

Head 112 – Ministry of Foreign Relations

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ministry of Foreign Relations for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 containing my comments and observations on the financial statements of the Ministry of Foreign Relations was issued to the Chief Accounting Officer on 17 June 2020 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report of the Ministry was issued to the Chief Accounting Officer on 23 July 2020 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements prepared in accordance with the provisions of State Accounts Circular No. 271/2019 dated 03 December 2019 give a true and fair view of the Ministry of Foreign Relations as at 31 December 2019 and its financial performance and cash flow for the year then ended, in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified 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 Chief Accounting Officer on Financial Statements

Preparation of financial statements in a manner that reflects a true and reasonable position and determines the internal control required to enable financial statements to be prepared without inadequate false statements that may result from fraud and error in accordance with Generally Accepted Accounting Principles and the provisions of Section 38 of the National Audit Act, No. 19 of 2018 is the responsibility of the Chief Accounting Officer.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Ministry 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.

The Chief Accounting Officer shall ensure that an effective internal control system is maintained for the financial control of the Ministry in terms of Sub-section 38 (1) (c) of the National Audit Act and it should be periodically reviewed the effectiveness of the system and make any necessary changes to keep the system running efficiently.

1.4 Auditor's Responsibility on 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 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 skepticism throughout the audit. I also furthermore;

- Appropriate audit procedures were designed and implemented to identify and assess the risk of possibility of quantitative misrepresentations occurred in financial statements due to fraud or errors in providing a basis for the expressed audit opinion. More than the impact of quantitative misrepresentations due to misrepresentation, the effect of fraud is strong because of malpractice, forgery, intentional evasion, misrepresentation, or evasion of internal controls can lead to fraud.
- Although it is not intended to express an opinion on the effectiveness of internal control of the Ministry, obtained an understanding of internal control in order to plan appropriate audit procedures occasionally.
- Evaluated the appropriateness of the accounting policies followed, fairness of accounting estimates and related disclosures made by Management.
- Evaluated whether the transactions and events underlying the structure and content of the financial statements are appropriately and fairly consisted in and presentation of financial statements including disclosures as a whole.

The Chief Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

1.5 Report on Other Legal Requirements

I declare the following matters in terms of Section 6 (1) (d) and Section 38 of the National Audit Act No. 19 of 2018 .

- (a) The financial statements are in consistent with those of the preceding year,
- (b) The recommendations made by me regarding the financial statements furnished for the preceding year had not been implemented as per the observations shown in Paragraphs 1.6.2 of this report.

1.6 Comments on Financial Statements

1.6.1. Statement of Financial Performance

Audit Observation

Although the other receipts included in the statement financial performance was Rs.2,731,432,749, the value was Rs.2,667,247,127 as per the trial balance. Accordingly, the difference was Rs.64,185,622 .

Recommendation

There should be no differences in other receipts included in the statement of financial performance as compared with the trial balance of the Treasury.

Comments of the Chief Accounting Officer

Although the other receipts included in the statement of financial performance for the year under review was Rs.2,731,432,749, the other receipts in the trial balance was Rs.2,667,447,127. However, even after the adjusting of the final journal entries entered by the Treasury amounting to Rs.20,217,163 and adjusting of Rs.43,730,296 made to the 35-18 Imprest Account through journal entries, there is still a difference of Rs.238,163 .

1.6.2 Statement of Financial Position

Audit Observation

The sales value of 03 vehicles amounting to Rs.2,156,731 at a cost of Rs.13,875,228 as the disposed value and without inclusion of the cost of two more disposed vehicles amounting to Rs.7,648,500, the disposed value had been shown in the statement non-financial assets in 03 Missions in the year 2018 . The value of Rs. 19,366,997 for the 05 vehicles disposed had not been deducted from the opening balance in the statement non-financial assets for the year under review.

Recommendation

The value of 05 disposed vehicles amounted to Rs.19,366,997 should also be identified as the disposed value.

Comments of the Chief Accounting Officer

Actions were taken to rectify this problem properly under the method of accounting for non-financial assets as instructed by the Department of State Accounts.

1.6.3. Cash Flow Statement

The following observations are made.

| Audit Observation | Recommendation | Comments of the Chief Accounting Officer |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| ----- | ----- | ----- |
| (a) The receipts and payments of Advances of Public Officers had not been shown in the net cash flow generated from investment activities. | The receipts and payments of Advances of Public Officers should be included in the cash flow generated from investment activities. | Accept that the receipts and payments of Advances of Public Officers were not included in the net cash flow generated from investment activities. |
| (b) Even though deposit receipts and the deposit payments in cash as per the Monthly Accounts Summaries of the Ministry for the year under review were Rs.2,184,223,119 and Rs.2,107,779,187 respectively, the deposit receipts and payments in the cash flow statement for the year ended 31 December 2019 had been shown as Rs.2,332,843,654 and Rs.2,226,489,422 respectively. | Deposit receipts in cash and the payments should be included in the cash flow statement as cash receipts and payments. | The deposit receipts and payments were shown as per the final accounts of the Treasury in the preparation of the Statement of Accounts. |

1.6.4. Failure to Maintain Documents and Books

| Audit Observation | Recommendation | Comments of the Chief Accounting Officer |
|-------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|
| A Register of Losses and Damages had not been maintained in Mission Offices in accordance with Financial Regulation 110 | A Register of Losses and Damages should be maintained in accordance with the provisions of Financial Regulation 110 . | Actions will be taken to correct it in future. |

2. Financial Review

2.1 Expenditure Management

| Audit Observation | Recommendation | Comments of the Chief Accounting Officer |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| It was the responsibility of the Accounting Officer to prepare the estimates as completely and accurately as possible in accordance with Financial Regulation 50 (II). As a result of not doing so, the total provision of Rs. 441,019,627 had been underutilized for 13 expenditure objects ranging from 51 per cent to 100 per cent of the allocated funds. Further, in addition to the estimated allocations, a provision of | Estimates should be prepared perfectly and accurately as much as possible. | The matters such as controlling of expenditure due to the requirement of following the instructions given by the Treasury during the year, lack of major repairs occurred, not having expected expenses because of the vacancy occurred in time to time in the post of Hon. Minister of State in the Ministry during the year, further the complexity exists in the 67 Missions, variety of requirements and under-utilization of provisions due to inability to forecast expenditure conclusively on the impact of continuous exchange fluctuations, lack of providing expenditure estimates relating to certain expenditure objects by the Treasury from the original estimate, |

Rs. 344,510,000 had been obtained for 06 expenditure objects, through Supplementary Estimates .

fluctuations in foreign exchange rate during the year, increase in annual fees payable to international organizations, the increase in the basic salary from 01 January 2019, the appointment of officers to fill the vacancies in the Missions and instead, calling the officials back to the country were led to increase the provisions by Supplementary Estimates.

2.2 Entering into Liabilities and Commitments

| Audit Observation | Recommendation | Comments of the Chief Accounting Officer |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| ----- It had been entered into liabilities amounting to Rs.89,551,668 exceeding the saving of provision after utilization of net provision made available in 30 expenditure objects totalled to Rs.7,716,246 by Rs.81,835,422, in the year under review. | ----- That liabilities should not be entered into exceeding the net provision. | ----- The Treasury will be informed about the amount of these liabilities and it is about 0.7 per cent out of the total net provision of the Ministry. |

2.3 Issuance and Settlement of Advances

The following observations are made.

| Audit Observation | Recommendation | Comments of the Chief Accounting Officer |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ----- | ----- | ----- |
| (a) The unsettled advance balance of the Missions was Rs. 365,063,523 and the balance in between the period ranging from 02 years to 28 years within that balance was Rs.301,986,504 . | Since not only the security guarantee deposits, the advances paid to the officers also included therein, the actions should be taken to settle. | Security Guarantee Deposits payable were accounted for as advances when obtaining of buildings on rent basis in Missions. This money can be recovered only after leaving the residence. This balance has been recorded as advances and arrangements are being made to proceed accounting methodologies with regard to record of this on the instructions of the Treasury. |
| (b) Advances to Public Officers Account “B” | | |
| (i) The total of outstanding debt balances of the officers who had deceased, interdicted, vacated on posts, and left the service as at 31 December 2019 was Rs.2,036,618 and the total arrears debt balance older than 05 years was Rs.1,167,642 out of that. | Arrangements should be taken to settle the outstanding debt balances. | The debt balance for more than 5 years as at 31 December 2018 is Rs.1,221,992 and actions were taken to reduce that loan amount to Rs.1,167,342 by 31 December 2019. |

(ii) Actions had not been taken to recover the unidentified debt balances totalled to Rs.1,515,668 for more than 05 years from the relevant officers.

Arrangements should be made to identify relevant officers and to settle.

Since these debt balances are existing for a long period, the Treasury has been informed to settle these balances and actions are being taken to settle those balances in future.

2.4 Deposit Balances

The following observations are made.

| Audit Observation | Recommendation | Comments of the Chief Accounting Officer |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|-------------------------------------------------|
| ----- | ----- | ----- |
| (a) There was a difference of Rs.4,521,095 in between the 05 deposit accounts in Treasury balances and the Ministry books. | There should not be a difference in between the balances of Treasury books and the Ministry books. | Arrangements will be made to correct in future. |
| (b) Although the Monthly Deposit Summary Statements prepared for each month in terms of Financial Regulation 565 (5) should be sent to the Auditor General before the end of the following month, actions had not been taken accordingly. | Actions should be taken in terms of Financial Regulations | Arrangements will be made to correct in future. |

- (c) There were deposits for more than 02 years in the General Deposit Accounts of the Ministry amounted to Rs.8,851,391 and the temporary retentions for statutory payments of Missions for more than 02 years amounted to Rs.28,498,689 as at the end of the year under review.
- Actions should be taken to settle the deposit balances for more than 02 years.
- It is difficult to collect information of 67 Missions and balance a single General Deposit Accounts as a Ministry on a monthly basis. Therefore, since the arrangements have been made to make bi-annual reconciliations the progress regarding the balances for more than 02 years will be reported after reconciling the account as at 30 June 2020.

3. Operating Review

3.1 Performance

3.1.1 Planning

Audit Observation

Although an Action Plan had been prepared for the year 2019 at the Embassies of Paris in France and Moscow in Russia provision of funds, the details such as expected targets as monthly or quarterly, the officials responsible for achieving

Recommendation

In preparing the Action Plan, it should be prepared including the facts to be contained.

Comments of the Chief Accounting Officer

Arrangements will be made to correct in future.

these goals which were the basic elements that should be included had not been consisted of in this. Similarly, the Action Plan had not been prepared as a measurement criteria to measure the performance of officers.

3.2 Assets Management

The following observations are made.

| Audit Observation | Recommendation | Comments of the Chief Accounting Officer |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|
| ----- | ----- | ----- |
| (a) As there was no Inventory Register in the Moscow Embassy in Russia, the capital goods purchased during the year is identified at the end of the year when carrying out the Board of Survey. | It should enter in the Inventory Register at the instance of purchasing of capital items. | Actions will be taken as per the relevant procedures. |
| (b) The Mission Office of Paris in France is being occupied in a part of an ancient building. As a result, it was observed that it would be more effective acquiring of a place that is easily accessible to Sri Lankans visiting for consular purposes as well as a place with adequate facilities to provide a better service. | A sum of Rs.60 million (Euro 286,189) is being paid by now as annual rent for the location of Mission Office. The possibility of acquiring a suitable property for this purpose should be taken into consideration. | A Technical Evaluation Committee will be appointed to acquire a suitable property. |

- (c) The Embassy Office of Moscow in Russia and the Residence of the Ambassador are located in an ancient building owned by the Government of Russia. The Government of Russia has identified that the major repairs required to be carried out in this building and accordingly, the Ministry of Foreign Affairs of that country had informed on behalf of the Government that they should leave this building and move to a temporary building provided by the Government until the relevant repairs are carried out. However, the Embassy had not made aware the Ministry of Foreign Affairs in Russia regarding their requirement.
- The possibility of acquiring a property should be taken into consideration.
- The Ministry has given instructions regarding the acquisition of a property.
- (d) A sum of Rs.1,720 million had to be incurred by the Ministry as annual rent for the Mission offices in Foreign Missions, official residences of the Heads of Missions and the houses for other staff and for buildings obtained on rent basis during the year under review. As a solution to this, the Ministry had not prepared a plan to acquire properties for the Missions in a financially advantageous manner.
- Arrangements should be made to acquire lands or buildings to minimize the annual cost had to be incurred for the Mission Premises and official residences of the Heads of Mission Offices and houses of other staff .
- It has been planned to purchase official residences of the Heads of Mission Offices and the office buildings which cost a high annual rent under the first step.

3.3 Securities for Public Officers

Audit Observation

Recommendation

Comments of the Chief Accounting Officer

Security deposits had not been obtained from the officers who use the office money in terms of Financial Regulation 880 in the Embassy of Paris in France.

Securities should be kept in accordance with Financial Regulations.

Necessary actions will be taken inquiring from the Ministry.

3.4 Losses and Damages

The following observations are made.

Audit Observation

Recommendation

Comments of the Chief Accounting Officer

(a) The value of 48 cases of losses and omissions in relation to Missions was Rs.27,394,194 . Out of that balance, the balances for more than 10 years and in between 05 years and 10 years were Rs.1,334,669 and Rs.21,626,285 respectively.

Arrangements should be made to settle after carrying out necessary examinations in accordance with Financial Regulations.

Actions are being taken in accordance with F.R. 106 and F.R. 113 calling information from Embassy Offices relating to the these incidents. Notes were taken to inform the relevant sections for expeditious completion on priority basis as per the age analysis.

(b) Misappropriation of funds mentioned in financial statements, theft and Rs. 17,200,287 due from unpaid leave required investigations as per monetary regulations It has been going on for 11 years without taking the necessary steps to resolve it.

Arrangements should be made to settle after carrying out necessary examinations in accordance with Financial Regulations 104.

The officers have been interdicted in connection with stealing of money in the Embassy of Rome and two cases have been filed by now in the Colombo High Court and currently in pending. It is informed that the actions will be taken in future in respect of the theft of rest of the money and the amount due from no-pay leave.

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| <p>(c) Home Security Guarantee Deposit amounting to Rs.2,166,472, Vehicle Accidents amounting to Rs.3,752,431, Non-refundable advances amounting to Rs.1,750,081, missing of mobile phone amounting to Rs.16,000 and Rs.2,277,614 for vehicle theft, computers and other damages had been shown continuously under losses and omissions in the financial statements without taking actions to settle.</p> | <p>Actions should be taken to settle.</p> | <p>It was taken into notes to examine and to correct furthermore regarding these losses.</p> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|----------------------------------------------------------------------------------------------|

3.5 Management Weaknesses

The following observations are made.

| Audit Observation ----- | Recommendation ----- | Comments of the Chief Accounting Officer ----- |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>(a) A compound interest should be received to compulsory contributions remain in the accounts of all contributors of the fund and government bonuses in accordance with Sections 11,12 of the Pension Circular No. 7/2015 dated 23 July 2015 and Section 14 of the Public Service Provident Fund Ordinance No. 18 of 1942. Apart from those directives, the government bonus of Public Service Provident Fund amounted to Rs.2,861,331 of an officer of Communication Assistant at the Consulate General in Toronto for the period from August 2008 to August 2018 and the Government Bonus of the</p> | <p>Compulsory Contributions (8%) to the Public Service Provident Fund (PSPF) and government bonus (12%) should be sent to the Department of Pensions on a monthly basis.</p> | <p>As soon as it was observed that the Mission had delayed the deduction of contributions to the Public Service Provident Fund from the salaries of the relevant officers, the Ministry informed the Mission and took steps to rectify it. Necessary arrangements will be made drawing attentions furthermore with regard to this.</p> |

Public Service Provident Fund for the period from June 2014 to December 2018 of a Management Service Officer amounted to Rs.1,411,660 had been remitted to the Department of Pensions in March 2019. As a result, the compound interest to be received had lost.

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|------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>(b)</p> | <p>Although the approval of the payment should be made by the Head of the Embassy in most occasions, the approvals of payments at the Embassy of Moscow had been done by the first secretary or the counselor of the Embassy.</p> | <p>Approval, certification and payment of the expenditure should be made as per the Ministry Circular dated 04 January 2019.</p> | <p>Steps have been taken to implement the recommendations.</p> |
| <p>(c)</p> | <p>The Government of Sri Lanka had entered into 20 Bilateral Agreements with the Republic of Russia in order to cover the fields of cultural, scientific and technology during the period from 1986 to 2018 . Nevertheless, the Mission had not carried out follow up actions to maintain coordination with the relevant government agencies to ascertain whether the desired objectives and targets were accomplished by the agreements.</p> | <p>The follow-up actions should be carried out with regard to the agreements entered into.</p> | <p>The officials appointed to look into the matter of the Agreement are carrying out the coordinating activities with the relevant Russian agencies regarding the Agreement.</p> |

4. Human Resource Management

Audit Observation

It was observed that the number of vacancies and excesses of the cadre were 69 and 11 respectively in the Ministry Staff and 127 vacancies in the Mission Staff by the end of the year under review.

Recommendation

Arrangements should be made to fill the vacancies of essential posts.

Comments of the Chief Accounting Officer

The matters such as failure to appoint adequate applicants for the number of vacancies remained at the instances in recruitments carrying out, establishment of a number of new divisions and appointing of Heads of Divisions for them had caused for the vacancies and excesses in the cadre and although the actions have been taken to fill the vacancies occur in the Missions, the inability to fill the vacancies as soon as they occur due to certain barriers has led to the taking place of vacancies of the Missions.