

Auditor General's Department
306/72,
Polduwa Road,
Battaramulla.

To all the Divisional Heads, Superintendents of Audit,

Audit of the Foreign Funded Projects

It is hereby informed that the following procedure should be adopted in the audit of the accounts of the foreign aid projects.

The necessity of engaging in auditing after the thorough study of the following circulars on the foreign aid projects is stressed hereby.

<u>Circular</u>	<u>Subject</u>
(a) Treasury Circular No. 30/94 dated 20 April 1994	Accounting of foreign aid projects.
(b) Auditor General's Circular No. AG SEC 25 dated 28 June 2015.	Auditing of foreign aid project activities.
(c) Department of Management Auditing Circular No.05 dated 26 July 2015.	Guidelines issued to the Internal Auditors on the use of local and foreign funds.
(d) Department of Management Services Circulars No. 1/2016 dated 24 March 2016 and 1/2016 (1) dated 16 December 2016.	Recruitment of the project staff and remunerations.
(e) Loan Agreements, Memorandums of Understanding (Mou) and Project Management Agreements.	Conditions to be followed/ complied with
(f) Manuals on purchasing and reimbursement of funds issued by the Asian Development Bank, International Development Institution, World Bank, International Cooperation Institution.	Instructions on the utilization and reimbursement of public finance.

2. Before the report is submitted for the approval, the Superintendent of Audit should established as to whether following particulars are included in the Audit Report File relating to the project.
 - (a) A copy of audited Financial Statement.
 - (b) Management Assertion Letter
 - (c) Project Profile Statement
 - (d) Minimum Audit Programme and Audit Completion Check List
3. As the audit opinion on the operations of the special accounts (Dollar/Yen/ Imprest) should be presented separately after auditing the transactions relating to those accounts, it should be established whether the replenishments have been done only for the payments permitted. The relevant work sheet should be included in the main file. The Superintendents of Audit should submit an assurance on the accuracy of the relevant balances together with the balance confirmation included in the accounts statement of the Central Bank on the balances available in these accounts by the end of the year.
4. Action should be taken to include the audit observations on the following areas in relation to the performance of the Project adequately in the final audit report.
 - (a) The expenditure incurred contrary to the Accounting Standards, Financial Covenants, Circulars etc.
 - (b) Utilization of funds.
 - (c) Observations on the expected targets and the physical progress of the activities of the project.
 - (d) Underutilized/ Idle Assets.
 - (e) Deficiencies in the financial control.
 - (f) Expenditure extraneous to the objectives of the project. (In case these expenditure had been reimbursed by the relevant foreign agency, it should be specifically mentioned)
 - (g) The audit paragraphs hitherto unresolved and included in the previous audit reports.
5. Action should be taken to submit the reports in accordance with the Office Circular No. AG SEC./Reports/2017-02 datedMarch 2017 in a manner enable to present the audit reports within the prescribed period.

6. With the objective of bringing the foreign funded projects under a proper internal control and providing the due benefits of the development projects for the general public forthwith, the Circular No. DMA/D/2015-8-3 dated 10 June 2016 of the Secretary to the Ministry of Finance had stressed the requirement of recruiting an Internal Auditor for the new projects exceeding the total cost \$ 10, in the event of prior evaluation of the project and for the projects being in progress with a minimum period of one and half years and exceeding the total cost of \$ 10.
7. Accordingly, recruitment should be made in accordance with the procedures specified in the Circular and it should be included in the report whether the officer is engaged in the internal auditing, in terms of the Department of Management Services Circular No.05.



Gamini Wijesinghe
Auditor General