

Head – 239 Department Of External Resources

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1. Financial Statements

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1.1 Audit Opinion

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The audit of the financial statements of the Department Of External Resources for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 16 June 2021 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 and the Detailed Annual Management Audit Report relating to the Department in terms of Sub-section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Accounting Officer on 16 June 2021. This report will be presented in Parliament in pursuance of provisions in Article 154 (6) of the Constitution to be 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 External Resources give a true and fair view of the financial position of the Department as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with the Generally Accepted Accounting Principles.

1.2 Basis for Opinion

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 Chief Accounting Officer and the Accounting Officer for the Financial Statements

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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 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 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 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, 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 scepticism 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.

#### 1.5 Report on Other Legal and Regulatory Requirements

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I express the following matters in accordance with 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 relating to the preceding year had been implemented.

2. Financial Review

2.1 Management of Expenditure

Audit Observation	Comment of the Accounting Officer	Recommendation
As 06 recurrent Objects and 03 capital Objects had been overprovisioned, it was observed that the saving after utilization in the year ranged between 30-98 per cent of the net provision.	The saving occurred due to reasons such as, the spread of Covid pandemic and the non-governmental institutions not presenting vouchers for payment.	Overprovisioning should be controlled through annual estimates.

2.2 Management of Assets

Audit Observation	Comment of the Accounting Officer	Recommendation
The assets acquired by the Department at the expenditure of the Ministry of Finance amounting to Rs.22,160,324, have not so far been properly taken over and recorded in the registers by the Department.	Renovation works of the Department had been done at the expenditure of the Ministry of Finance. As the Ministry of Finance had not handed over the necessary documents to this Department before 2020.12.31, the process of examining them and recording in the books of the Department had delayed, and such activities are still in progress.	To expedite the process of taking over and recording the assets pertaining to the Department.

## 2.3 Non-compliances with Laws, Rules, and Regulations

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Instances of non-compliances with provisions of Laws, Rules and Regulations observed in audit test checks are analyzed below.

Audit Observation	Comment of the Accounting Officer	Recommendation
----- (a) The financial statements should be prepared compliant to the computer printouts of the Treasury in terms of Guideline 06 issued by the Department of State Accounts as per Paragraph 10:1 of the Public Finance Circular, No. 02/2020 dated 28 August 2020. In case of any balance in the Imprest Account as per the books of the Treasury by the end of the year under review, that balance should be shown under current liabilities in the financial statements as a sum to be settled to the Treasury whilst the same balance should be shown as cash and cash equivalents under current liabilities in the statement of financial position. Nevertheless, the balance in the Imprest Account amounting to Rs.944,817 in accordance with the books of the Treasury as at 31 December 2020, had not been shown in that manner.	----- As the imprest balance of the Department had been settled in total as at 2020.12.31, an imprest balance no more existed in order to be shown under current liabilities as at that date.	----- Instructions of the Circular should be followed.

(b) The cash flow statement (Format ACA-C) should be prepared in approximation as per Guideline 06 issued by the Department of State Accounts in terms of Paragraph 10:1 of the Public Finance Circular, No. 02/2020. However, the following matters were observed as the cash flow statement presented to the Audit, had not been so prepared.

(i) Advances totaling Rs.11,214,584 had been recovered in the year, but a sum of Rs.4,130,417 had been shown under the cash flow generated from investment activities in the cash flow statement. As such, the cash inflow had been understated by Rs.7,084,167. The cash flow statement (ACA-C format) included in the financial statements has been prepared on approximation basis in terms of Guideline 06 issued by the Department of State Accounts as per Paragraph 10:1 of the Public Finance Circular, No. 02/2020. - Do.

(ii) Advances totaling Rs.10,113,791 had been paid, but payment of advances had been shown as Rs. 3,988,009 in the cash flow statement. As such, the cash outflow had been understated by Rs.6,125,782.

3. Operating Review and Performance

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The following matters were observed.

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
(a) It was a key function of the Department to maintain a database relating to the debts of the Government. As the software had		

not been developed in a manner that information maintained in the system relating to obtaining, repayment, and servicing of debts would be updated simultaneously with the similar information possessed by the connected parties, the following differences were observed between the information possessed by those parties and the Department.

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| (i)   | The value of Rs. 222.6 million included in the information maintained by the Public Debt Department of the Central Bank of Sri Lanka with respect to servicing of foreign borrowings, had not been included in the information system of the Department. | Charges on agents and sureties paid on 02 borrowings were shown under a different classification, whilst the other agreements on borrowings had directly been entered into with the relevant institutions. The relevant charges in that connection have been saved in the information system.   | An information system containing accurate and up-to-date information should be developed and maintained in cooperation with all the parties concerned. |
| (ii)  | A value of Rs. 461 million included in the information system of the Department relating to the servicing of foreign borrowings, had not been included in the information maintained by the Public Debt Department of the Central Bank of Sri Lanka.     | According to the agreement, the interest and the agreement charges are capitalized in the utilization period of those borrowings. Accordingly, the capitalized agreement charges relating to those institutions are included in the information system, but not in the information maintained by the Central Bank of Sri Lanka due to not being a payment made in cash. | - Do.  |
| (iii) | Balances totaling Rs. 1,337 million relating to 02 foreign borrowings that had been included in the information system of the Department, had not been brought to accounts.  | Due to a delay of the lender, installments and interest on a borrowing for the year 2019, had been paid in the year 2020, and included in the system as at the relevant date. The difference of Rs.   | - Do.  |

10 million with respect to another two borrowings that had been resulted in due to being overstated and understated, was received in the account of the Deputy Secretary of the Treasury of the Central Bank of Sri Lanka, but that amount was inputted into the information system in the year 2021.

- (iv) Different values were shown in the information system of the Department and the financial statements of the Government for the year 2020 with respect to 02 balances of foreign borrowings totaling Rs. 4,399 million shown in the financial statements of the Government for the year 2020. In addition to the aforesaid sum of Rs. 10 million, another borrowing had been received to the account of the Deputy Secretary of the Treasury of the Central Bank of Sri Lanka, but that amount was inputted into the information system in the year 2021. - Do.
- (v) The balance of the borrowings totaling Rs. Rs. 22,369 million shown in the financial statements of the Government, had not been included in the information system of the Department. The said sum had been credited to the account of the Deputy Secretary of the Treasury of the Central Bank of Sri Lanka on 2021.12.15, but was inputted into the information system of the Department in the year 2021. - Do.
- (b) It is a key function of the Department to conduct discussions with the relevant parties with respect to obtaining foreign aid and efficient utilization of such aid. Nevertheless, instances of non-compliance with Circulars issued by the Treasury in that connection, were observed.
- (i) All the transactions relating to foreign financing should be performed by the Director General of the Department of External Resources in terms of the State Accounts Circular, Circulars and instructions have been issued informing on the correct methodology to be followed by all the Ministries, Departments, and statutory institutions in - Do.

No. 30/94 dated 20 April 1994 obtaining foreign aid relating to the accounting of foreign aid. However, according to the information gathered through a test check, 24 institutions had directly obtained foreign aid worth Rs. 2,026 million for 77 projects during 2018-2019 with the Treasury not being aware of those aid.

obtaining foreign aid through this Department and in coordination with the other Departments of the Treasury.

(ii) Furthermore, as per information collected through test checks, foreign aid worth Rs. 1,266 million had been directly obtained by other Ministries/ Departments in the year 2020 without awareness of the Treasury.

It is the responsibility of the Secretary to the Ministry to obtain provision in terms of the Circulars.

- Do.

(c) The main objectives of the Department included mobilization of external resources with minimum cost and low risk to finance development needs in priority sectors and facilitation of the effective and efficient utilization of external resources. However, due to following observations made in the audits, it remained questionable as to what extent the Department had been successful in achieving those objectives.

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(i) The value of foreign borrowings that had been obtained after entering into agreements in the year 2020, totaled Rs. 1,281.1 million, and 39 per cent therefrom equivalent to US \$ 500 million, being market borrowings, had been obtained from the China Development Bank.

In accordance with the instructions given by the Cabinet to obtain borrowings amounting to US \$ 500 million for setting the deficit of payable balance of the country that had been further increased following the matters that had crippled the economy of the country including the Covid-19 pandemic spread

- Do.



in the year 2020, the necessary activities had been executed by this Department on behalf of the Ministry of Finance.

- (ii) Debt service payments totaling US \$ 4,057.9 million had been made in the current year, and 35 per cent of that equivalent to US \$ 1,419.4 million had been paid on interest. It was observed that the said amount was higher than the foreign borrowings obtained in the year after entering into agreements.

The value of foreign borrowings totaled US \$ 35 Billion by the end of the year 2020. Accordingly, the interest payable thereon annually, has become increased.

- Do.
  
- (iii) As for the foreign borrowings, it was observed that the Government incurred heavy expenses in many instances on the unutilized value of agreed loan amount in terms of the agreements. Instead, the borrowing should be obtained on time as per the agreement and mobilized on the relevant project, and as such, settling the loan installments and interest using the benefits from the project would be an efficient mechanism for managing the borrowings. Nevertheless, the following instances of non-compliance with such a mechanism were observed in the audit test checks conducted on foreign borrowings.

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I. **Loan Key 2015025**

In order to implement the Mahaweli Water Security Investment Program, an agreement had been entered into on 17 September 2015 to obtain a loan amounting to US \$ 76 million from the Asian Development Bank with a grace period of 05 years and on the basis of repaying in a period of 26 years. It had been agreed to pay a liability fee of 0.15 per cent on the unutilized balance of the loan. According to the information made available to the Audit, the loan should have been obtained by 20 June 2020, but only a sum of US \$ 31,973,267 had been utilized from the loan even by 31 December 2020, thus failing to mobilize 58 per cent of the loan equivalent to US \$ 44,026,733. A sum totaling Rs. 14,410,871 had been paid in June and December as the liability fee equivalent to 0.15 per cent thereon.

Due to lack of financial capabilities of the qualified contractor, the contract had been awarded to a different contractor in December 2020, thus failing to achieve the progress of the contractors as expected. As such, the overall progress could not be reached as expected.

The additional cost to be incurred by the Government should be minimized through expeditious and efficient mobilization of loans.

II. **Loan Key 2015019**

In order to finance the cost of the project for implementing the milk processing center in Badalgama, a loan amount of 56,580,214 Euros had been obtained from the HSBC bank under export finance facility with a grace period of 03 years followed by a repayment period of 13 years. An agreement had been entered into on 14

The implementation of the project could not be completed on time due to reasons such as, delay in acquisition of lands, delay in the supply of machinery to the construction site, and the spread of Covid-19 pandemic.

- Do.

August 2015 so that an agreement fee of 0.5 per cent would be levied annually on the unutilized balance of the said loan whilst a loan amounting to 9,975,863 Euros would be obtained under a grace period of 02 years followed by a repayment period of 06 years. According to the information made available to the Audit, a sum of 59,190,497 Euros had been utilized therefrom by 31 December 2020 whereas a value of 7,365,580 Euros had not yet been mobilized as at that date. As such, a sum of Rs.7,890,913 had been paid in the year under review as the annual agreement fee of 0.5 per cent on the said value that had not been mobilized.

**III. Loan Key 2007029**

According to the agreement on the loan of US \$ 92,405,459 to be incurred on the project to purify contaminated water in the areas of Ratmalana/Moratuwa, and Ja Ela/Ekala, it had been necessitated to pay a half-yearly fee of 0.03 per cent as administrative fees on the unutilized loan balance. Accordingly, a sum of Rs. 3,149,851 had been paid in the year 2020 in that connection.

The loan amounting to US \$ 2,655,196.71 had been cancelled on 2016.06.30 whereas the balance had been utilized in full. As such, there exists no unutilized balance with respect to this loan agreement.

- Do.

**IV. Loan Key 2015026**

In order to renovate the A-5 road from Badulla to Chenkaladi, an agreement had been entered into on 30 October 2015 to obtain a loan amounting to US \$ 6 million equivalent to 225,000,000 Saudi Riyals from the Saudi Fund for Development on the basis of repaying in a period of 25 years after 05 year grace period subject to an interest rate of 02 per cent per annum on the unutilized or unsettled balance. A total of US \$ 45 million should have been obtained in the years 2015, 2016, and 2017 with respect to that loan, but it was observed that the loan had been obtained in the year 2018. Furthermore, the loan should have been obtained in full by the end of the year 2018; however, even by 31 December 2020, seventy per cent of the loan equivalent to 157,246,745 Saudi Riyals remained yet to be obtained

Due to delays in feasibility study, planning of roads, acquisition of lands, and the procurement procedure, the contract had been awarded in the year 2018.

- Do.

- (iv) Following a policy decision of the Government of Sri Lanka, the Project Agreement, No. 2019011 on the Light Rail Transit System, had been terminated. The following matters were observed in that connection.

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| I.   | A decision has not yet been reached on further actions to be taken on the sum of ¥ 60,080,000 already incurred as front end fee of the project of which the agreement had been terminated. The Audit was informed that discussions would be held in that regard at the time of repaying the loan.  | It is scheduled to reach an agreement through discussions held at the time of repaying the loan.                         | Efficient and productive implementation of projects should be facilitated through accurate studies and analyses. |
| II.  | Furthermore, following the termination of contract agreement on consultancy services with effect from 31 December 2020, a sum of US \$ 31,364,767 including a sum of US \$ 23,657,761 on losses and damages, had been claimed by the consultancy firm. As compared to the total amount claimed, the percentage of recovering losses and damages was 75 per cent. | Two meetings of the Committee had been held in that connection, and further action is being taken.                       | - Do.  |
| III. | As of 19 January 2021, a sum of ¥ 2,905,525 equivalent to Rs.4,886,234,915 had been mobilized from the loan. Although it was decided to terminate the loan agreement, an agreement has not so far been reached as to the manner in which the mobilized amount would be repaid.   | It is expected that future action will be taken in regard of the agreement following the decision of the Committee.      | - Do.  |
| IV.  | It was reported that the project activities including the closure of the project office, had not been concluded even by January 2020. Furthermore, it was observed in accordance with the files that the information   | As those activities are at the preliminary stages, this Department has not so far been informed on the progress thereof. | - Do.  |

on an alternative project, and the consultancy services already obtained would be made use of efficiently with respect to a different project in the wake of this project being terminated. However, no information whatsoever was made available to the Audit in that connection.

- (d) It was stated under Section 3.8 in Chapter 03 of the draft performance report presented to Audit that the progress of reporting on the non-financial assets was 100 per cent. However, the value of assets included in the expenditure incurred by the Ministry on the renovation works of the Department had been understated; as such, it was observed in audit that the progress in reporting on the non-financial assets was not accurate.
- The said deficiency in Section 3.8 of Chapter 03 of the draft performance report with respect to the non-financial assets being understated, has been corrected in the performance report.
- Accurate and up-to-date information should be maintained and reported.
- (e) As for the expected output and the actual output mentioned in Paragraph 4.1 of Chapter 04 of the draft performance report, the progress in financial commitments and financial utilization had been shown as 147 per cent and 190 per cent respectively, thus observing that those values had been underassessed. However, this was an implication that loans obtained in the year were more than what had been expected, and hence, it was observed that this practice would pave way for an increased debt portfolio.
- The following matters were attributable to the difference between the expected output and the actual output :
- 1) The loan of US \$ 500 million obtained from the China Development Bank, was excluded in the output expected for the year 2020.
  - 2) The loan amount expected to be obtained from the Asian Development Bank was increased in the wake of Covid-19, and additional funds were allocated by the World Bank (WB).
- Preliminary evaluations should be carried out to ensure proper debt management.