

Head 239 – Department of External Resources

1. Financial Statements

1.1 Opinion

The audit of the financial statement of the Head 239 – Department of External Resources for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 30 May 2023 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 of 2018. 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 22 June 2023. 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 give a true and fair view of the financial position of the Department of External Resources as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Opinion

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 the 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 provisions in Section 38 of the National Audit Act, No.19 of 2018 and for the determination of the internal control that 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 the preparation of annual and periodic financial statements.

In terms of Sub-section 38 (1) (c) of the National Audit Act, the Accounting Officer shall ensure that effective internal control system for the financial control of the Department exists, and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

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

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 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, 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

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 of the preceding year had been implemented.

2. Financial Review

2.1 Management of Expenditure

The following observations are made.

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
(a) It was stated in the National Budget Circular No. 03/2022 dated 26 April 2022 that in case of saving of provision made for incurring expenses of the year, such savings should not be utilized on other expenses prior to the end of the year as had been done conventionally. However, due to inadequacy of provision estimated for 13 items of expenditure, a provision totalling Rs. 7,451,000 had been increased under Financial Regulation 66/69 indicating a range between 0.42 -440 per cent.	Inflation reached 50 per cent in the wake of severe economic crisis prevailed in the country. As such, prices existed at the time of preparing the estimate in the year 2021, had considerably increased, and the provision made for the year 2022 had become inadequate. Accordingly, transfers had been made from provision saved under Objects with minimum expenses in terms of Financial Regulation 66, and the relevant expenses had been made with a view to continuing the functions of the Department.	The Circular should be followed.
(b) The provision estimated for the Item No. 239-1-1-1505 of expenditure (collections and contributions), amounted to	Provision for paying contributions had been requested subject to the approval of the Deputy	The annual expenditure estimates should be prepared accurately and realistically in terms of

Rs.174,000,000, and due to being overprovisioned, a sum of Rs. 7,451,000 equivalent to 44.5 per cent, had been transferred to other items of expenditure.

Secretary of the Treasury. However, provisions were saved due to lack of foreign exchange in the country and payment of contributions had been limited. In view of continuing the functions of the Department, the saved provision had been transferred for settling the essential expenses subject to be approved by the National Budget Department and the Ministry of Finance.

Financial Regulation 50.

- (c) As 11 items of recurrent expenditure had been overprovisioned, a saving of Rs.103,809,754 had occurred in the year after utilization, and the saving was observed to be in the range of 14 – 92 per cent.

Provision had saved due to reasons such as, restriction on foreign tours, official travels had been limited due to fuel shortage in the country, maintenance of vehicles had been limited, limitation on refreshment allowances as meetings had been conducted through Zoom, minor maintenance activities had been limited due to price increase of goods, limiting payment of contributions due to inadequacy of foreign exchange in the country, suspending the payment of property loans to staff officers, vouchers had not been presented by the relevant institutions, limiting the acquisition of fixed assets, import restrictions, and minimum use of vehicles owing to limited supply of fuel.

The annual expenditure estimates should be prepared accurately and realistically in terms of Financial Regulation 50.

2.2 Advances to Public Officers Account

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
The total loan balance of Rs. 428,726 comprising sums receivable from an officer deceased on 11 August 2018 and another officer who had vacated the service on 20 July 2021, could not be recovered even in the year under review.	After taking a decision relating to the rights to the death gratuity, approval would be given to pay the death gratuity; and, once approve is given, it would become possible for the loan balances receivable to the Government, to be written off – informed by the Department of Pensions. The officer who had been interdicted on 2021.07.20, was sent a reminder on 2023. 03.16 informing that her distress loan balance receivable to the Government, be settled.	All the measures should be taken to recover the outstanding loan balances.

2.3 Incurring Liabilities and Commitments

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
Although no liability had been shown in the Note No. (iii) of the financial statements, it was observed in examining the vouchers presented to the Audit relating to January and February 2023 that liabilities and commitments worth Rs. 468,221 had existed with respect to the year under review.	Bills in hand payable as at 2022.12.31 could not be mentioned by mistake. As such, this has been shown in the register of liabilities.	Liabilities which incurred in view of being settled in the ensuing year should be correctly shown in the financial statements.

2.4 Non-compliances with Laws, Rules, and Regulations

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
According to Section (3) (x) of the National Budget Circular No. 03/2022 dated 26 April 2022, loans granted to staff officers under Advances to	In the wake of economic downturn, the said distress loan had been given to the officer on humanitarian grounds. Such mistakes will not take place in the future.	Provisions of the Circular should be followed.

Public Officers Account should be suspended until end of the year 2022. Nevertheless, a distress loan amounting to Rs. 169,825 had been given by the Department to a staff grade officer.

3. Operating Review

3.1 Failure to Achieve the Expected Outcome

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
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(a) The Audit was informed that the debt management system, CS-DRMS being used by the Department of External Resources, had been introduced for debt servicing and forecasting, and the CS-DRMS could not be linked to the ITMIS system due to technical issues although a considerable number of discussions had been held with the relevant institutions relating to the on-line transmission of debt-related data to the ITMIS system. However, the Department had not taken action even up to May 2023 to introduce a debt management system capable of managing debt whilst managing cash flows and accounting for transactions relating to debt and/or sharing data to the ITMIS from CS-DRMS.	Taking into account the facts such as, improvement of technical infrastructure required for a new debt management system, formally obtaining the data of relevant parties relating to debt management (including ITMIS), considering the debt restructuring process through the programme proposed by the International Monetary Fund, and future requirements relating to the debt management process, action will be taken to procure an internationally-accepted system capable of performing the said tasks with sustainable technical assistance. The Committee appointed by	An up-to-date accounting and cash flow management system should be maintained.

the Secretary of the Treasury in that connection has assembled, and attention has been brought on the said matters by holding discussions on further action. As such, the necessary reports are being prepared at present.

- (b) According to performance plan of the year 2022, estimated and actual values of disbursement are as follows.

Develop ment Partner	Disburse ment Estimate 2022 (US \$ Million)	Actual Value of Disburse ment (US \$ Million)	Varia tion (US \$ Millio n)	Variation as a Percenta ge of Disburse ment Estimate (%)
World Bank	482	456.2	(25.8)	(5)
Asian Develop ment Bank	550	741.4	191.4	35
China	-	101.3	101.3	
Japan	-	75.7	75.7	
Korea	-	4.9	4.9	
East Asian Countries	50	21.4	(28.6)	(57)
South Asian	835	925.5	90.5	11

Countries				
Russia, Australia and Western Countries	150	76	(74)	(49)
Agencies of the United Nations	8	11.1	3.1	39
Total	----- 2,075 =====	----- 2,413.5 =====	----- -- 338.5 ===== ==	

The following observations are made in this connection

- (i) The total value of disbursement estimate for the year 2022 amounted to US \$ 2,075 million, but the actual value of disbursement amounted to US \$ 2,413.5 million. Hence, the actual value of disbursement had exceeded the estimated value of disbursement by 16 per cent or US \$ 338.5 million.
- The disbursement estimate for the year 2022, had later been amended to be in line with the interim policy on foreign debt servicing issued on 12 April 2022.
- Financing foreign debt should be done systematically.
- (ii) Although no estimates had been prepared on loans to be obtained from China, Japan, and Korea as per the disbursement estimate, the actual values of loans, amounted to US \$ 101.3 million, US \$ 75.7 million, and US \$ 4.9 million respectively.
- In the wake of interim policy notice, many lending countries and institutions suspended the disbursement of funds for projects already in progress. Once the debt restructuring process is completed in accordance with programme proposed by the International Monetary Fund for Sri Lanka. It is
- Financing foreign debt should be done systematically.

expected to disburse foreign loans on projects as usual.

- (iii) Comparing the actual disbursement values of loans obtained from Asian Development Bank, South Asian Countries, and United Nations' agencies with the estimated value of disbursements revealed that the values had increased by 35 per cent, 11 per cent and 39 per cent respectively.

Part of the financial assistance granted for development projects by the multilateral lenders such as Asian Development Bank and World Bank had been repurposed as a remedy to the dollar crisis, thereby taking action to utilize such funds on essential imports, hence the difference with the total estimates. Financing foreign debt should be done systematically.

- (iv) Loans expected to be obtained from World Bank and East Asian countries and , Russia, Australia, and Western countries, had decreased by 5 per cent, 57 per cent, and 49 per cent respectively.

In order to help overcome the economic crisis in Sri Lanka, some of the countries including India, had agreed to provide funds through emergency programmes to make essential imports. As that decision had been taken in the year 2022, the initial disbursement estimate had differed from the actual disbursements. Financing foreign debt should be done systematically.

(c) Unreconciled and unusual data in the CS-DRMS Loan Management System.

- (i) Negative loan balances totalling Rs. 1,803,456 relating to two loan balances were observed in the financial statements of the Government and the report of CS-RDMS 2000+Report, 854-1.

Loan Codes 2010117 and 2010121
Those loans had been obtained from the Asian Development Bank in the years 1982 and 1983
Obtaining public debt and accounting for debt servicing should be done properly.

respectively; and in the year 2010, the loan amount had been converted from US \$ to special drawing rights (SDR). The balances so existed had been settled in full in US \$ in the year 2022, thus giving rise to the difference in exchange, and that difference had been shown as a negative value. Corrective measures have been taken thereon.

- (ii) The negative loan balance of Rs.652,634,243 being the disbursement value with respect to 04 loan agreements, had been shown in the financial statements of the Government as well as the CS-DRMS, 2000+Report 854-1 whereas the negative disbursement of loans totalling Rs. 154,795,691 had been shown only in the financial statements of the Government.
- Refund of disbursements had been recorded, and that had been recorded correctly in the CS-DRMS data base as a negative value. Those negative balances had been correctly recorded in the CS-DRMS, and it is proposed that the said refund of disbursements be inquired with the Project Director and / or the Department of Project Management and Supervision.
- Obtaining public debt and accounting for debt servicing should be done properly.
- (d) State Accounts Circular No. 30/94 dated 20 April 1994 states that all the transactions involving foreign aid should be performed by the Director General of the Department of External Resources of the Treasury. However, according to information collected through an audit test check, foreign grants totalling Rs.1,837,321,420 had directly been received in 2022 for 20 projects in favor of other Ministries / Departments without the Treasury being
- All the Government Ministries, Departments and Statutory Boards have been instructed through the Circular No. 30/94 relating to accounting for foreign aid dated 20 April 1994, and Financial Regulation 610 in Chapter XI of the
- It is necessary to strengthen the coordination and regulation of foreign aid being utilized on intended purpose thus confirming the confidence of donors.

aware, and no action had been taken to show those values in the financial statements after obtaining the provisions.

Financial Regulations of the Republic of Sri Lanka that it is the responsibility of the Director General of Department of External Resources to conduct negotiations on all the foreign aid and request for obtaining foreign aid for a certain project or a task. Except for that, this Department is not authorized to perform all the transactions relating to foreign aid or issue directives to the Statutory Institutions, nor have an accepted methodology or any order been given to this Department in that connection.

3.2 Management of Assets

The following observations are made.

Accounting Officer -----	Comment of the Accounting Officer -----	Recommendation -----
(a) The following matters were observed in examining the Register of Fixed Assets and the vehicle register of the Department of External Resources presented to the Comptroller General’s Office as at 31 December 2022 in terms of Assets Management Circular No. 01/2017 issued by the Ministry of Finance and Mass Media on 28 June 2017.		

- (i) The Department had 13 motor vehicles. Nevertheless, 11 motor vehicles worth Rs. 59,098,696 had been shown as passenger vehicles under the same number in the Register of Fixed Assets rather than being shown under each vehicle number. As such, it was observed that vehicles of the Department could not be identified in accordance with the Register of Fixed Assets.
- It is noted to take corrective measures in due course on those differences in the Cigas software relating to the Register of Fixed Assets in coordination with the Department of State Accounts.
- Assets of the Department should be correctly identified and recorded.
- (ii) The two motor vehicle bearing the numbers, WP JV-1448 and WP KK-5481 shown in the Register of Fixed Assets of the Department had not been included in the report presented to the Comptroller General as at 31 December 2022 in terms of Assets Management Circular No. 01/2017. Furthermore, the letter presented to the National Audit Office on 30 May 2022 by the Director General of the Department of External Resources responding to the summary report of the Auditor General for the year 2021, stated that those 02 vehicles had been handed over to the Ministry of Finance. Nevertheless, the vehicles had not been shown in the Register of Fixed Assets of the Ministry of Finance as at 31 December 2022; and, the said vehicles had not also been mentioned in the information made available to the Audit relating to the vehicles given to external parties.
- The two vehicle Nos. WP JV-1448 and WP KK- 5481 used by the Department had been vested in the Ministry of Finance through issue orders. The Register of Fixed Assets of the Department has been corrected by making necessary entries. Furthermore, it has been informed in writing that those vehicles be included in the registers of assets of the Ministry of Finance.
- Assets of the Department should be correctly identified and recorded.

- (iii) Two vehicles worth Rs. 15,900,000 obtained under operating lease had been shown as freehold assets in the report presented to the Comptroller General in terms of Assets Management Circular No. 01/2017 dated 28 June 2017. Nevertheless, that had not been shown in the Register of Fixed Assets of the Department.
- Action has been taken to record the motor vehicles under financial lease.
- Assets of the Department should be correctly identified and recorded.
- (b) According to the statement of non-financial assets (ACA-6) as at 31 December 2022, other machines and equipment worth Rs. 11,045,533 had been disposed of in the year 2022. Nevertheless, formal approval for the said disposal, had not been made available to the Audit. Furthermore, audit evidence required to classify the actual disposals, and corrections made on errors, had not been made available. It was observed that the system of internal control relating to the disposal of assets and corrections on errors, was not strong enough.
- A sum of Rs. 84,750 had been shown as actual value of disposals in those disposals, and although the other values had been shown as disposals, they were in fact corrections made on errors in the information system.
- Goods of the Department are disposed through committees of disposal, and it is noted to take further action as per the audit observation on control mechanism followed to make corrections on errors.
- Systems of control should be properly introduced to make corrections in books and disposal of assts.

4. Human Resource Management

4.1 Assigned Staff and Actual Staff

Audit Observation	Comment of the Accounting Officer	Recommendation
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<p>The 20 vacancies existed at the Department as at 31 December of the year 2022 comprised, 06 vacancies in senior level, 09 vacancies in the secondary level, and 05 vacancies in primary level.</p>	<p>The relevant administrative authorities have been informed to fill vacancies in the senior level. Although the post of Management Service Officer in secondary level remained vacant, that vacancy could not be filled due to lack of space. However, discussions with the Ministry of Finance are in progress, in order to obtain more space. All of the vacancies in office assistants' service in primary level have been completed though, action will be taken to fill 04 vacancies in the post of driver in due course.</p>	<p>Action should be taken to appoint the necessary staff, and in case of a non-essential staff included in the approved cadre, the approved number of posts should be revised.</p>