

## Report of the Auditor General on Head 239 - Department of External Resources Year 2016

The audit of the Appropriation Account and the Reconciliation Statements including the financial records books, registers and other records, of the Head 239 - Department of External Resources for the year ended 31 December 2016 was carried out in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review had been issued to the Director General of the Department on 17 July 2017. The audit observations, comments and findings on accounts and reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

### 1.2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements in accordance with the provisions in Articles 148,149,150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions, Public Finance and Administrative Regulations. This responsibility includes; designing, implementing and maintaining internal control necessary to enable the presentation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements, whether due to fraud or error.

## 2. Accounts

### 2.1 Appropriation Account

#### Total Provision and Expenditure

The total net provision made for the Department amounted to Rs.2,785.84 million and out of that, a sum of Rs.2,562.66 million had been utilized by the end of the year under review. Accordingly, saving out of the net provisions of the Department amounted to Rs.223.18 million representing 8.01 per cent of the total net provision. Particulars are given below.

Expenditure	As at 31 December 2016			Savings as a Percentage of Net Provision
	Net Provision	Utilization	Savings	
	Rs. Millions	Rs. Millions	Rs. Millions	
Recurrent	351.38	218.52	132.86	37.81
Capital	2,434.46	2,344.14	90.32	3.71
Total	2,785.84	2,562.66	223.18	8.01

## 2.2. Advances to Public Officers' Account

### Limits Authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers' Account Item No.23901 relating to the Department and the actual values are shown below.

<u>Expenditure</u>		<u>Receipts</u>		<u>Debit Balance</u>	
<u>Maximum Limit</u>	<u>Actual</u>	<u>Minimum Limit</u>	<u>Actual</u>	<u>Maximum Limit</u>	<u>Actual</u>
Rs. (Millions)	Rs. (Millions)	Rs. (Millions)	Rs. (Millions)	Rs. (Millions)	Rs. (Millions)
5.00	4.74	3.00	3.78	27.00	19.57

## 2.3 Imprest Account

The balance of the imprest account of the Department bearing item No.7002/0000/00/0133/0015/000 as at 31 December 2016 amounted to Rs.1.83 million.

## 2.4 Audit Observation

The Appropriation Account and the Reconciliation Statements of the Department of External Resources for the year ended 31 December 2016 have been prepared satisfactorily, subject to the audit observations appearing in the Management Audit Report referred to in Paragraph 1.1 above. Out of the above observations, the material and significant observations appear in paragraph 3 herein.

## 3. Material and Significant Audit Observations

### 3.1 Appropriation Account

The following observations are made.

- The entire provision of Rs.85.63 million made for 2 expenditure objects had been saved.
- As overprovision had been made to 2 objects, the savings after utilization of provisions had been 31 per cent and 98 per cent of the net provisions made for those objects.
- Expenditure of recurrent nature amounting to Rs.977,622 incurred under 2 objects had been classified as capital expenditure. If that expenditure was classified under recurrent objects, provisions of those objects would have been exceeded.
- Information regarding the disposal of motor vehicles and personal computers valued at Rs.5,744,371 and Rs.2,737,301 respectively shown under disposals was not made available for audit.

### 3.2 Assets Management

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#### Conducting annual board of survey

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According to the Board of survey report for the year 2016 inventorised items used by each Division of the Department had not been recorded in a register under the supervision of a responsible officer and maintained in an updated manner and the stores had not been maintained so as to identify goods easily.

### 3.3 Non – Compliance

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#### Reference to Laws, rules and regulations

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#### Non – Compliance

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#### Statutory Provisions

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**Foreign Loans Act No.29 of April 1957 its amendments No.2 of 1962, 01 of 1963 and 23 of 1980**

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Section 3

Even though all foreign loans obtained by the government should be settled from the Consolidated Fund, certain repayment of foreign loans had been entrusted to Public Enterprises on a cabinet decision.

### 3.4 Performance

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The following observations are made.

- (a) It was planned to incur commitments valued at Rs.US\$ 4,490 million for 60 projects from 09 development counterparts during the year 2016. It was able to sign loan agreements for 34 projects valued at US\$ 4,272 million and grant agreements for 29 projects during the year under review. Even though it was expected to receive US\$ 456 million and US\$ 22 million for 6 projects and 2 projects from the World Bank and the Government of Korea respectively, only US\$ 256 million and US\$ 9 million, representing 56 per cent and 41 per cent had been received during the year 2016.
- (b) A foreign financing utilization of US\$ 2,193 million was planned in the year 2016. By 31 December 2016 it had become US\$ 2,341 million and as such a progress of 7 per cent had been achieved than expected. However, even though it was planned to utilize foreign financing of US\$ 94 million and US\$ 120 million from Middle East and south Asian Countries respectively during the year 2016, the actual receipts were US\$ 35 million and US\$ 44 million representing 37 per cent and 9.5 per cent from the expected funds.

- (c) According to the performance report for the year 2016, the utilization of funds in 4 projects being implemented under the World Bank aids as at 31 December 2016, had been at a low level and the periods of those projects would terminate nearby.
- (d) Recommendation of the Department of National Planning had not been obtained for the foreign financing of 07 projects for which foreign financing agreements had been reached in the years 2015 and 2016.

### **3.5 Management Inefficiencies**

#### **Foreign Financing Project**

#### **Uma – Oya Multi – functional Development Project**

The relevant financial agreement had been signed on 28 April 2008, subject to finance 85 per cent by the Government of Iran and 15 per cent by the Government of Sri Lanka under the total cost estimate of not more than US\$ 548.15 million, and Iranian Company had been nominated as the Contractor thereof. The period of this project which had to be completed from 5 years since the date of 15 March 2010 had been extended up to 31 June 2018 in terms of the decision of the Cabinet of Ministers.

The following observations are made in this Connection.

- (a) Only a sum of US\$ 50 million had been received to Sri Lanka by 31 December 2016 and a sum of Rs.49,736.38 million had been spent as at that date in Sri Lanka rupees. Of this, sums of Rs.44,337.36 million and Rs.200.82 million had been paid to the Iranian Company and compensation for house Cracking and sinking respectively.
- (b) The mission of the Department of external Resources is that the utilization of foreign aids financing facilities with an endurable cost and subject to minimum conditions for the economic and social development of Sri Lanka. Nevertheless, in getting foreign aids for this project, attention had not been paid in respect of the following matters and as such it was observed that the people had deprived of the underground water reserve, Livelihood and their habitation. In addition, due to seepage of water through the tunnel, the project could not be implemented and it had added a cost burden to the country and become a national issue.
  - (i) Action in terms of Financial of Regulation 3(2)(i) of the Democratic Social Republic of Sri Lanka had not been taken in respect of this project.
  - (ii) Before signing the project agreement, a feasibility study regarding the project had not been conducted and the recommendations/ approval had also not been obtained from such institutions as Building Research Organization. However by the time a project proposal is referred to the Department of External Resources for the provision of foreign funds, those steps should have been completed by the Line Ministry. Likewise, the Department of External Resources had stated that as

it was their responsibility and action had been taken, having being assumed that those steps had been completed.

- (iii) Even though, in terms of Financial Regulation 610, all negotiations for foreign aid should be conducted by the Director General of the External Resources Department and all enquiries with regard to the availability of foreign aids for any project or propose should be made from the Director-General of the External Resources Department sufficient attention in this regard had not been paid by the Department. The Department of External Resources had stated that the relevant loan discussions and negotiations would be done with the donors by the Department of External Resources. However, there was no section or pre-condition in the Financial Regulation stating that the foreign aids could be obtained only after being satisfied by the Director General that the initial stages required for foreign aids had been fulfilled.

### **3.5.2 Examination of foreign aids**

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The following observations are made.

- (a) The foreign funds had been received by the end of September 2016 for the Loan No.2014034-Leading Road Improvement and Re-Construction project-3, stage III and a sum of Rs.2,193.97 million (US\$ 14,855,169.17) had been received by 31 December. However, a sum of Rs.121.45 million (US\$ 913,861) in the year 2015 and a sum of Rs.528.44 million (US\$ 3,722,855.27) in the year 2016 had been paid as loan interests.
- (b) A commitment fee of Rs.124.47 million (Euro.764,019) had been paid relating to 3 projects in the year 2016 for which loan funds had not been received even up to 31 December 2016.
- (c) The relevant Line Ministry had established steering committees for project supervision. With the participation of the Department of External Resources therefor, the implementation of foreign aid projects is supervised and the contribution is provided to achieve the development objectives of the country. However, a sum of Rs.24.40 million (US\$ 170,213.76) had to be paid to the World Bank on 08 June 2016, considered as unqualified expenses under Loan No. 2009020. The capital portion and the interest thereon amounting to Rs.241.11 million had also to be paid to the Japanese International Corporation Agency (JICA), considered as irrelevant expenses incurred from the fund given to the project under Loan No. 2004045.
- (d) Eight Projects elapsed for a considerable period of time after signing the agreements had not been implemented even by 31 December 2016.
- (e) The definition of a foreign loan was revised by the Act No.33 of 23 August 1984. Accordingly, “a Loan” had been defined as “Loan or any form or Financial Credit or accommodation” and as such it included a grant as well. Therefore, the responsibility to maintain a data store in respect of grants rests with the Department of External

Resources. Nevertheless, all information regarding the foreign aids received to Sri Lanka did not belong to the Department under this circumstance. It is problematic that those foreign aids are used in terms of Laws, rules and regulations and efficiently in a manner to gain a maximum benefit to the country.

### 3.5.3 Foreign Training opportunities

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The following observations are made.

- (a) Sri Lanka had deprived of 14 and 128 training programs due to non-receipt of applications and rejection of all applications presented respectively during the year 2016. The Department of External Resources had informed that nominations are called for from the relevant Line Ministries and then those applications are sent to the relevant Development counterparts and this situation would arise an accordance with the quota allocated to Sri Lanka based on their selection criteria.
- (b) It was informed the audit that the persons selected as trainees by countries such as India and Malasia directly inform the selected persons and action had been taken to obtain the particulars of selected persons from the training instructions. The Department had not ensured whether the nominated officers for training in the countries such as India and Malasia had been selected for the relevant training in the year under review.

### 3.6 Human Recourses Management

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#### Approval and Audit Cadre

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The approval cadre and the actual cadre position as at 31 December 2016 is given below.

Employee Category	Approval Cadre	Actual Cadre	No. of Vacancies
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(i) Senior Level	57	45	12
(ii) Tertiary Level	04	03	01
(iii) Secondary Level	63	48	15
(iv) Primary Level	29	25	04
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	153	121	32
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