer the said balances to the Treasury.

- Furthermore, the on-lending agreement pertaining to the Central Bank of Sri Lanka has been completed, and a sum of Rs.12,826,032 is being processed by the Central Bank of Sri Lanka for inter-account transfer.
- The on-lending balance relating to the Petroleum Development Authority is intended to be settled from the proceeds of data sales obtained from oil exploration activities conducted at the Mannar Basin.

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| (j) The validity period of 25 Treasury guarantees, amounting to Rs.143,094 million and USD 2,678.29, and 15 letters of comfort, amounting to Rs.32,550 million and USD 210, which had expired during the year 2024 and earlier, had been extended as at 31 December 2024. The primary reason for this was the inability of the respective institutions to make the relevant loan repayments in a timely manner. | As at 31 December 2024, the number of letters of comfort that had been extended was 15. | In the future, action should be taken to ensure that Treasury guarantees and letters of comfort are issued under proper supervision. |
| (k) According to the financial statements of the Government for the year under review, it was observed that Treasury guarantees, issued on 11 occasions to external institutions, amounting to Rs.102,474.21 million, USD 2,824.31 million, and EUR 12.29 million, and letters of comfort, issued on 17 occasions, amounting to Rs.33,430 million and USD 210 million, had expired as at 31 December 2024. Action had not been taken to formally conclude or to extend the validity period prior to the expiry. | The current status regarding the Treasury guarantees and letters of comfort, which had not been extended as at 31 December 2024, has been clarified and the audit observation has been accepted. | -Do- |
| (l) In respect of treasury guarantees and letters of comfort issued in 2024 and prior years, the Department had made payments totaling Rs.1,832 million to the respective institutions during the year 2020, comprising Rs.92 million as loan installments and Rs.1,741 million as loan interest, in relation to 07 occasions. | Agreed with the audit observation. | -Do- |
| (m) The Department had made payments of Rs.2,200 million for the settlement of overdue loan installment and interest as at March 2024 in respect of the loan obtained by the General Sir John Kotelawala Defence University from the National Savings Bank for the construction of the University Hospital and the procurement of medical equipment. Further, for the settlement of overdue loan and interest payments of the Sri Lankan Airlines Ltd. to the Bank of Ceylon and the People's Bank, the Department had made payments of Rs.2,400 million, equivalent to USD 8 million. Accordingly, during the year under review, a total sum of Rs.4,600 million had to be borne by the General Treasury for the settlement of overdue loan and interest balances | Pursuant to a Cabinet decision, payments of Rs.2,400 million had been made in respect of the loan and interest payable by Sri Lankan Airlines to the Bank of Ceylon and the People's Bank, while payments of Rs.2,200 million had been made in respect of the loan | -Do- |

arising from the issuance of Treasury guarantees and interest payable and letters of comfort. by the General Sir John Kotelawala Defence University to the National Savings Bank.

4.2 Restructuring of Domestic Debt

Audit Observation	Comment of the Accounting Office	Recommendation
(a) As at 01 January 2024, foreign currency banking unit (non-project related) loan amounting to USD 240 million, equivalent to Rs.77,742 million, obtained from the Bank of Ceylon had been converted into Treasury bonds denominated in Sri Lankan Rupees with an outstanding interest of Rs.6,601 million. Accordingly, as at 31 December 2024, the value of Treasury bonds payable to the Bank of Ceylon, subsequent to the restructuring of this loan, amounted to Rs.82,551 million.	Agreed with the audit observation.	Presentation of information.
(b) With regard to the loan obtained by the Petroleum Corporation through two State commercial banks on Treasury guarantees and subsequently transferred to the General Treasury in 2022, the balance of USD 2,435 million, equivalent to Rs.788,682 million, as at 01 January 2024, had been restructured as follows:	Agreed with the audit observation.	- Do
<ul style="list-style-type: none"> The loan amount payable to the Bank of Ceylon, comprising Rs.410,430 million and the outstanding interest of Rs.73,603 million, had been converted into a term loan facility denominated in United States Dollars. 		

- From the loan amount payable to the People’s Bank, Rs.136,698 million and the outstanding interest of Rs.30,464 million had been converted into a term loan facility denominated in United States Dollars, while the remaining Rs.224,358 million and the corresponding outstanding interest of Rs.38,225 million had been converted into Treasury bonds denominated in Sri Lankan Rupees.
- Subsequent to this loan restructuring, as at 31 December 2024, the term loan amount payable to the Bank of Ceylon amounted to USD 1,582 million, equivalent to Rs.462,783 million, and the term loan amount payable to the People’s Bank amounted to USD 546 million, equivalent to Rs.159,823 million. In addition, the value of Treasury bonds payable to the People’s Bank amounted to Rs.262,583 million.

5. Human Resources Management

Audit Observation	Comment of the Accounting Office	Recommendation
<p>As at 31 December 2024, the Department had a total of 28 vacancies, including 07 senior-level positions of Additional Director General, Director, and Deputy/Assistant Director, and 14 positions in the Secondary Level Management Service Officers. In addition, one position in the Secondary Level Development Officers’ Service was held in excess. Action had not been taken by the Department during the year under review to conduct a staff review, fill the existing vacancies, or abolish unnecessary positions.</p>	<p>With regard to the filling of vacancies, although written requests were made to the appointing authorities through the Secretary to the Ministry of Finance in respect of the vacant positions, it was not possible to fill the vacancies due to the imposition of recruitment restrictions as a Government policy and the fact that officers had</p>	<p>Action should be taken to fill the vacancies in posts essential for the discharge of the Department’s functions and, revise the unnecessary posts if available.</p>

proceeded on
domestic/foreign unpaid
leave in terms of Public
Administration Circular
4/2022 and its subsequent
circulars.