

Head 239 - Department of External Resources

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Department of External Resources – Head 239 for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance and cash flow statements 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 03 June 2022 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 of 2018 and the Annual Detailed 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 21 July 2022. This report is presented 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 of the Department of External Resources give a true and fair view of the financial position of the Department as at 31 December 2021, and its financial performance and cash flows for the year then ended in accordance with the Generally Accepted Accounting Principles.

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 my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibility of Chief Accounting Officer and the Accounting Officer for the Financial Statements

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 Responsibility 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 the 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, they could reasonably be expected to influence the 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:

- 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, 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 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 Requirements

In accordance with Section 6 (1) (d) of the National Audit Act, No. 19 of 2018, I state the followings;

- (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

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Provision of Rs.19,930,000 had been made for an Object by the Annual Budget Estimate. However, the entire provision had been saved due to non-utilization for any purpose whatsoever even by the end of the year under review.	Provision has been saved due to freezing of provision as per the instructions of the Secretary to the Treasury on the policy of restricting Government expenditure and non-presentation of relevant vouchers from Non-Governmental institutions for payment.	In terms of F.R.50, annual expenditure estimates should be prepared as accurately and logically as possible.

- (b) As excess provision was made for 06 Recurrent Objects and 08 Capital Objects, provision totalling Rs.38,145,580 had been saved as at 31 December 2021, the said saving had ranged between 31 per cent and 94 per cent of the net provision. However, it had been indicated in the financial statements that this provision was saved due to freezing of provision as per the instructions of the Secretary to the Treasury. Provision has been saved due to freezing of provision as per the instructions of the Secretary to the Treasury on the policy of restricting Government expenditure and non-presentation of relevant vouchers from Non-Governmental institutions for payment. In terms of F.R.50, annual expenditure estimates should be prepared as accurately and logically as possible.

2.2 Non-compliance with Laws, Rules and Regulations

The following non-compliance was observed.

Reference to Laws, Rules and Regulations	Audit Observation Non-compliance	Comments of the Accounting Officer	Recommendation
Letter No.SA/MAA/02/01/01 dated 30 December 2021 of the Director General of State Accounts	According to the statement of financial performance of the year 2021, the balance as at 31 December 2021 had been a negative Rs.3,509,894. According to the imprest reconciliaton statement mentioned in the revised Format ACA -7, the imprest adjustment balance as at 31 December 2021 had been negative (-) Rs.3,509,894. However, it should have been Rs. 3,509,894. The balance of the imprest account should have been Rs.0 after adjusting the	According to the letter No.SA/MAA/02/01/01 of the Director General of State Accounts, Format ACA – 7 has been completed and adjustments have been made without changing the format mentioned therein and by mentioning the financial values of items against relevant particulars, and the imprest adjustment balance has been indicated as negative (-) Rs.3,509,894 therein.	Financial statements should be prepared logically.

positive imprest adjustment balance of Rs.3,509,894 which should be obtained according to the imprest reconciliation statement, for the negative (-) balance of Rs. 3,509,894 in the statement of financial performance.

Nevertheless, indicating the imprest balance as 0 (zero) as at 31 December 2021 as a result of indicating the imprest adjustment balance as negative (-) Rs.3,509,894 in the statement of financial performance, had not been carried out logically.

2.3 Entering into Liabilities and Commitments

 The following observation is made.

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>Liabilities totalling Rs.528,127 comprising sums of Rs.466,487 and Rs.61,640 had been entered into in December 2021 respectively under two Objects. However, those liabilities had not been included in the statements of liabilities and commitments of the financial statements.</p>	<p>As goods had not been received even by 31 December 2021, liabilities had been entered into under Object 2103 and it has been recorded as 2108 by a printing error in the Register of Liabilities.</p>	<p>Liabilities relating to the year under review should be accurately included in the financial statements.</p>

2.4 Advances to Public Officers Account

The following observation is made.

Audit Observation	Comments of the Accounting Officer	Recommendation
The Department had failed even in the year under review to recover loan balances totalling Rs.424,716 from an officer deceased on 11 August 2018 and an officer who had left the service on 20 July 2021.	The Department of Pensions has been informed to recover the said monies from the death gratuity. The officer interdicted on 20.07.2021 has been informed in writing by letter dated 19.01.2022 to settle the distress loan balance recoverable from her to the Government.	Adequate steps should be taken to recover outstanding loan balances.

3. Operating Review

3.1 Non-achievement of expected Output Level

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) The Audit had been informed that the CS-DRMS Loan Management System being used by the Department of External Resources has been introduced for functions including debt servicing projection and accordingly, even though discussions have been made a considerable number of times with relevant institutions on entering data into ITMIS online method relating to loans, technical issues and connecting CS-DRMS system which is somewhat outdated, with ITMIS has become difficult. The	In terms of Circular No.30/94 dated 20.04.1994 issued by the Department of State Accounts, the CS-DRMS Data System is used by this Department for recording foreign aid.	A system with accounting and cash flow facilities should be maintained in an updated manner for the purpose of debt management and servicing.

Department had not taken action even by the end of May 2022 to introduce a loan management system with facilities for exchanging necessary data for the ITMIS System from the CS-DRM System and/or including loan management activities with cash flow management and facilities for accounting loan transactions.

- (b) Payments of Rs.462,721 and Rs.5,710,641 had been made as interest and other payments respectively for two types of foreign loans for which agreements were entered into in the year 2021, but not realized. Entering the disbursed value relating to 2021008 and 2021016 in the system has been delayed by error and the system has been updated. An internal system has been established to prevent such delays in future. The disbursement value should be accurately and promptly entered into the system.
- (c) According to the Performance Plan of the year 2021, the disbursed estimate and the actual disbursed value were as follows.

Development Party	Disbursed Estimate 2021 (US\$ Millions)	Actual Disbursed Value 2021 (US\$ Millions)	Variance (US\$ Millions)	Variance as a percentage of the Disbursed Estimate
World Bank	276	434	158	57
Asian Development Bank	390	615	225	58
China	312	969	657	211
Japan	178	135	- 43	-24
Korea	20	11	- 9	- 45
Middle East Countries	82	44	- 38	- 46
South Asian Countries	62	87	25	40

Russia				
Australia and Western countries	210	111	99	47
United Nations Organization				-
	16	12	4	25
Total	1,546	2,418	872	

The following observations are made in this connection.

- (i) Even though the total value of the disbursed estimate was US\$ 1,546 million in the year 2021, the actual disbursement value was US\$ 2,418 million. As such, the actual disbursement value had exceeded the disbursed estimate by US\$ 872 million representing approximately 56 per cent. The entire disbursement value has increased in the year 2021 in relation to the plan due to the unstable economy in the country in the year 2021 and the market borrowings made for budget financing assistance for settling the foreign exchange crisis and obtaining Covid-19 additional emergency credit facilities from the Asian Development Bank and the World Bank for obtaining recommended additional vaccine doses with a view to controlling Covid-19 pandemic. Foreign debt financing should be carried out properly as planned.
- (ii) According to the disbursed estimate, the loan value estimated to be obtained from China was US\$ 312 million. However, it had been increased up to US\$ 969 million representing 211 per cent and it stood at the highest point of the actual value. The reason for the increase in the project loan obtained from China in this manner was the inclusion of the market loan facility of US\$ 809 million (US\$ 500 million and Chinese Yuan 2000 million). The said market loan has been obtained within the approved credit limit and on Cabinet approval. It cannot be specifically forecasted as it is obtained as the case may be. As it has been obtained from the Chinese Development Bank on the market situation which prevailed, it has been indicated under Chinese debt. Foreign debt financing should be carried out properly as planned.

- (iii) The actual disbursement value of loans obtained from the Asian Development Bank, World Bank and South Asian countries had increased by 58 per cent, 57 per cent and 40 per cent respectively as compared with the disbursed estimate. Emergency credit facilities were obtained from the Asian Development Bank and the World Bank for obtaining recommended additional vaccine doses with a view to controlling post Covid- 19 in the year 2021. Moreover, in terms of agreements already entered into at that time under the Indian Dollar credit facility to overcome the economic crisis, expediting obtaining of disbursements in the year 2021 has resulted in this increase. Foreign debt financing should be carried out properly as planned.
- (iv) Loans expected to be obtained from Russia, Australia and Western countries, Middle East countries, Korea, United Nations Organization and Japan had decreased in amounts ranging from 24 per cent to 47 per cent. Progress could not be achieved as planned due to obstructions arisen in awarding of contracts as expected, delays occurred in the import of materials necessary for projects and in maintaining work sites continuously as a result of Covid- 19 pandemic which prevailed in the year 2021. As such, the utilization of these projects has taken a low value as compared with expected targets of loan disbursements. Foreign debt financing should be carried out properly as planned.
- (d) In terms of State Accounts Circular No.30/94 of 20 April 1994 relating to accounting of foreign aid, it is mentioned therein that all transactions relating to foreign aid should be carried out by the Director General of the Department of External Resources of the General Treasury. According to information made available to Audit, 3 institutions had obtained foreign grants totalling Rs.25.52 million in the year 2021 directly for 8 projects without the knowledge of the General Treasury. In terms of State Accounts Circular No.30/94 of 20 April 1994 relating to accounting of foreign aid and Financial Regulation 610 of Chapter XI of the Financial Regulations of the Republic of Sri Lanka, this Department is not vested with powers for conducting all negotiations for foreign aid or issuing orders to relevant statutory institutions and an accepted control system or any provision whatsoever had not been allocated therefor to this Department. When instructions of Financial Regulations and circulars are inadequate, the Treasury should take control over foreign aid by revising those instructions.
- (e) With the outset of the Covid- 19 break out in Sri Lanka in the year 2020, various foreign states, local and foreign institutions, organizations, individuals and local and foreign Non-Governmental organizations had granted

financial and non-financial aid and donations to the Ministry of Health and hospitals and other health institutions under its purview. Action had not been taken to make provision for the said aid and donations, assess them and to include in the financial statements.

Particulars are given below.

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|------|---|------|--|
| (i) | Action had not been taken to make provision relating to financial aid and donations of Rs.18,716,785 received in the year 2020 to 05 institutions out of institutions which submitted information to Audit and to include them in the financial statements. | -do- | Coordination and monitoring of utilizing foreign grants received for relevant objectives should be strengthened so as to ensure the credibility of grantors. |
| (ii) | Out of institutions, hospitals and divisions which have submitted information to Audit, goods valued totalling Rs.889,071,645 received in the year 2020 to 16 institutions, hospitals and divisions and 4,956 units of items of goods of which details were not included, received in the year 2020 to 19 institutions, hospitals and divisions, had not been properly listed and included in the financial statements. | -do- | -do- |

(iii) Goods valued totalling Rs.1,041,492,068 received in the years 2020 and 2021 to 60 hospitals and institutions which had submitted information to Audit later and 157,509 items of goods of which the value was not assessed, had not been properly listed and included in the financial statements.

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3.2 Payment of Fees for unutilized Loan Balance in obtaining Foreign Debts

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) According to information made available to Audit in the examination on entering into agreements for obtaining foreign loans and the utilizations relating thereto, it was observed that agreements had been entered into in the year 2016. However, the following observations are made on loan balances for which utilizations are not carried out relating to those loan agreements even by the end of the year 2020.</p>	<p>In terms of Clauses 2.2 and 2.7 of this loan agreement, an annual commitment fee of 0.25 per cent should be paid for the unutilized balance of the total loan. Accordingly, sums of US\$ 2,179,971.12 and US\$ 461,932.87 have been paid as commitment</p>	<p>Action should be taken to complete projects expeditiously, to minimize commitment fees and to utilize project loans to the fullest.</p>
<p>(i) Loan Key 2016015</p>	<p>In order to implement the Project on Extension of the Southern Expressway from Beliatta to Wetiya, agreements had been entered into with the Export Import Bank of China on 07 April 2016 for obtaining a loan of US\$ 360,293,948 under credit facilities of preferential buyers with a grace period of 05 years and on the basis of repaying in a period of 20 years so as to cover</p>	

85 per cent of the total cost of the project. According to the said agreement, an annual commitment fee of 0.25 per cent should have been paid on the unutilized balance of the total loan.

According to the information made available to Audit, obtaining the loan should have been completed by 24 June 2021. Nevertheless, only a sum of US\$ 279,355,795 or 88 per cent of the said loan had been utilized even by 15 May 2022. Accordingly, 22 per cent or US\$ 80,938,153 of the loan had not been utilized. The Export Import Bank of China had informed on 25 June 2021 that the said loan could not be granted after 24 June 2021. As such, a sum of US\$ 2,641,904 had to be paid as commitment fees of 0.25 per cent annually during 05 years for the loan which could not be obtained due to non-utilization in this manner.

fees for the periods from 21.01.2017 to 21.01.2020 and from 21.01.2020 to 21.07.2021 respectively.

The final utilization of this project took place on 07.02.2021 and a sum of approximately Rs.12 billion had been saved at the end of constructions of this project due to the changes made in the scope of this project in the year 2019 by the Ministry of Highways. Making effective use of the said savings, a proposal for construction of the Bedigama Interchange and Beliatta Service division and improvement of associated roads had been submitted for the approval of the Export Import Bank of China. However, the said request was rejected by the Export Import Bank of China. As such, action has been taken to cancel the relevant remaining sum.

(ii) Loan Key 2016034

No information whatsoever had been made available to Audit on agreements for obtaining loans relating to the Greater Colombo Water and Wastewater Management Improvement

Commitment fees payable up to 31.12.2020 on the unutilized loan relating to the relevant loan for the Greater Colombo Water and Wastewater

Action should be taken to complete projects expeditiously, to minimize commitment fees and to utilize project

Investment Project and payment of commitment fees for unutilized loans. However, a sum of US\$ 19,159,283 had been utilized out of this loan by the end of the year 2020. As such, 84.4 per cent or US\$ 103,840,717 had not been utilized out of this loan.

Management Improvement Investment Project, have been paid. Constructions of the sewerage pipe system of 29.4 km in length and two pump houses of this project have been commenced in the year 2017. The main contract of the project has been already awarded and the project is expected to be duly completed within the prescribed period. It is observed that the utilizations of this project could not be carried out as planned due to inability of awarding contracts relating to the project at the appropriate time.

loans to the fullest.

(iii) Loan Key 2016021

Agreements had been entered into on 01 June 2016 with the French Development Institution for obtaining a loan of Euro 76 million with a grace period of 7 years on the basis of repaying in a period of 25 years for the Urban Health Security and Sanitation Project and payment of an annual commitment fees of 0.5 per cent had been agreed for unutilized loans out of the total loan.

The consultancy service contract for preparing the feasibility study report and the Detailed Design Plan relating to this project has been awarded in August 2018 and the preparation of the said Detailed Design Plan has ended during the first part of the year 2020. Commencement of civil works which incurs about 90 per cent of the loan is a purpose to be carried out accordingly after completing the preparation of the said Detailed Design Plan. According to the

Action should be taken to complete projects expeditiously, to minimize commitment fees and to utilize project loans to the fullest.

According to information submitted to Audit, a sum of Euro 2,756,563 had been utilized of the said loan by the end of the year 2020. Accordingly, 96 per cent of the loan or Euro 73,243,437 had not been utilized. A total of Euro 562,354 comprising sums of Euro

376,855 and Euro 185,499 had been paid as commitment fees of 0.5 per cent in the years 2020 and 2021 alone.

Feasibility Study Report and the Detailed Design Plan, the process of inviting for bids for constructing the sewerage treatment plant and sewerage network has been commenced by now and those activities are due to be completed in the near future.

In entering into a loan agreement, a basic financial condition therein is charging a commitment fee on the unutilized balance. As such, an annual commitment fee of 0.5 should be paid on the unutilized balance in terms of this agreement.

(iv) Loan Key 2016039

In order to implement the Anuradhapura Integrated Urban Development Project, agreements had been entered into on 01 December 2016 with the French Development Institution for obtaining a loan of Euro 52,000,000 with a grace period of 7 years on the basis of repaying in a period of 20 years and payment of an annual commitment fees of 0.5 per cent had been agreed for unutilized loans out of the total loan.

According to information submitted to Audit, a sum of Euro 1,864,010 had been utilized of the said loan even by the end of the year 2020. Accordingly, 96.42 per cent of the loan or Euro

An annual commitment fee of 0.5 per cent should be paid on the unutilized balance as per an agreement.

A consultancy service contract for preparing the Detailed Design Plan has been awarded in September 2017. Even though the Detailed Design Plan relating to the project should have been submitted by the end of October 2018, its completion has taken up to March 2021. Bids had been invited in the

Action should be taken to complete projects expeditiously, to minimize commitment fees and to utilize project loans to the fullest.

50,135,990 had not been utilized. A total of Euro 379,487 comprising sums of Euro 127,991 and Euro 251,496 had been paid as commitment fees of 0.5 per cent in the years 2020 and 2021 alone.

year 2020 for Quick Win activities identified in preparing the Detailed Design Plan. Accordingly, the first contract thereof has been awarded during the period of June/July 2020. The project too is due to be completed by 30 September 2023. As such, the loan balance will be utilized by the end of the year 2023.

(v) Loan Key 2016023

In order to implement the Anamaduwa Integrated Water Supply Project, agreements had been entered into on 16 February 2016 with the Government of Spain for obtaining a loan of Euro 29,501,875 with a grace period of 4 years on the basis of repaying in a period of 40 years. An annual commitment fee of 0.10 per cent had been agreed to be paid for unutilized loans out of the total loan. According to information submitted to Audit, a sum of Euro 12,227,405 had been utilized of the said loan by the end of the year 2020. Accordingly, 58.55 per cent of the loan had not been utilized. A sum of Euro 18,223 had been paid as commitment fees of 0.5 per cent in the year 2020 alone.

An annual commitment fee of 0.1 per cent should be paid on the unutilized balance as per the agreement.

The project was due to be completed by May 2020. However, it could not be so completed due to constructions of the water treatment plant, changes occurred in the place of obtaining water and delays in obtaining approval for water pipelines. Accordingly, the project period has been extended up to May 2022. As such, an unutilized balance remains by the year 2020 while the total utilization amounts to Euro 15.3 million at present.

Action should be taken to complete projects expeditiously, to minimize commitment fees and to utilize project loans to the fullest.

(vi) Loan Key - 2016019

In order to implement the Greater Matale Water Supply Project, agreements had been entered into on 25 April 2016 with the Credit Agricole Investment Bank of France, Natix BNP Paribas and UniCredit Bank of Austria for obtaining a loan of Euro 123,728,034 with a grace period of 3 years on the basis of repaying in a period of 15 years. An annual commitment fee of 0.75 per cent had been agreed to be paid for unutilized loans out of the total loan.

According to information submitted to Audit, a sum of Euro 85,789,907 had been utilized of the said loan by the end of the year 2020. Accordingly, 30.66 per cent or Euro 37,938,128 of the loan had not been utilized. Euro 368,283 had been paid as commitment fees of 0.75 per cent in the year 2020 alone.

An annual commitment fee of 0.75 per cent should be paid on the unutilized balance as per the agreement.

The project was due to be completed by 25 September 2019. However, it could not be so completed due to constructions of the Rattota water treatment plant, changes in the place of constructing the Abanganga water treatment plant, problems arisen relating to the source of water in Rattota and delays in distribution of water pipelines. The project period has been extended up to 17 February 2022. The total utilization amounts to Euro 107 million at present.

Action should be taken to complete projects expeditiously, to minimize commitment fees and to utilize project loans to the fullest.

- (b) According to information made available to Audit in the examination on entering into agreements for obtaining foreign loans and the utilizations relating thereto, the following observations are made on loan balances remained unutilized even by the end of the year 2021 relating to loan agreements, which were selected on sample basis, entered into in the year 2014, and payments relating thereto.

(i) Loan Key - 2014040

In order to implement the Project on Construction of the Southern Expressway from Matara to Beliatta, agreements had been entered into on 23 December 2014 with the Export Import Bank of China for obtaining a loan of US\$ 683,494,300 under credit facilities of preferential buyers with a grace period of 5 years on the basis of repaying in a period of 20 years. An annual commitment fee of 0.25 per cent had been agreed to be paid for unutilized loans out of the total loan.

According to information submitted to Audit, a sum of US\$ 663,982,749 had been utilized of the said loan by 24 June 2021. Accordingly, 3 per cent or US\$ 19,511,551 of the loan had not been utilized. A sum of US\$ 56,089,787 had been paid as commitment fees of 0.25 per cent in the year 2020 alone.

(ii) Loan Key 2014024

In order to implement the Project on construction of the Section from Kadawatha to Kerawalapitiya of the Outer Circular Highway Project, agreements had been entered into on 16 September 2014 with the Export Import Bank of China for obtaining a loan of US\$ 494,037,400 under credit facilities of preferential buyers with a grace period of 5 years on the basis of repaying in a period of 20 years. An annual commitment fee of 0.25 per cent had been agreed to be paid for

Constructions of this project were completed by 09.11.2019 and a sum of approximately Rs.3.5 billion had been saved due to limitation of the subject by the Ministry of Highways which implements the relevant project and change in the exchange rate. Making effective use of the said savings, a request for construction of the access roads for interchanges of this section had been submitted to the Export Import Bank of China. However, the said request was rejected by the Bank.

Action should be taken to complete projects expeditiously, to minimize commitment fees and to utilize project loans to the fullest.

The duration of utilization of the loan agreement relating to this project ended on 26.10.2020 and approximately Rs.20.9 billion had been saved due to the limitation of scope of the project and completing only essential activities considering the financial situation of the country. Making effective use of the said

Action should be taken to complete projects expeditiously, to minimize commitment fees and to utilize project loans to the fullest.

unutilized loans out of the total loan. According to information submitted to Audit, a sum of US\$ 353,309,162 had been utilized of the said loan by 24 June 2021. Accordingly, 28 per cent or US\$ 140,728,238 of the loan had not been utilized. A sum of US\$ 32,212,172 had been paid as commitment fees of 0.25 per cent in the year 2020 alone.

savings, a request together with the Ministry of Highways for additional constructions of this section had been submitted to the Export Import Bank of China. However, it has not been approved.

(iii) Loan Key 2014025

In order to implement the Project on Extension of the Southern Expressway from Mattala to Hambantota via Andarawewa, agreements had been entered into on 16 September 2014 with the Export Import Bank of China for obtaining a loan of Renminbi Yuan 2,528,171,834 with a grace period of 5 years on the basis of repaying in a period of 20 years. An annual commitment fee of 0.25 per cent had been agreed to be paid for unutilized loans out of the total loan.

According to information submitted to Audit, a sum of Renminbi Yuan 1,987,801,117 had been utilized of the said loan by 24 June 2021. Accordingly, 21 per cent or Renminbi Yuan 540,370,717 of the loan had not been utilized. Renminbi Yuan 51,295,324 had been paid as commitment fees of 0.25 per cent in the year 2020 alone.

The duration of utilization of the loan agreement relating to this project ended on 26.10.2020 and approximately Renminbi Yuan 540 million had been saved due to the effect of Covid -19 on the works of the project. Making effective use of the said savings, a request together with the Ministry of Highways for constructions of associated roads had been submitted to the Export Import Bank of China. However, it has not been approved. Action should be taken to complete projects expeditiously, to minimize commitment fees and to utilize project loans to the fullest.

(iv) Loan Key 2014026

In order to implement the Project on Construction of the Roads and Flyovers of the Hambantota International Centre, agreements had been entered into on 16 September 2014 with the Export Import Bank of China for obtaining a loan of Renminbi Yuan 1,555,995,249 with a grace period of 5 years on the basis of repaying in a period of 20 years. An annual commitment fee of 0.25 per cent had been agreed to be paid for unutilized loans out of the total loan.

According to information submitted to Audit, a sum of Renminbi Yuan 1,554,505,538 had been utilized of the said loan by 24 June 2021. Accordingly, 1 per cent or Renminbi Yuan 1,489,711 of the loan had not been utilized. A sum of Renminbi Yuan 18,918,566 had been paid as commitment fees of 0.25 per cent in the year 2020 alone.

The duration of Action should be utilization of the loan taken to complete agreement relating to projects this project ended on expeditiously, to 26.10.2020 and minimize approximately commitment fees and Renminbi Yuan 27 to utilize project million had been saved loans to the fullest. due to the effect of Covid -19 on the works of the project. Making effective use of the said savings, a request together with the Ministry of Highways for completing constructions of this project had been submitted to the Export Import Bank of China. However, it has not been approved.

(v) Loan Key 2014027

In order to implement the Ambatale Water Supply System Improvements and Energy Saving Project, agreements had been entered into on 29 September 2014 with the Agence Francaise de Development (AFD) Bank of France for obtaining a loan of US\$ 70,000,000 under credit facilities of preferential buyers with a grace period of 7 years on the basis of repaying in a period of 25 years. An annual commitment fee of 0.5 per cent had been agreed to be paid for

It had been originally Action should be estimated to complete taken to complete the activities of this projects project by the end of expeditiously, to the year 2019. minimize commitment fees and However, execution of to utilize project certain contracts has loans to the fullest. been delayed due to delays I procurements and delays of contractors and institutional management issues of contractors.

unutilized loans out of the total loan.

According to information submitted to Audit, a sum of US\$ 16,870,469 had been utilized of the said loan by 24 June 2021. Accordingly, 76 per cent or US\$ 53,129,531 of the loan had not been utilized. A sum of US\$ 53,132,020 had been paid as commitment fees of 0.5 per cent in the year 2020 alone.

3.3 Assets Management

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Two vehicles belonging to the Department had been given to the Ministry of Finance and the value of one of those vehicles had not been included either in the financial statements of the Department or in the financial statements of the Ministry of Finance.	The Cab vehicle bearing No.WP JV-1448 is a vehicle registered under the Ministry of Finance which was in the custody of this Department. In handing over the said vehicle, the asset value thereof has been eliminated from the registers of this Department. It has been notified to include this asset in the registers of assets of the Ministry of Finance and it has been informed that the said Ministry is taking action therefor.	Assets belonging to the Department should be accurately identified and included in registers.
(b) Action had been taken to purchase 30 office steel cupboards on 22 December 2021 and 11 steel cupboards out of them had been received in the year under review. The invoice for Rs.1,108,080 relating to 30 steel cupboards had been	Action had been taken to purchase 30 office steel cupboards in the year 2021 and payments were made only for the 11 cupboards which were in compliance with proper standards. Moreover, payments therefor could not be made in the	Liabilities of the year 2021 should be accurately included in the financial statements.

submitted to the Department by the contractor on 22 December 2021. Payments had been made only for the 11 steel cupboards received on 30 December 2021. The remaining 19 steel cupboards had been received in the year 2022. An invoice valued at Rs.701,784 had been submitted therefor to the Department on 23 March 2022. Two invoices relating to this transaction had been received to the Department and payments had been made for the second invoice without changing the quantity mentioned in the original invoice. A sum of Rs.701,787 relating to goods not received in the year 2021 had been indicated as a liability in the financial statements.

year 2021 due to the delay occurred relating to the remaining 19 cupboards which had to be properly adjusted and made to deliver again. As such, payments have been made only for 11 cupboards relating to the invoice submitted for the 30 cupboards.

4. Human Resource Management

4.1 Approved Cadre, Actual Cadre

The following observation is made.

Audit Observation	Comments of the Accounting Officer	Recommendation
The 26 vacancies of the Department as at 31 December 2021 consisted of 10 vacancies of Senior Level.	As 03 posts are no longer required, those posts have been suppressed by the Department of Management Services as of 23.03.2022.	Action should be taken to maintain a staff adequate for performing the role of the Department and to revise inessential posts, if any.
	Vacancies of Senior Level were due to be fulfilled in the year 2022 under annual transfers and 3 vacancies out of those have been already fulfilled.	