

Head 239 – Department of External Resources

1. Financial Statements

1.1 Unqualified Opinion

The audit of the financial statements of the Department of External Resources for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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. In terms of Sub-section 11(1) 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 30 May 2019. In terms of Sub-section 11(2) of the National Audit Act, the Annual Detailed Management Audit Report relating to the Department was issued on 30 May 2019 to the Accounting Officer. This report which should be read in conjunction with Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka is submitted to Parliament in terms of Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, the financial statements give a true and fair view of the financial position of the Department of External Resources as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Unqualified Opinion

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

1.3 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Financial Statement

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 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 of the Department.

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 system and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibility for the Audit of 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 summary 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 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 responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my 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, 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

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

- (a) As there was no requirement of preparation of financial statements for the preceding year, I could not state that the financial statements of the year under review are consistent with the preceding year.

- (b) As there was no requirement of preparation of financial statements by the Department of External Resources for the preceding year, recommendations on financial statements had not been made by the Department.

2. Financial Review

2.1 Management of Expenditure

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) Excess provision had been made for 04 Capital Objects and as such the savings, after the utilization of provisions during the year, ranged between 52 per cent and 92 per cent of the net provisions relating to the respective Objects.	Estimate should be prepared in terms of the Financial Regulation 150 as accurate as possible.	Repairs are carried out by the Ministry of Finance. It is difficult to spend provisions made due to failure in performing those activities as planned by them and delays in renovating activities.
(b) The variance of 11 Objects of the revised estimate on expenditure ranged between 150 per cent and 94 per cent as compared with the original estimate on expenditure.	-Do-	Over-expenditure than the expected expenditure had to be incurred in respect of 08 Objects and under-expenditure than the expected expenditure had to be incurred in respect of 03 Objects, thus indicating variances in the revised estimate on expenditure as compared with the original estimate on expenditure.

3. Operating Review

3.1 Failure in obtaining the expected Output

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>(a) According to the Annual Action Plan 2018, it had been expected to raise funds amounting to US \$ 2,004 million by new loan agreements during the year under review. Nevertheless, the value of financial concurrences entered into in respect of 40 loan agreements during the year 2018 had been US\$ 1,242 million. Moreover, the amount of funds expected to be obtained from the World Bank, China, Japan and Korea had been US \$ 200 million, US \$ 400 million, US \$ 500 million and US\$ 40 million respectively and funds amounting to US \$ 104 million, US \$ 165,98 million and US \$ 22 million could have been obtained respectively during the year 2018.</p> <p>(b) Even though a considerable period had lapsed after entering into following loan agreements, projects relating thereto had not been implemented up to now.</p>	<p>It is appropriate to take action to reach expected targets as far as possible.</p>	<p>Matters included in your report are true and agreements could not be signed as planned in the year 2018 due to matters such as political changes deviating from our scope, legal issues and changes in policy decisions.</p>
<p>Loan No. Name of the Project and the date of the Agreement</p>	<p>Necessary measures should be</p>	<p>The loan agreement for the</p>
<p>2014023</p>	<p>Digitalization</p>	<p></p>

	of Terrestrial Television Broadcasting Project- 23.09.2014	taken speedily to implement contractual projects without delay.	Project had been entered into on 24 September 2014. However, the process of revision of the loan agreement has not been commenced by the Japan International Cooperation Agency (JICA) up to now.
2014039	Ruwanwella Water Supply Project- 30.12.2014	-Do-	The relevant loan agreement had been entered into in December 2014. The bid had taken a very high value than the Engineer's Estimate of the Project and as such, there was no final concurrence between both parties.
2013052	Economic and Technical Cooperation	-Do-	This is an interest free loan and the China Embassy is sought the concurrence for implementation of an issueless project.
2014021	Skills Development Project (Part B) 12.09.2014	-Do-	Even though number of discussions had been held, the relevant money had not been properly utilized until foreign development parties are satisfy on performing of activities by the Ministry of Skills Development.

3.2 Failure in obtaining expected Benefits

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) Funds necessary for the Hambanthota Port Development Project had been obtained under 03 loan facilities and the sum of US \$ 600 million obtained under the loan No.2012033 had been fully utilized for the Project. Out of the second loan facility of Yuan	As payments had to be made for unutilized moneys, attention should be paid strictly thereon.	According to the loan agreement, commitment charges of 0.5 per cent should be paid annually for unutilized loan in addition to the loan interest payable for the utilized amount. As such, commitment charges of yuan 3.25 million have been paid for the year 2018. Moreover, the unutilized amount

1,000 million obtained under loan No. 2012032, a sum of Yuan 381.5 million had been utilized by 31 December 2018. According to the information received from the Department of External Resources, the third loan facility of US \$ 51 million had not been effective due to lack of an expectation with the Ports Authority to utilize the entire loan amount. However, in addition to the payment of interest during the year 2018, on the loan obtained under loan No.2012032, commitment charges of Yuan 3.25 million had been paid for the unutilized loan amount.

of the loan is cancelled after 31.05.2019.

(b) Out of the basic advance granted for the programme on development of small holder entrepreneurs under the loan NO. 712-LK by the International Fund for Agricultural Development (IFAD), an unutilized amount of US \$ 34,472/71 (XDR 21,818/17) had been returned to the lender on 04 September 2018. However, it was observed that service charges had been paid for the said loan as well.

-Do-

As stipulated in the agreement on the development of small holder entrepreneurs, the amount paid as service charges had been 0.75 per cent. Moreover, the remaining amount of the advance received under this agreement has been remitted to the lender. As the service charges payable on repaid amount cannot be decided and it is utilization according to the agreement, the payment should be made relating thereto.

(c) All applications submitted for 132 out of 439 foreign scholarships and training opportunities (Except for China scholarships) received by Sri Lanka through the Department of External Resources in the

It is recommended in audit that such situations can be minimized through the introduction of a methodology for obtaining applications expeditiously from officers for scholarships and training programmes received, by

In instances of non-compliance with criteria of development parties, even all applications sent by us may be rejected by them. Further, all courses for which applications are not received, are not bilateral courses. As such, it is not

year 2017 and for 82 out of 346 opportunities received up to September 2018 had been rejected and as such, training opportunities had been deprived of to the country. Fifty one opportunities for foreign scholarships and foreign trainings in the year 2017 and 20 opportunities (Except for China scholarships) received up to September 2018 have been deprived of due to failure in submitting nominations and receiving applications. However, the number of foreign trainings and scholarships on short term and long term had increased by 13 per cent in the year 2018 as compared with the year 2017. (The statement of the Director General of the Department of External Resources that the “all courses for which applications are not received, are not bilateral” is problematic.)

identifying trainings required for officers in each Ministry and Department and through making the qualified officers aware on the significance of submitting applications before due date in applying for such trainings.

intended that the submission of application for courses is compulsorily awarding scholarships for our officers. Selection of qualified officers should be made according to the relevant circular and the Ministry should responsible for sending applications to us before due date.

Further, a number of 1,230 foreign scholarships had been received in the year 2016 and it had increased by 24 per cent and 41 per cent in the years 2017 and 2018 respectively as compared with the year 2016, thus indicating a high performance in the Department.

Therefore, it is informed that it cannot be complied with 3.1.2 of the draft report.

(d) In terms of State Accounts Circular No.30/94 of 20 April 1994 on accounting of foreign aid, all transactions on foreign aid should be carried out by the Director General of the Department of External Resources of the General Treasury. Accordingly, all state institutions and donor countries/institutions had

According to the circular instructions, necessary systems and control methods on foreign aid should be introduced.

In case of signing for foreign aid by a ministry, a copy of the said agreement and relevant disbursements should be sent to the Department of External Resources by the relevant Chief Accounting Officer. Afterwards, those disbursements are obtained by the Department of External Resources from the donor institution/person and entered in the CSDRMS Data

been informed thereon at several times. However, it was observed that even the Department has information only on foreign aid received through the Department. Further, it was not observed that a methodology for ensuring whether such foreign aid has been received to other state institutions, is not available with the Department of External Resources. According to the information obtained at a sample test, it was observed that 03 state institutions had directly obtained foreign aid of Rs.114,879,740 during the year under review to relevant institutions.

Base. According to the said data, receipt of grants for ensuing years, is forecasted. When observing such foreign aid projects not so recorded, those institutions have been summoned and briefed on the correct methodology.

3.3 Assets Management

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) It was not observed that a specific internal control system had been introduced for purchasing, obtaining and utilization of assets.	It is recommended in Audit that matters such as, utilization of inventoried goods separately by each division so as to identify inventoried goods easily and handing over goods which are not owned by them to relevant divisions, are facilitated the surveys in each division as well as ensure the safety of goods.	Matters pointed out by the Audit were recorded and action will be taken in the future accordingly.
(b) Every good which should be inventoried, should be entered in the inventory and according to reports on board of survey, action had	-Do-	-Do-

not been so taken on wire codes and the Van.

4. Achievement of Sustainable Development Goals

The following observation is made.

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
<p>In terms of the Year 2030 Agenda of the United Nations for sustainable development, action had not been taken to identify targets, data base required for achieving objectives of the Department and focal points in reaching those targets as well as indices for measuring the progress. Many projects for which loan aid is provided by the Department are belonging to various fields such as Health, Power and Energy, Water Supply, Disaster Management, Agricultural, infrastructure facilities. As such, it is observed in audit that plans should be prepared by paying attention on the achievement of sustainable development goals of the Government.</p>	<p>In terms of the Year 2030 Agenda of the United Nations for sustainable development, it is appropriate to pay attention on the role of the Department.</p>	<p>Making contribution for reaching the goal of “Strengthen the means of implementation and revitalize the global partnership for sustainable development” is the main sustainable development goal of the Department. In the process of obtaining loans/aid for projects, many foreign development parties take into consideration whether the sustainable development goals are achieved by relevant projects, as a criterion in granting loans.</p>

5. Human Resources Management

The following observations are made.

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
<p>(a) The approved cadre and the actual cadre of the Department as at 31</p>	<p>Action should be taken to fill those vacancies or revise the approved cadre.</p>	<p>In the attachment of new Public Management Assistants, vacancies at the secondary level</p>

December 2018 stood at 156 and 125 respectively. The total number of vacancies comprising of 10 at the senior level, 02 at the tertiary level, 07 at the secondary level and 12 at the primary level, stood at 31.

of the Department could be reduced. Even though the recruitment of Staff Officers in the approved cadre is required, a space about 1/3 of the office space has been further reduced in modernizing activities of the office.

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| (b) Annual Performance Agreements had not been entered into for the entire staff of the Department for increasing the performance of the Staff. | Action should be taken in terms of circular provisions. | Instructions were given to take future action by briefing officers to act accordingly since this year. |
| (c) Failure in preparing an appropriate methodology for identifying the gap between skills possessed with the staff and skills to be possessed with the staff and a human resources development plan specific to the Department. | -Do- | -Do- |
| (d) Even though an opportunity for trainings at least less than 12 hours for every member of the staff should be ensured in the Human Resources Development Plan, only 81 members representing 65 per cent out of 125 members of the Department as at 31 December 2018 had been offered local and foreign training opportunities. | -Do- | Opportunities for trainings had to be limited due to minimum instances to the standard and amount of provisions existed. |