

## **Head 239 – Department of External Resources**

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### **1. Financial Statements**

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#### **1.1 Opinion**

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The audit of the financial statement of the Department of External Resources for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance and cash flow statement for the year then ended, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions 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 External Resources was issued to the Accounting Officer on 02 June 2020 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 of 2018 and the Annual Detailed Management Audit Report of the Department in terms of Section 11 (2) of the National Audit Act was issued to the Accounting Officer on 21 October 2020. This report will be tabled 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, the financial statements prepared in terms of provisions of the State Account Circular No. 271/2019 dated 03 December 2019 give a true and fair view of the financial position of the Department of External Resources as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Opinion**

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

#### **1.3 Responsibilities of Chief Accounting Officer and Accounting Officer for the Financial Statements**

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Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as 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 Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Department 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.

As per Sub-section 38 (1) (c) of the National Audit Act, the Accounting Officer shall ensure that effective internal control system for the financial control of the Department exists 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.

#### **1.4 Auditor's Responsibilities for the Audit of the Financial Statements**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue the summary report of the Auditor General 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 scepticism throughout the audit. I also:

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

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

## 1.5 Report on Other Legal Requirements

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I express the following matters in accordance with Section 6 (1) (d) and Section 38 of National Audit Act, No. 19 of 2018.

(a) Financial statements are consistent with the preceding year,

(b) The recommendations made by me on financial statements in previous year had been implemented.

## 2. Financial Review

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### 2.1 Expenditure Management

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#### 2.1.1 Making over Provisions

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##### Audit Observation

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Total net allocation of Rs. 12.88 million had been made for 7 objects in the year under review and provision of Rs. 06.86 million had remained after the utilization. That saving had ranged from 21 per cent to 91 per cent as a percentage of the net provision made.

##### Recommendation

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Estimates should be made as accurate as possible.

##### Comments of the Accounting Officer

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Being proposed to save 10 per cent to 15 per cent of the provisions allocated for capital expenditure and goods and services according to the budget speech 2019 and being managed the expenditure in accordance with the circulars issued by the Ministry of Finance and the Department of National Budget.

#### 2.1.2 Weaknesses in preparation of estimates

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##### Audit Observation

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The deference of the revised expenditure estimates pertaining to 5 Objects compared to the initial expenditure estimates ranged from 52 per cent to 180 per cent.

##### Recommendation

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Estimates should be made as accurate as possible.

##### Comments of the Accounting Officer

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It has reasoned the factors such as making unexpected essential expenses, revision of the provisions again due to increase in printing of documents, obtaining provisions after completion of the procurement work as instructed by the Department of National Budget and preparation according to the utilization report of the Central Bank.

### 3. Operating Review

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#### 3.1 Management weaknesses

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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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(a) Even though it was informed that in case of recording only one instance in arrival or departure of the staff of the Department available, it was treated as half a day leave, it was observed that there was no provision in the Establishment Code or in any other circular to do so. It was further observed that the officers who left the office and returned had not kept fingerprints when they returned to the office or left the office.	The internal control on attendance, short leave, and official visiting should be maintained in a satisfactory manner as per the prevailing rules and regulations.	Even though some officers including staff officers have kept records in the visiting register regarding official visits made on emergency calling, the arrival / departure is not recorded in the fingerprint machine when they are unable to return back to the office due to the nature of the relevant meetings. It has been instructed to submit the covering approval for that and to act as indicated by the audit in the future.
(b) It was observed that the document files in the custody of each officer were misplaced on certain occasions during the modernization of departments and the disposal of goods and it was observed that actions should be taken in accordance with Section 9 of Chapter 28 of the Establishments Code in this regard.	The responsible officials should take actions to protect the essential documents. Further, your attention should be drawn to Section 9 of Chapter 28 of the Establishments Code in this regard.	All these documents and goods had to be removed due to the security situation prevailing in the treasury premises at that time. It is observed that the highlighted misplacements have occurred as a result. However, it is kindly informed that all control mechanisms have been taken place in order to prevent such occasions in the future.
(c) Even though an officer is entitled to take 02 short leave per month according to Section 35.1 of Chapter XII of the Establishments Code, that limit had been exceeded.	Actions should be taken according to the prevailing rules and regulations.	It is kindly informed that actions have been taken to prevent the errors on short leave in the future.

(d) The training and expenditure reports including relevant details that should be submitted upon completion of a foreign tour or foreign training according to the letter No. MF / 01 dated 23 September 2016 of the Secretary to the Ministry of Finance, had not been included in document files of officers, and there were certain occasions where the copies of the invitations in relation to foreign travel were not available in relevant files. Therefore, the audit had not confirmed whether the foreign country or institution had spent for those tours or not.

Actions should be made according to the circulars, and information relevant to audit need to be maintained.

It is kindly informed that they have not been included in document files of this Department, since some of the officers participated in such workshops have submitted the relevant reports to the Secretary to the Ministry of Finance, and some have kept those reports with them.

(e) According to the Regulation 610 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka, even though enquiries with regard to the availability of foreign aid for any project should be made from the Director General of the Department of External Resources, it was observed that funds, goods and technical assistance worth approximately Rs. 2,025,572,387 had been obtained directly from 24 public institutions for 77 projects according to a sample obtained in audit. It was further observed that the failure to formulate a formal procedure (in addition to issuing

Regulation needs to be strengthened.

By the Financial Regulation 610 of Chapter XI of the Financial Regulations of the Republic of Sri Lanka, all Government Ministries, Departments and Statutory Institutions have been instructed that all negotiations on foreign aid should be made by the Director General of Department of External Resources of the Treasury. Circulars and instructions have been issued by this Department and with the coordination of other Departments of the Treasury making aware of all Ministries and Statutory Institutions regarding the correct procedure in obtaining foreign grants and to follow it. Examining and informing us whether the grants are obtained outside the circular issued by us is done by the auditors.

circulars) to inform the Department of External Resources regarding such aids would also be a threat to the national security of the country.

### 3.2 Failure to perform the functions

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The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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<p>(a) <b>Undisbursed Projects</b></p> <p>Within the loan agreements signed from the year 2014 to 2019, there were 22 loan agreements amounted to Rs. 2,295,503,313 which had not been disbursed even up to 31 December 2019. Further, out of the projects with no disbursements, for loan number 2014023, a sum of Japan Yen 27,434,000 had been paid to donor agencies in 2015 and Japan Yen 63,620,000 and Japan Yen 21,278,000 had been paid in 2018 for the two projects of 2017016 and 2018032 respectively as other fees. Moreover, Euro 560,417, Euro 264,492 and USD 116,059 had been paid during the year 2019 regarding loan agreements no. 2019010, 2019039, and 2019008 respectively.</p>	<p>The utilization of foreign aid would be efficient and additional costs could be minimized by signing agreements for projects that fulfilled all requirements, including infrastructure.</p>	<p>The reasons for the delaying projects can be indicated as the formation of a new government, government policies, amendment requirements of the agreements, increase in the bid over engineering estimate, late commencement, non-enforcement, unresolved land issues, delays in entering into sub-loan agreements, delay in decision making due to lengthy negotiations, delays of line Ministry on the project, inadequate budgetary allocations, delays in approvals for advance payments in rupees, requirement of approval as the loan is proposed to be used for Covid 19 relief activities, delays in awarding contracts and non-fulfillment of conditions required to enforce the agreements, etc.</p>

(b) **Hambantota Port Development Project-Phase II Loan No. (2012032)**

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A sum of Yuan 700 million had been utilized by the year 2019 for the above project worth Yuan 1000 million, which had been signed in the year 2012 and enforced in the year 2015. The balance had been canceled and interest payment of Rs. 230,076,974 on this loan amount and commitment fees of Rs. 379,932,374 on unutilized amount had been paid by the end of the year 2019.

As commitment charges and interest payments are unaffordable expenses to the economy due to lack of full utilization of foreign loans, it should be taken into consideration.

No utilization was made after the signing of concessional agreements. Accordingly, since the utilization requests for the years of 2017, 2018 and 2019 were not utilized, the validity period of the loan was extended to 31 July 2019. According to that, all utilizations for the years of 2017, 2018 and 2019 were made in the year 2019 and unutilized loan was canceled.

Moreover, the Ports Authority had decided that the loan fund in second phase would not be fully utilized for the project due to the modifications made in the project and the unused amount was exactly stated after the project was duly completed.

**4. Human Resource Management**

**Audit Observation**

**Recommendation**

**Comments of the Accounting Officer**

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The approved cadre of the Department as at 31 December 2019 was 156 and the actual cadre was 131, thus 25 vacancies were observed. It was observed that 13 vacancies or 52 per cent of the total vacancies were consisted of senior level officers and 8 vacancies or 32 per cent were consisted of secondary level vacancies.

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Actions should be taken to fill the existing vacancies or to revise the approved number of employees if not required.

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Actions will be taken to fill the vacancies in the future subject to the decisions given by the Department of Management Services regarding the decisions taken at the Staff Review Meeting of the Department on the posts of this Department.