

## **Head 239 – Department of External Resources**

### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the financial statements of the Head 239 – Department of External Resources for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023, the statement of financial performance and cash flow statement for the year then ended, and notes relevant to the financial statements including the information relevant to the significant accounting policies 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 31 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 of External Resources was issued to the Accounting Officer on 28 August 2024 in terms of Section 11(2) of the National Audit Act. This report will be presented in Parliament in pursuance of the 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 give a true and fair view of the financial position of the Department of External Resources as at 31 December 2023, 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 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 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 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 effective internal control system for the financial control exists in the Department 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, 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 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 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	Comments of the Accounting Officer	Recoomendation
(a) When comparing the original expenditure estimate with the revised expenditure estimate, the variance in relation to 6 votes varied from a decrease of 12 percent to an increase of 213 percent.	The following reasons were given for revising the original expenditure estimate of the votes. <ul style="list-style-type: none"><li>• Payment of allowances for cover up duties increase in refreshment costs, control of capital expenditure as per National Budget Circular No. 02/2023,</li><li>• Settlement of bills in 2023 in respect of computers ordered in 2022;</li><li>• Limitation of estimated provision for payment of installments for finance leased vehicles by the Department of Budget.</li><li>• Unprecedented increase in the value of the dollar,</li><li>• The expenditure report containing certified information regarding payments for the year 2022 has been provided by the Japanese government with some delay and the necessary amount of provision for the year 2023 should have to be made including those expenses.</li></ul>	Annual expenditure estimates should be prepared correctly and realistically in terms of F.R.50.
(b) The amount provided for the 2 capital expenditure votes were completely saved without making any use of the total net provision.	The following are the reasons. <ul style="list-style-type: none"><li>• Control of Expenditure as per National Budget Circular.</li><li>• As certain parts of the server system of the department will expire before the next three years, it is informed that its parent company will refuse those tasks and therefore, without</li></ul>	-Do-

doing this upgrade, service contract was made only for the next year.

- The Government of Sri Lanka has agreed to establish the Debt Management Office and accordingly the necessary arrangements are being made to purchase a new debt management software system. Hence, the CS-DRMS (Debt Recording and Management System) system had not upgraded.
- Although allocations had been requested for the creation of the TA System software, these allocations were not required as the Asian Development Bank negotiated to obtain a funding grant for the same.
- Although the Presidential Secretariat had Planned to prepare the digital signature, the Department of External Resources has not yet had the opportunity to do so since the Lankapay institute established by the Central Bank of Sri Lanka has been providing digital signature applications as per the priority document.

- (c) Overprovision had been made for 10 recurrent objects and 04 capital objects and as such, Rs.145,528,430 had been saved after utilizing the said provision during the year and accordingly, the savings out of the net provision ranged between 10 percent and 99 percent.
- The reasons for the savings are as follows.
- About 13 officers were on long term local and foreign leave .
  - Limitation of fuel consumption, non-repair of buildings, non-purchase of furniture, office equipment and limitation of local training due to expenditure control as per Budget Circular 09/2022, 01/2023 and 02/2023.

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- Reduction of casual and combined allowances paid for foreign traveling expenses as per instructions issued by the Presidential Secretariat.
- Significant decrease in stationery prices and no vehicle maintenance is reported.
- Obtaining Video Conferencing (Zoom) licenses for the last nine months of the year through a grant provided by the Asian Development Bank.
- Suspension of internet facilities from August 2022 by the Ministry.
- Arrangements are made to send relevant letters through online system.
- Non-application for payment of government subsidy contributions by certain foreign agencies.
- Balances remaining in the provision for government contribution in loan installments on transfer of officers who obtained property loans.
- Non-submission of bills for the settlement by the relevant foreign agencies.

### 3. Operational Review

#### 3.1 Failure to achieve the Expected Outcome

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recoomendation
(a) According to the information submitted to the audit, the CS-DRMS debt management system which is currently used by the department is a	Procurement process of a new debt management data system has commenced.	An up-to-date accounting and cash flow

system that has been introduced for tasks including debt servicing and forecasting. Accordingly, the department had so far failed to introduce a debt management system with facilities for cash flow management and debt transaction accounting and/or facilities to transfer data from the CS-DRMS system to the ITMIS system.

management system should be maintained.

(b) According to Performance Plan of the year 2023, estimated and actual values of disbursement are as follows.

Development Partner	Disbursement Estimate including Grants 2023	Actual Disbursement Value including Grants 2023	Variance	Variance as a percentage of the Disbursement Estimate
	USD Mn.	USD Mn.	USD Mn.	Percent
World Bank	806	753.2	(52.8)	(7)
Asian Development Bank	1,011	856.9	(154.1)	(15)
China and the Asian Infrastructure Investment Bank (AIIB)	21	24.2	3.2	15
Japan	31	39.6	8.6	28
Korea	10	0	(10)	(100)
Middle East countries	47	28.9	(18.1)	(38)
South Asian Countries	90	142.5	52.5	58
Russia, Australia and Western Countries	30	32.2	2.2	7
United Nations Agencies including IFAD	15	9.7	(5.3)	(35)
International Monetary Fund	682	681.5	(0.5)	0.07
<b>Total</b>	<b>2,743</b>	<b>2,568.7</b>	<b>(174.3)</b>	

With the announcement of the Interim Policy on Foreign Debt Servicing Payments issued on 12 April 2022, most of the lending countries and institutions suspended the disbursement of funds for the projects that were currently being implemented, and currently adaptation to the program proposed to Sri Lanka by the International Monetary Fund and debt restructuring negotiations are held with those lending countries and institutions. Considering the progress of those discussions and expecting that some amount of disbursements will be made in the last quarter of 2023, disbursements were estimated for bilateral lending countries including Korea, Japan and China for the year 2023. But due to the fact that the negotiations did not end as expected, there has been a decrease in the actual disbursements in the Middle East and Korea than the estimated disbursements. The projects being financed by Japan and the debt restructuring negotiations by the end of 2023 were unable to reach a final agreement, so the loan realization did

Foreign debt financing should be done formally and with proper plan.

The following observations are made in this regard.

(i) Although the total value of the disbursement estimate for the year 2023 was USD 2,743

million, the actual disbursement value was USD 2,568.7 million. Accordingly, the actual disbursement value had decreased the disbursement estimate by USD 174.3 million or around 6 per cent.

(ii) The actual disbursement value of loans from South Asian countries, Japan, China and the Asian Infrastructure Investment Bank and Russia, Australia and Western countries had increased by 58, 28, 15 and 7 per cent respectively compared to the disbursement estimate.

(iii) The loans, which were expected to be obtained from World Bank, Asian Development Bank, Middle East countries and UN agencies including IFAD had decreased by 7, 15, 38 and 35 percent respectively.

(iv) Although it had been estimated to obtain loan from Korea during the year under review, loan was not obtained even by the end of the year.

(c) Data mismatches in the CS-DRMS debt management computerized system used to record foreign public debt.

(i). When comparing the CSDRMS 854-1 report of the computer system used to record foreign public debt with the financial statements of the government, the value of unaccounted foreign loans as at 31 December 2023 was Rs.15,823 million. Furthermore, according to explanatory notes 24(II) of the financial statements of the government, the total value of unaccounted foreign loans as at 31 December 2023 was Rs. 17,103.2 million. Accordingly, the value of foreign loans in the statement of financial position as at 31 December 2023 had been understated by Rs.15,823 million due to the existence of unaccounted loan values that have been disbursed in the year under review as well as in previous years.

not occur. However, since Japan has given more than the expected amount of grant money to Sri Lanka, there has been an increase in its actual disbursements.

Due to the delays in the implementation of the projects with the economic crisis in the country, the actual disbursements have been slightly different from the disbursement estimates made by the World Bank and the Asian Development Bank.

The closing balances as at 31.12.2023 in the CS-DRMS 854-1 report relating to these loan numbers are reconciled with the respective creditors' reports.

Obtaining public debt and accounting for debt servicing should be done properly.

(ii) According to the CSDRMS 854-1 report, although there is no disbursement related to the loan number 2018003 for the year 2023, it had been stated that € 727,053 has been disbursed as per Note No. 24(II) of the financial statements of the government and Note No. 11 under Budget Performance and Deficit Financing. According to the information submitted by the Department of Treasury Operations, the loan value disbursed in the year 2022 or earlier years and accounted in the year 2023 in relation to this loan amount was only € 335,930. Accordingly, a difference of € 391,123 was observed between the disbursements in the year 2023 in relation to this loan amount.

A disbursement of € 391,122.75 relevant to the year 2021 and received lately on 18.07.2023 has been recorded in the year 2023 as revealed in the reconciliation of balances with the creditor. The closing balance values as at 31.12.2023 are reconciled with the respective creditor's records. Accordingly, the notes in 854-1 are correct.

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(iii) In the CSDRMS 854-1 report, a difference of Rs.30,401 million was observed between the total balances as at 31 December 2022 and as at 01 January 2023 in respect of 23 loan agreements. Accordingly, it was also observed that the correct value of actual loan disbursements during the year under review is not depicted in the Note No. 24(11) of the government's financial statements for the year ended 31 December 2023 and Note No. 11 under Budget Performance and Deficit Financing.

The following were the reasons.

- CS - DRMS data system had been correctly updated as per the disbursed values received with delay from the respective creditors to the Department of External Resources and as per modified disbursed values.

Accounting for Public borrowings and debt servicing should be formalized and arrangements should be made to minimize the delays in the disbursement.

- 2010117, 2010121 – these loans obtained in USD currency, had been converted from USD currency to Special Drawing Rights (SDR) in the year 2010. At the time of the conversion in 2010, the balance existed in the Special Drawing Rights (SDR), had been paid off in the year 2022 through USD currency. However, due to the exchange rate difference, an unpaid balance of this



loan was showed. The change indicated by the audit was due to the correction of this technical error in the CS-DRMS data system.

- The loans obtained in the French franc currency had been converted to the € currency in the year 2002 and the balance prevailed at the time of conversion had been paid off in € currency in the year 2019 and the resulting exchange difference had been corrected.
- Correction on 09.05.2023 by removing the repossession values of disbursement from the data system and matching them with the creditor's disbursement notes as revealed during the comparison with the relevant creditor, the Asian Development Bank.
- The CS-DRMS data system has been correctly updated according to a disbursed value in relation to these loan numbers as revealed during the comparison with the respective creditor.
- This loan agreed on 17.01.2019 is two loans from the Asian Development Bank for

the Science & Technology Human Resource Development project. During the comparison with the creditor, it was observed that the entries related to the numbers SRI 3699 and SRI 3698 given by the Asian Development Bank had been erroneously recorded in the data system while recording the transactions of these two loans. This difference of loan balance was due to the correction of this matter.

The Department of Treasury Operations has been informed about the updates related to the above loan numbers for necessary action in the year 2023, and the measures taken to minimize the late disbursements have been submitted to the audit.

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| (iv) | According to the financial statements of the government and CSDRMS 854-1 report, it was observed negative loan disbursements totaling Rs. 821,115,454 in respect of 04 loan agreements during the year under review.   | Disbursement refunds were recorded in the online system maintained by the respective creditor, which was correctly recorded in the CS-DRMS data system as a negative figure.  | Obtaining public debt and accounting for debt servicing should be done properly. |
| (v)  | When comparing the Foreign Currency Banking Unit Loan (Project) balances presented in Note No. 24(I) of the financial statements of the Government with the CS-DRMS 854-1 report, a difference of USD 227,823 equivalent to Rs.82,724,927 had been observed as at 31 December 2022 and 01 January 2023 in relation to the Loan Agreement No. | In relation to this loan number, which is serviced by different exchange currencies (Multicurrency), validation of USD currency in which the loan was obtained as per the Sri Lankan rupee currency is not done in system setup for a | -Do-   |

2017045. Further, even though a loan repayment on 30.12.2022 by mistake. This difference of USD 227,823 was observed in the repayments of loans, a difference was not observed in its local currency value. Further, it was observed that an unusual foreign exchange rate of Rs.524.6050 per USD 1 had been used in converting the repaid amount of USD 332,704 into local currency as per the financial statements of the government. This change has arisen due to its correction. The relevant exchange rates are correctly recorded.

- (vi) When loan balance confirmations sent by the lenders are compared with the financial statements of the Government and 854-1 report of the computerized debt management system, it was observed that loan balances related to 13 and 14 loan types had been overstated and understated by Rs.4,775 million and Rs.5,126 million respectively in the financial statements of the Government.
- The reasons for overstatement of loan balances.
- 1990009 - The exchange difference incurred in the system in converting the disbursements received from each respective currency to Special Drawing Rights.
  - 1998037 - Offsetting a loan balance amounting to EUR 22,583.76 of the Study and Expert Fund II project, by repayment relevant to this loan amount on 30.12.2020.
  - In relation to other loan number 11, the creditor has deducted the unpaid installments (Principal Arrears) since 13 April 2022 as the balance to be paid as at 31.12.2023. The balances on the 854-1 report also show the loan balance including unpaid premiums. Accordingly, the values in the 854-1 report are correct.
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The reasons for understatement of loan balances;

- Fluctuating of the US Dollar and Special Drawing Rights foreign exchange rate prevailed at the date of issuance of loan repayment notice given by Asian Development Bank, the creditor institution related to loan number 9, and the relevant foreign exchange rates prevailed at the date the repayment was actually received by the creditor.
- The loan bearing number 1990003, which is serviced in different currencies (Multicurrency), the equivalent SDR amount of 770,000 sent by the respective creditor relevant to USD 1,012,534.60 for a repayment on 01.12.2023, had been mistakenly entered into the data system as SDR 7,700,000, and this had been corrected on 22.05.2024.
- 2012022, 2018047 - relevant creditors have been inquired in this regard. However, the respective creditor has not confirmed to us about the receipt of this disbursement up to now. The system will be rectified as soon as it is

received from the respective creditors.

- 2012024, 2019019 - the data system is correctly updated by recording late disbursed values received from respective creditors.

(vii) Considering the disbursement period, even though certain disbursed foreign loans related to the year 2023 were included in the 814-1 report of the computerized debt management system printed on 07 May 2023, it was observed that those disbursements were not included in the said report printed on 17 February 2024. Accordingly, foreign loans balance amounting to Rs.1,290 million had not been accounted for as disbursed loans in the financial statements of the Government.

Nos. 2019019 and 2012024 -The CS-DRMS data system has been correctly updated in the year 2024 by recording the late disbursed values by the creditors, such as the Asian Infrastructure Investment Bank and the OPEC Fund.

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(d) Although it has been stated that all the transactions related to foreign aid should be carried out by the Department of External Resources of the Treasury according to the State Accounts Circular No. 30/94 dated 20 April 1994, foreign grants totaling Rs.22,210 million had been directly received for 11 institutions in the year 2023 without making the Treasury aware of that as per the information obtained from an audit test check, and action had not been taken to make provision for those values and to include them in the financial statements

The Department of External Resources make appropriate entries on the grants received. As mentioned by the Audit, it is the responsibility of all Secretaries to Ministries, Heads of Departments and Heads of Statutory Institutions to act according to the circulars, instructions and financial regulations regarding the grants reported only to other institutions. Actions should be taken to proceed as per circular instructions.

In this regard, it is observed that, it is appropriate to check whether the recommendation of this Department has been obtained for grants before making allocations by the Department of Budget for the grants and/ or before releasing imprests as

applicable by the Department of Treasury Operations and to make allocations or release funds only for the grants with such recommendations.

Furthermore, it is also suggested that legal provisions on grants should be made in the Public Finance Management Act, which is currently being drafted.

(e) Even though the General Treasury had entered into agreements to obtain foreign grants from 01 January 2019 to 31 December 2023 with 13 foreign donor agencies in different currencies with aggregated values of Japanese Yen 984,000, EUR 134,810,000, USD 58,417,841, Korean Won 400,000, Chinese Yuan 2,000,000,000 and Rs.4,545,750, evidence was not presented to the audit even as at 31 December 2023 that those foreign grants had been received.

Even though agreements are entered some of the agreements of which grants not received, have been utilized so far and the relevant information has not been provided to this Department by the donor country/ institution for recording them. Further, Action should be taken to obtain the full foreign grants that are entered into agreements and make arrangements to use them for the purpose as much as possible.

- 2022209 and 2023209-Japan, Contracted with the Government of Japan to receive these two grants under the Japan Economic and Social Development Program. The procurement agent is in the process of purchasing this equipment, and a part of the project (1) equipment will be received this year and the rest next year. The equipment under the project (3) is to be received within the next two years.

- 2023207- Japan, This is a long-term scholarship for Sri Lanka under the Human Resources Development Scholarship (JDS) Japan Aid Program by the Government of Japan. Its first phase started this year, and currently the officers have been selected for the scholarship, and they are scheduled to go to university studies in Japan in August 2024.
- 2019241 - The Netherlands, Although contracts for this project were entered into in 2019, but due to subsequent circumstances, the implementation of the project was delayed until July 2021. It is planned to be completed in the year 2025.
- 20190211- Germany, this is a grant given by the German government for the construction project of Mahamodara Maternity Hospital. The construction period of the project had to be extended due to various reasons.
- For grants under Germany, European Union, European Community, United States of America, as per the instructions issued under the circular No. ERD/AE/GEN/16 dated 02.10.2020 of the

Ministry of Finance, regarding “Streamlining the Fund Channeling Mechanism and Implementation Modalities of Grant Funded Projects”, providing the necessary information for monitoring and maintaining records is a task to be performed by the ministry or institution implementing the relevant project. Due to non-availability of expenditure reports in the implementation of these projects, the amount utilized is not included in the data system of the Department of External Resources.

- 2021212 - Asian Development Bank, Not utilized due to delays in project implementation.
- 2021211- IFAD, there was no need to spend this amount as the work to be carried out from this grant (Technical Study) was done by the Project Management Unit.
- 20190206 - UNESCO, this information has not been reported to this department.



### 3.2 Assets Management

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recoomendation</b>
In the asset report presented to the Comptroller General in terms of Asset Management Circular No. 01/2017 dated 28 June 2017, information had not been included related to three vehicles totaling Rs. 18,800,000 as per the fixed asset register of the department as at 31 December 2023.	As at 31.12.2023, the asset reports sent to the Comptroller General are submitted through the relevant computer software program and as the relevant data should be entered by the entity using the vehicle when entering the vehicle information, the information related to the date 31.12.2023 about these vehicles temporarily given for the special duties of the Ministry of Finance, Economic Stabilization and National Policies for its use, was not entered by this department.	Actions should be taken to identify the assets owned by the department accurately and document.

### 4. Human Resource Management

#### 4.1 Assigned cadre and actual cadre

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recoomendation</b>
The 18 vacancies existed at the department as at 31 December 2023 comprised, 06 vacancies in senior level, 06 vacancies in secondary level and 06 vacancies in primary level.	Ministry of Public Administration, Provincial Councils and Local Government has been informed to fill senior level vacancies and suitable officers have not been attached so far. Requests had been submitted to the Ministry of Finance, Economic Stabilization and National Policy to fill 06 Secondary Level Management Service Officer Vacancies, 04 Driver Vacancies in Combined Services and 01 Vacancy in Office Employees' Service among Primary Level Vacancies. The request for suppression of 01 departmental driver post at primary level was not recommended by the line Ministry.	Actions should be taken to recruit the necessary staff and in case of a non – essential staff included in the approved cadre, the approved number of posts should be revised.