

## **Head 112 – Ministry of Foreign Affairs**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Ministry of Foreign Affairs for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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 Affairs was issued to the Chief Accounting Officer on 31 May 2019 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 10 June 2019 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 give a true and fair view of the Ministry of Foreign Affairs as at 31 December 2018 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**

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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**

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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**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue 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:

- 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.

- It is not intended to express an opinion on the effectiveness of internal control of the Ministry to plan appropriate audit procedures in a timely manner.
- Evaluate Structure of Financial Statements including disclosures and content-based transactions and events the structure that the financial statements are appropriate and reasonable.
- That the transactions and events underlying the structure and content of the financial statements are appropriately and fairly when submitting financial statements 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**

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

- (a) As there was no need to prepare financial statements for the previous year, it was impossible declare the financial statements for the year under review were consistent with those of the previous year.
- (b) As there was no need for the Ministry of Foreign Affairs to prepare financial statements for the previous year, the recommendations for the financial statements of the preceding year had not been furnished.

## **1.6 Comments on Financial Statements**

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### **1.6.1 Financial Statements not complied with Circulars**

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Although the financial statements should have been prepared in accordance with the State Accounts Circular No. 267/2018 of 21 November 2018, an instance of exception to those requirements is as follows.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments given by the Chief Accounting Officer</b>
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Although any commitment or a liability that had not reported as an expense of the previous year should not be settled in the year 2019, actions had been taken to settle the liabilities amounting to Rs. 10,884,464 which had not reported by the Ministry of Foreign Affairs and the Missions in the year under review.	Actions should be taken in terms of Paragraph 3.4 of the State Accounts Circular No. 267/2018 dated 21 November 2018 .	Corrections will be made in future despite this has happened due to omissions occurred while reporting of liabilities by Missions.

### **1.6.2 Financial Performance Statement**

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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments given by the Chief Accounting Officer</b>
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(a) A difference of Rs. 9,934,037 was observed whilst comparison of the advance receipts consisted in the Financial Performance Statement	The advance receivables should not have differences as compared to monthly summaries.	There is no difference occurred since the financial statements were prepared obtaining final treasury

with monthly accounts summaries. However, as a result of adjusting that difference as Rs. 9,896,124, according to the Imprest Adjustment Account of the Ministry a difference of Rs. 37,913 was observed.

printouts through journal entries making correction of errors in the monthly computer account reports.

- (b) Even though the expenditure made by the Ministry of Foreign Affairs for the other Expenditure Heads had been adjusted to the Imprest Adjustment Account as Rs. 778,863,553, thus that was a sum of Rs. 786,835,573 as per the monthly account summaries, a difference of Rs. 7,972,022 was observed.
- Actions should be taken to properly adjust the Imprest Adjustment Account.
- If there are any differences, special attention will be paid in respect of the Imprest Adjustment Account and actions will be taken to make adjustments in future.

### 1.6.3 Statement of Financial Position

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The following observations are made.

Audit Observation	Recommendation	Comments given by the Chief Accounting Officer
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(a) Even though the value of 05 vehicles sold in the year under review was Rs. 11,900,000, actions had been taken to show the value of 06 vehicles amounted to Rs. 13,900,000 in the non-financial assets statement.	The cost of the related vehicles should be included as the disposal value.	The answer has not been given.

- (b) The cost of 03 vehicles amounted Rs. 13,875,228 with the sales value of Rs. 2,156,731 disposed by 03 Missions in the year under review had been identified as the disposal value of those vehicles .
- The cost of the 03 disposed vehicles should be recognized as the disposal value.
- Actions will be taken by checking in future .

#### 1.6.4 Cash Flow Statement

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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments given by the Chief Accounting Officer</b>
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(a) The amount of Rs. 10,020,720 received from the sale of vehicles had not been included in the cash flow generated from the investment activities.	The amount received from vehicle sales should be included in the cash flow statement as a cash flow generated from investment activities.	It is accepted that the amount received from the sale of vehicles are not included in the investment activities. It is informed that this amount is included in the operational activities. Steps will be taken to include accurate data whilst preparation of financial statements in future.
(b) Receipts and Payments of Advances to Public Officers had not been shown in the net cash flow generated from the investment activities.	Receipts and Payments of Advances to Public Officers should be shown in net cash flow generated from investment activities.	Steps will be taken to include accurate data in preparation of financial statements in future.
(c) Measures had been taken to adjust the unsettled imprest balance of the previous year amounted to Rs. 145,391,699 at the calculation of	It should be complied with the provisions of the State Accounts Circular No. 267/ 2018 of 21 November 2018.	The adjustments have been made properly as per the Circular.

personal emoluments and operating expenses in the cash flow statement and the difference of Rs. 726,968,663 in the statements of financial statement.

**1.6.5 Advance Account Balances**  
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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments given by the Chief Accounting Officer</b>
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(a) The total of the arrears loan balances of the officers who had transferred out, retired, deceased, interdicted and vacated their posts as at 31 December 2018 was Rs. 2,326,566 and the total of the loan balances remained for more than 05 years was Rs. 1,259,997.	Actions should be taken with regard to the officers who had transferred out in terms of the Paragraphs 1 and 3 of the National Budget Circular No. 118 of 11 October 2004. Further, the actions should be taken to recover the loan balances from the respective guarantors of other officers.	Actions are already being taken to get the approval of the Treasury to write off these balances.
(b) Actions had not been taken to recover the unidentified loan balances totalled to Rs. 1,515,668 in the Statement of Advances to Public Officers for more than 05 years in the year under review .	Actions should be taken to settle the debt balance.	Steps have been taken to settle the balances during this year.

### 1.6.6 Not maintaining Documents and Books

The following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments given by the Chief Accounting Officer</b>
<b>Register of Losses</b>		
A Register of Losses had not been maintained with regard to the Missions in terms of the Financial Regulations 110.	A Register of Losses should be maintained as per the Format in terms of the Financial Regulations 110.	Preparing and maintaining a Register of Losses in respect of Missions in accordance with the Financial Regulations 110 and it was noted to inform the relevant officials to update it.

## 2. Financial Review

### 2.1 Expenditure Management

The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments given by the Chief Accounting Officer</b>
<b>(a) Failure of Provisions Made Available</b>		
The entire provision of Rs. 3.66 million which had been allocated for 04 Expenditure Objects had been saved.	Annual Expenditure Estimates should be prepared as fulfilled the terms of the Financial Regulations 50.	The activities of this Ministry are being functioned in Sri Lanka as well as 67 Missions in abroad. Therefore, although it was impossible to forecast



the expenditure specifically on complexity, diversity of needs and the impact occurred due to the exchange fluctuations, the estimates has been prepared as accurate as possible.

**(b) Excess Provisions Made Available**

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Since the over-provisions -do- -do- amounted to Rs. 325 million made available for 07 Expenditure Objects, the savings had ranged from 54 per cent to 78 per cent out of the provisions made available.

**2.2 Entered into Liabilities and Commitments**

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The following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments given by the Chief Accounting Officer</b>
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It had been entered in to liabilities amounted to Rs. 244 million exceeding the provision of Rs. 9,925 million made available for 31 Expenditure Objects in the financial statement for the year under review.	It should not entered in to liabilities exceeding the net provision.	It is difficult to include all obligations and liabilities in the financial statement on the grounds of inaccuracy and omissions of the information submitted, not properly identifying of the obligations or liabilities by each division of the Ministry and all Foreign Missions. Steps will be taken to avoid those shortcomings in future.

## 2.3 Issuance of Advances and Settlement

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The following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments given by the Chief Accounting Officer</b>
----- The balance of unsettled advances for the period from the year 1 to 27 years was Rs 392.37 million as at 31 December 2018 at the Foreign Missions. The Security Guarantee Deposits for residents and non-residential homes consisted in that was Rs. 342.39 million and the value of other deposits was Rs. 49.98 million.	----- Actions should be taken to settle in terms of Regulations.	----- This money can only be recovered when the family moved out from the resident. It is reported as advances because of the existed accounting system and action is being taken to adopt an accurate methodology regarding the way of reporting this on the instructions of the Treasury. Steps are being taken to settle the other deposit advances.

## 2.4 Deposit Balances

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The following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments given by the Chief Accounting Officer</b>
----- Although, a summary statement of monthly deposits prepared for each month should be sent to the Auditor General before the end of following month in terms of Financial Regulation 565 (5), it had not been so done.	----- Actions should be taken to prepare and submit monthly deposit summaries for each month in accordance with Financial Regulation 565 (5) .	----- Since the current accounting system that had implemented is not an on-line method, it is difficult to submit a monthly summary of the deposit accounts of 67 Embassies in terms of Financial Regulation 565 (5). As

the arrangements are being taken to access to an on-line accounting system, it is informed that the requirement can be fulfilled in future in terms of Financial Regulations.

**3. Operational Review**  
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**3.1 Assets Management**  
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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments given by the Chief Accounting Officer</b>
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<p>(a) The two buildings worth of Australian Dollars 2,589,000 belonging to the High Commission of Sri Lanka located in Canberra, Australia, had been removed from use from the year 2012 and the year 2007. The approval of the Cabinet of Ministers had been granted at the meeting held on 26 September 2017 to convert one of those buildings into an official residence of the High Commissioner. A sum of Rs. 260 million had been provided by the Budget 2018 for this purpose. But any cost had not been incurred with regard to that.</p>	<p>The provisions and the assets should be utilized efficiently.</p>	<p>As per the Decision of the Cabinet of Minister No. 19/1616/111/019 of 26 June 2019, the Directives have been issued to select a contractor from Sri Lanka or the relevant country by calling open bids.</p>

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| <p>(b) A sum of Rs. 93.0 million had been spent during the year under review as rent for Mission Offices and Residences in Toronto and Ottawa, Canada (excluding Ottawa Residence) . Actions had not been taken to focus on the ability to purchase properties as an alternative to reducing those costs.</p> | <p>The possibility to purchase the property should be checked.</p> | <p>It is recognized that the purchase of the property must be made for the Toronto Consulate General Office. Furthermore, the necessary activities is expected to be done in future.</p>            |
| <p>(c) A sum of Rs. 26.71 million had been spent during the year under review without looking into alternative measures for the repair of the Official Residence of the Ottawa High Commissioner in Canada, which is nearly 100 years old.</p>  | <p>Actions should be taken to obtain a new Official Residence.</p> | <p>Since it is necessary to conduct a feasibility study on the possibility of purchasing an Embassy Office and an Ambassador Residence, it is expected to make decisions in future accordingly.</p> |

**-3.2 Losses and Damages**

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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments given by the Chief Accounting Officer</b>
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<p>(a) Even though it had exceeded 05 years for losses and omissions of 46 cases relevant to Foreign Missions amounted to Rs. 77.16 million, proper arrangements had not been made to settle them.</p>	<p>Necessary actions should be carried out to settle conducting the examination in a proper manner.</p>	<p>Arrangements has been made to identify the relevant values individually by calling information from the respective Embassies in terms of Financial Regulation 106 and 113.</p>

- (b) Actions had not been taken to conduct necessary inquiries to recover a sum of Rs. 1.09 million that had reported to be received to the Ministry due to various incidents in terms of Financial Regulation 104. It should be performed necessary investigations in accordance with Financial Regulations and take necessary actions to resolve them. It was noted to carry out further examination regarding the damages occurred.
- (c) Actions had not been taken to recover an amount totalled to Rs. 9.89 that had not been able to recover under the loss and omissions due to various factors. Actions should be taken to recover. Action is being taken to obtain all the details relating to unrecovered home security guarantees from the relevant Embassy and to settle them in accordance with the Financial Regulations. Actions are being taken to obtain the details as well regarding the vehicle accidents and unsettled advances and to settle in consultation with the Treasury in terms of the Financial Regulation.

### 3.3 Management Weaknesses

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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments given by the Chief Accounting Officer</b>
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(a) Since it was failure to comply with the agreement entered into with the tenant in relation to the rent house, a sum of Rs.	The relevant amount should be recovered from the responsible officer.	The amount of Rs. 724,482 had not occurred due to a delay of the relevant officer or any other party.

724,482 (US \$ 4622)

had been paid to the tenant by a Mission on 05 March 2018 .

- (b) The charges for consular Determination of Actions are being taken to activities carried out by Sri Lanka Missions in abroad had been revised with effect from 01 March 2018 and published in the Gazette. Nevertheless, due to not determining a general mechanism for the way to convert the relevant currency units in the countries that do not use the monetary units specified in that Gazette Notification, the conversion rates had been determined based on various criteria. the rate of adjust the rate of conversion according to an accurate mechanism.
- (c) The Office of Consulate General of Mumbai had been renovated in the year 2016 at a cost of Rs. 28.16 million. However, due to the failure of this repair work, a sum of Rs. 999,626 had to be spent again on repairs in the year 2018. Repair works should be done on repair works according to the standard in future. under a proper standard.
- (d) A Quarterly Report on Tax Steps should be The relevant Missions were

Recovery and detailed reports taken to get the instructed to act in terms of of taxes paid had not been relevant reports Ministry Instruction Series submit to the Ministry by 03 properly. No. 194. Mission Offices in terms of the Ministry Instruction Series No. 194 issued on 28 June 2004, .

(e) Actions had not been taken to refund the taxes totalled to Rs. 6.36 million paid by 03 Foreign Mission Offices in the year 2018 . Actions should be taken to refund the taxes without delay in accordance with the provisions. New Instruction Series for tax refunds are expected to be issued.

(f) Neither the Ministry of Foreign Affairs nor the relevant Mission had any information in respect of the 24 agreements entered into from the year 1958 to the year 2016 between Sri Lanka and Canada and the 11 agreements entered into between Sri Lanka and Dubai such as the benefits obtained by Sri Lanka , the performance of such agreements and the shortcomings of those agreements . Details should be maintained with regard to the agreements entered into in timely manner. Since a considerable time required to obtain the details in respect of the progress of the agreements signed with the countries and the current situation from the relevant Line Ministries, it is expected to reply in future.

(g) The car, which was purchased Take proper actions It was emphasized by the

by the Consulate General in the 2009, had been repaired in the year 2017 incurring a sum of Rs. 471,518 . Even though it was sent to the garage due to the engine cease in the year 2018, the vehicle was parked in the garage until 30 June 2019 without carrying out repairs. As a result, a vehicle had been rented a on monthly rent basis of Rs. 355,230 since September 2018.

to repair the vehicle or make aware the Ministry.

manufacturing agent , the repaired private garage, and the Office of Consulate General's as well the continuation of repairs of this vehicle is not economically viable. The process is being carried out on the removal of this vehicle and it is focused on buying a new vehicle.

(h) Since the sanctions were imposed by the United States, sending of the imprests to Tehran Embassy had been carried by the Consulate General of Dubai and the Tehran Ambassador had to visit Dubai in every month for this purpose. It was observed that this process is unsafe and costly as well and a sum of Rs. 5.12 million and Rs. 3.83 million had been spent in the years 2017 and 2018 respectively for the tickets on this travel and other allowances.

Necessary measures should be taken to reduce travel expenses and other allowances.

It has been informed to the Central Bank of Sri Lanka in writing on 07 March 2018 for appropriate advices to make aware of this problem and its background and the proposals on this issue. Further, it has made arrangements to provide adequate imprests for the next three months from 09 May 2019 by the Ministry through the Dubai Embassy as a temporary solution.



#### **4. Good Governance**

##### **4.1 Performing Services to the Public**

The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments given by the Chief Accounting Officer</b>
<b>(a)</b> Even though a Memorandum of Understanding was signed on 16 August 2018 with the Ministry of Foreign Affairs and the Ministry of Public Administration for the process of certification of documents provided by Divisional Secretariats, it was observed that these activities had not been decentralized yet.	Actions should be taken as per the Memorandum Of Understanding.	Actions will be taken to implement the Document Verification and Decentralization Programme through Divisional Secretariats in Galle District in few days.
<b>(b)</b> A list of pilgrims visiting to the pilgrim rest administered under the High Commission Office of Sri Lanka in New Delhi had not been maintained. As a result, an adequate mechanism had not been introduced to ascertain the accuracy of the number of receipts issued in relation to the daily income from the pilgrim rest and whether all the income received deposited in bank. Further, a proper recruitment procedure had not been followed in respect of the Reverent	Since this pilgrim rest is administered under the New High Commission Office in Delhi, it should be monitored.	An Internal Investigation Division of the Ministry has carried out. Accordingly, it is expected to take further steps .

and an officer those who were assigned on contract basis for its duties.

#### **4.2 Audit and Management Committee**

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The following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments given by the Chief Accounting Officer</b>
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The Ministry had held only two Audit and Management Committee Meetings during the year under review.	Audit and Management Committee Meetings should be conducted once in a quarter as per the Circular of the Department of Management and Audit No. DMA / 2009/01 dated 09 June 2009 .	Steps will be taken to hold four meetings in the year 2019 .

#### **5. Human Resource Management**

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The following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments given by the Chief Accounting Officer</b>
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The number of vacancies and excesses of staff in the Ministry by the end of the year under review was 87 and 05 respectively and the number of vacancies of the Mission staff was 85 .	Actions should be taken to fill the existing vacancies.	Measures are being taken to fill the vacancies of the Ministry and Missions staff through the implementation of annual transfers and new recruitments.