

Head 239 – Department of External Resources - 2024

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 2024 comprising the statement of financial position as at 31 December 2024, the statement of financial performance and cash flow statement for the year then ended, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018. The summary report including my comments and observations on the financial statements of the Department of External Resources was issued to the Accounting Officer on 30 May 2025 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 was issued to the Accounting Officer on 09 September 2025 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 of the Department of External Resources for the year ended 31 December 2024 give a true and fair view of the financial position, financial performance and cash flows, in accordance with the basis of preparation set out in Note 1 to the financial statements, in all material respects.

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 Emphasis of Matter- Basis of Preparation of Financial Statements

Attention is drawn to Note 1 of the financial statements detailing the basis for preparation of these financial statements. These financial statements have been prepared in accordance with Financial Regulations 150 and 151 of the Government and the State Accounts Guideline No. 06/2024 dated 16 December 2024, as amended on 21 February 2025, for the requirement of the Department of External Resources, General Treasury, and the Parliament. Therefore, these financial statements may not be suitable for other purposes. My report is intended solely for the use of the Department of External Resources, General Treasury, and the Parliament of Sri Lanka. My opinion is not modified on this matter.

1.4 Responsibilities of the Accounting Officer for the Financial Statements

The Accounting Officer is responsible for the preparation of financial statements that give a fair view in all material respects in accordance with Financial Regulations 150 and 151 of the Government and the State Accounts Guideline No. 06/2024 dated 16 December 2024, as amended on 21 February 2025 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

As per Section 16(1) of the National Audit Act, No.19 of 2018, the Department of External Resources is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable the preparation of annual and periodic financial statements.

In terms of Sub-section 38(1) (c) of the National Audit Act, the Accounting Officer shall ensure that an 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.

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

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate and its materiality depends on the influence on economic decisions taken by users on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.
- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, among other matters significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Report on Other Legal Requirements

I express the following matters in terms of 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.

3. Financial Review

3.1 Management of Expenditure

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) When comparing the original expenditure estimate with the revised expenditure estimate, the variance in relation to 6 votes varied from a decrease of 87 percent to an increase of 286 percent.	A monthly allowance of Rs. 5,000 to all officers and Rs. 25,000 to executive officers had to be provided. Although the provisions requested were not provided, several recurring essential repairs to vehicles had to be carried out. Due to sudden inactivity, expenditure on the maintenance of machinery and equipment increased. It was also necessary for the department to supply sanitation materials and related equipment. A higher payment than the amount for the year 2023 had to be made for the vehicle covered under the operational lease method. It was not entered into service agreements as 02 multifunction photocopiers and 05 computer machines were removed from use. Expenditure was incurred to convene meetings, and	Annual expenditure estimates should be prepared correctly and realistically in terms of F.R.50.

when paying subsidy contributions, the foreign exchange rate had decreased. Factors such as above had contributed to revise the original expenditure estimate.

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| <p>(b) The net provision of Rs. 4,000,000 allocated under Capital Expenditure vote No. 239-1-1-0-2103 remained entirely unutilized and was fully saved during the year under review.</p> | <p>The purchase of machinery and equipment was restricted due to the limitation of capital expenditure.</p> | <p>-Do-</p> |
| <p>(c) Overprovision had been made for 12 recurrent objects and 05 capital objects and as such, Rs. 615,183,036 had been saved after utilizing the said provision during the year and accordingly, the savings out of the net provision ranged between 06 percent and 98 percent.</p> | <p>Savings in provisions were primarily due to the transfer of several officers, including staff officers, and their taking of unpaid domestic and foreign leave, resulting in unutilized allocations for their salaries. Additional factors included not reporting overtime as estimated, the conduct of most meetings virtually, restrictions on foreign travel financed from local funds, and a lower exchange rate compared to the time of preparing estimates, which reduced the rupee equivalent of dollars required for foreign travel. Furthermore, a decrease in stationery costs contributed to the savings. Although provisions had been allocated for the acquisition of a new server system for the Department, the decision of senior management to implement those activities after the establishment of the Public Debt Management Software System, and purchase the necessary server software, resulted in the extension of the existing server system for an additional year. Consequently, provisions allocated remained unutilized. The planned installation of other software, which depended on the purchase of the</p> | <p>-Do-</p> |

server system, was also postponed, leading to further savings. Entering into service agreements was deferred by one year until certain requirements of the trial version of the Asset Management Software were fulfilled. All these factors among others contributed to the savings in provisions.

3.2 Entering into Liabilities and Commitments

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) According to the statement of liabilities for the year under review, liabilities amounting to Rs. 574,821 had been entered as at 31 December 2024. However, these had not been entered in the CIGAS system as per Treasury Printed SA 92.	As a result of an omission, it could not be entered into the CIGAS system. Measures have been taken to allocate work in such a manner that, a re-check will be conducted to prevent the recurrence of such errors during future data entries.	All liabilities should be entered in the CIGAS system.
(b) Any liability under object No. 239-1-1-0-1002 and 239-1-1-0-1101 had not been included in the statement of liabilities. However, a total amount of Rs. 949,143, comprising Rs. 923,943 and Rs. 25,200 relating to the year under review under the respective expenditure objects, had been paid in January 2025.	It has been noted for correction in the future.	All liabilities should be included in the financial statements.
(c) In the financial statements, the statement of commitments for entering into liabilities as per F.R. 94(2) and 94(3) did not indicate the maximum limit of commitments that could be entered in terms of the provisions referred to in F.R. 94(2).	The maximum limit of commitments that could be incurred was not included due to an omission. Measures have been taken to allocate work in such a manner that, a re-check will be conducted to prevent the recurrence of such errors during future data entries.	Complete information should be incorporated into the financial statements.

4. Operational Review

4.1 Failure to achieve the Expected Outcome

The following observations are made.

	Audit Observation	Comments of the Accounting Officer	Recommendation
(a)	It was reported to audit that the CS-DRMS debt management system, currently in use by the Department of External Resources, had been introduced for functions including debt servicing forecasts and accordingly, although considerable number of discussions were held with the relevant institutions regarding the online transmission of debt-related data to the ITMIS, due to technical difficulties, linking the CS-DRMS system with ITMIS has become a challenging task. The department had not taken action to introduce a debt management system capable of facilitating cash flow management with debt management activities, accounting of debt transactions, and/or the required data exchange between the CS-DRMS and ITMIS systems, even by 20 May 2025.	The procurement process for the acquisition of a new debt management data system has been initiated. Bid documents have been prepared and submitted for the approval of the Technical Evaluation Committee.	Action should be taken to address this issue through the proposed new system.
(b)	According to the information submitted for audit, estimated and actual values of disbursement relevant to the year 2024 are as follows.		

Development Partner	Disbursement Estimate including Grants 2024 (USD Mn.)	Actual Disbursement Value including Grants 2024 (USD Mn.)	Variance (USD Mn.)	Variance as a percentage of the Disbursement Estimate (%)
World Bank	397	564.9	167.9	42
Asian Development	600	862.1	262.1	44

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China	281	51.9	(229.1)	(82)
Japan	59	37.3	(21.7)	(37)
Korea	39	4.3	(34.7)	(89)
Middle East countries and OPEC Fund	83	39.3	(43.7)	(53)
South Asian Countries	124	-	(124)	(100)
Russia, Australia and Western Countries	122	7.94	(114.06)	(93)
United Nations Agencies including IFAD	48	16.4	(31.6)	(66)
International Monetary Fund	0	334	334	100
Total	1,753	1,918	165.1	
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The following observations are made in this regard.

- (i) Although the total value of the disbursement estimates for the year 2024 was USD 1,753 million, the actual disbursement value was USD 1,918 million. Accordingly, the actual disbursement value had increased the disbursement estimate by USD 165.1 million or around 9 per cent.

The disbursement estimate for each year is prepared during the second quarter of the preceding year. In preparing these estimates, the expected disbursements for the upcoming year are considered relevant to each respective development partner for their projects. However, the actual disbursements for the year vary due to factors such as price fluctuations during project implementation affecting project costs and changes in exchange rates. Moreover, in certain instances, the acceleration of project implementation also results in actual disbursements deviating from the estimated disbursements.

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

(ii) When comparing with the actual disbursement values of the loans obtained from the World Bank and the Asian Development Bank with the estimated disbursements, it was observed that they had increased by 42 per cent and 44 per cent respectively.	The expected disbursements for the World Bank- funded projects for the year 2024 had been prepared based on the budget estimates forecasted for the year 2024, and it was US\$ 397 million approximately. In line with the Extended Fund Facility of the International Monetary Fund, the World Bank had disbursed approximately US\$ 200 million in 2024 for the purpose of financing the budget deficit. This amount had not been included in the forecast. Further, due to the continuation of provision under the Asian Development Bank concessional financing package, and as Sri Lanka continued to require budgetary support provisions, budgetary support provisions had also been obtained.	-Do-
(iii) The loans expected to be obtained from China, Japan, Korea, Middle Eastern countries, United Nations agencies including IFAD, Russia, Australia and Western countries had decreased by 82 per cent, 37 per cent, 89 per cent, 53 per cent, 66 per cent and 93 per cent respectively.	As the Government of Sri Lanka had temporarily suspended the payment of loan instalments, countries such as China, Japan, Korea, Russia and Australia had suspended disbursements. However, in preparing the estimates, it had been assumed that disbursements would recommence during the year 2024.	-Do-

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| (iv) | Even though it had been estimated to obtain loans from South Asian countries during the year under review, such loans had not been obtained even by the end of the year. | Due to the prevailed economic conditions in 2024, the Government's fiscal policies, and the fact that the debt restructuring process had not been concluded, loans had not been obtained. | -Do- |
| (v) | Even though disbursements had not been expected from the International Monetary Fund (IMF) according to the disbursement estimates, an amount of US\$ 334 million had been disbursed during the year under review. | Disbursements from the International Monetary Fund will be determined based on the agreement between the Ministry of Finance and the International Monetary Fund. These amounts have not been included in the disbursement estimates prepared for development projects implemented by the Department of External Resources. | As per the Extended Fund Facility entered with the International Monetary Fund, the funds that could be received can be forecasted. |
- (c) Even though the value of foreign loans not accounted as at 31 December 2024 was reported as Rs. 1,070 million under Explanatory Note 02 of the financial statements of the Government, as per the information submitted by the Department of Treasury Operations during the year under review, the following variations in the disbursement period were observed.

Loan Number	Disbursement period as per financial statements	Disbursement period as per the information of the Department of Treasury Operations
2012017	December 2020	2024
2012025	November 2023	2024
2016035	September 2022	September 2022 March and September 2023

According to the information submitted to the audit by the Department of Treasury Operations for the years 2020 to 2023, it was not indicated that the above-

mentioned loans had been disbursed. For the same loan transactions, conflicting information with the Department of External Resources had been submitted to the audit and based on this, it was revealed that the departments responsible for these obligations had not maintained systematic and up-to-date information regarding the disbursement of foreign loans. Furthermore, according to Stock and Flow Report No. 1 of the foreign loan reporting system, systematic and up-to-date information on the above loans had also not been maintained. Accordingly, it was observed that, in addition to the above foreign loan transactions, there exists a high risk of other foreign loans not being reported properly.

- (d) On behalf of the Government of Sri Lanka, a primary responsibility of the Department is to maintain the foreign loan portfolio and to maintain the fundamental data system required for their proper management. For this purpose, the CS-DRMS debt management system is utilized. Notwithstanding, it was observed that the information system maintained by the Department did not always furnish complete and up-to-date information. Accordingly:

- (i) According to the Stock and Flow Report No. 1 generated from the above-mentioned system, variances amounting to a net total value of Rs. 3,711 million were observed between the balances as at 31 December 2023 and the opening balances of the year under review in respect of 18 loan agreements.

The aforesaid situation had occurred due to reasons such as transactions relating to previous years being referred to the Department of External Resources during the year under review as revealed under the debt restructuring process, rectification of errors caused by the erroneous recording of higher exchange values, and the recording of

Reporting and accounting of public borrowings and debt servicing, should be carried out in a systematic manner.

disbursements that had been delayed.

- (ii) Due to the recording in the system foreign loan disbursements pertaining to the previous year as having disbursed during the year under review, the following variances were observed in the disbursements disclosed in the financial statements of the Government.
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Loan Number	As per financial statements of the Government	Disbursements as per Information system	Difference
2012024	USD 947,057	USD 709,147	USD 237,910
2019019	USD 28,717,515	USD 24,938,700	USD 3,778,815
2019043	SAR 47,320,932	SAR 47,284,890	SAR 36,042
2015021	EUR 28,227	Nil	EUR 28,227
2012025	SAR 570,876	SAR 272,171	SAR 298,705

- (iii) It was observed that there were significant variances between the reports of the foreign lenders and the reports of the information system. For example, due to discrepancies between the lenders' loan balance confirmations and the loan balances recorded in the system, an amount of SDR 2,064 (equivalent to Rs. 787,553) was overstated for Loan No. 1990009, and an amount of SDR 230,057 (equivalent to Rs. 87 million) was understated for Loan No. 2024001 in the financial statements of the Government.
- The relevant discrepancy had arisen due to exchange rate differences encountered by the system when converting information recorded in various currencies into the denominated currency of the respective loan. The said discrepancy has been rectified by present. Further, it was observed that a refund made on 20 December 2024 in the Stock and Flow Report as at 31 December 2024 which was prepared on 31 January 2025, had been accurately updated in the system. However, it was noted that the said refund had not been updated in the balances submitted by
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the relevant creditor as at 31 December 2024 at the time those balances were obtained.

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| (e) | <p>According to the State Accounts Circular No. 30/94 dated 20 April 1994, it has been stated that all the transactions related to foreign aid should be carried out by the Director General of the Department of External Resources of the Treasury. However, according to the information obtained from a sample test, foreign grants with a total value of Rs. 1,047.6 million had been received directly by 08 institutions without the knowledge of the General Treasury during the year under review.</p> <p>Accordingly, it was observed that opportunities exist for various parties to obtain foreign grants directly without the awareness of the Department of External Resources. As a result, issues may arise regarding the accuracy and completeness of the nationally consolidated information relating to foreign aid, the risk of obtaining and utilizing foreign grants without proper regulation, the inclusion of inaccurate information in the financial statements of the Government, and the possibility of policy decisions being taken by the Government based on such inaccurate information.</p> | <p>As stipulated in Circular No. 30/94 dated 20 April 1994, as well as in various other circulars and instructions issued thereafter, this Department records, in the prescribed manner, the grants obtained with the knowledge of the Department of External Resources in accordance with the proper procedure. In respect of grants reported only to other institutions, it is the responsibility of all Secretaries to Ministries, Heads of Departments, and Heads of Statutory Institutions to act in compliance with the provisions of the relevant circulars, series of instructions, and financial regulations.</p> | <p>Actions should be taken in accordance with the provisions of the circulars and the relevant institutions should be kept continuously informed and follow up action be taken.</p> |
| (f) | <p>Even though, from 01 January 2019 to 31 December 2024, the General Treasury had entered into agreements with 03 foreign-funded projects with a total value of USD 18 million, Rs. 290 million, and KRW 14.3 billion, respectively, the receipt of the corresponding foreign grants had not been confirmed to the audit even as at the end of the year under review.</p> | <p>The grants for these 03 projects had not been received even as at 31 December 2024.</p> | <p>Action should be taken to ensure that the foreign grants under the agreements entered by the Sri Lankan Government, are fully received and utilized to the maximum extent for their intended purposes.</p> |

4.3 Waiver of Sovereign Immunity by the Government of Sri Lanka in obtaining Foreign Loans

Audit Observation	Comments of the Accounting Officer	Recommendation
As at 31 December 2023, out of 755 project loans held by the Government of Sri Lanka, and based on information obtained from the Department of External Resources in respect of 549 project loans, it was observed that the loan agreements of 78 foreign project loans contained clauses involving the waiver of sovereign immunity in various forms.	Prior to entering into these loan agreements, approvals were obtained from the Monetary Board of the Central Bank, the Cabinet of Ministers, and the Attorney General's Department. Further, as discussions on the debt restructuring with the Government of China and the Chinese lending financial institutions have not been concluded, it is unable to make a determination regarding the risks faced by the Government of Sri Lanka at this stage. During the bilateral debt restructuring process, the Government of Sri Lanka has appointed international consultants namely, Clifford Chance LLP and Lazard Inc. as its financial and legal consultants. In accordance with the proper advice of these consultants, the Government continues to conduct further debt restructuring discussions with the Government of China and the Chinese lending financial institutions, also in compliance with the clauses relating to the waiver of sovereign immunity stipulated in the respective loan agreements.	Special attention should be paid to the clauses relating to the waiver of sovereign immunity contained in the relevant loan agreements when obtaining foreign loans in the future.

4.4 Restructuring of Foreign Loans

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) According to information submitted by the Department of External Resources, 52 types of loans obtained from the Export-Import Bank of China were subjected to the debt restructuring process during the year under review. Of these, 48 project loans referred to in Note 26(ii), and 04 foreign currency term loan facilities referred to in Note 26(iii) of the financial statements of the Government, were included. The details are as follows:		
(i) For 44 projects, the unpaid interest and penalty interest, calculated in foreign currency, had been added to the loan balances as at 1 January 2024 and the resulting balances were subjected to debt restructuring. Subsequently, the maturity period had been extended and the interest rates had been reduced. Accordingly, the loan balances increased by USD 236 million in respect of 33 projects and by RMB 275 million in respect of 11 projects.	These variations represent the differences before and after each respective debt restructuring. Accordingly, it is agreed with the audit observations.	This is a presentation of information.
(ii) For the 04 foreign currency term loan facilities, the unpaid interest and penalty interest calculated, had been added to the loan balances as at 01 January 2024 and the resulting balances were subjected to debt restructuring. Subsequently, the maturity period had been extended and the interest rates	-Do-	This is a presentation of information

had been reduced. Accordingly, the loan balances increased by USD 258 million in respect of 03 facilities, and by RMB 180 million in respect of one facility.

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| <p>(iii) For the loan balance of EUR 4.5 million as at 01 January 2024, unpaid interest and penalty interest amounting to EUR 573,924 had been added, and out of that, EUR 2.4 million, equivalent to 48 per cent, was subject to a haircut by the lenders and the remaining balance of EUR 2.6 million had been settled during the year 2024.</p> | <p>Agreed with the audit observation.</p> | <p>This is a presentation of information.</p> |
| <p>(iv) The loan balance of RMB 40 million relating to 03 projects was fully settled during the year 2024 without undergoing any debt restructuring.</p> | <p>Agreed with the audit observation.</p> | <p>This is a presentation of information.</p> |
- (b) According to the information submitted by the Department of External Resources, 11 international sovereign bond loans amounting to USD 12,550 million as at 01 January 2024, as disclosed in Note 26 (iv) to the financial statements of the Government, had been subjected to debt restructuring during the year 2024. Accordingly, the maturities of these 11 bonds were extended, a nominal haircut was applied by the lender, a minimum average interest rate was determined, and the bonds were converted into 08 new international sovereign bonds. Further, as at 31 December 2023, the unpaid interest on these bonds amounted to USD 3,750 million, and following the debt restructuring, the value of the 08 new international sovereign bonds stood at USD 10,647 million.

5. Human Resource Management

The following observation is made.

Audit Observation	Comments of the Accounting Officer	Recommendation
As at 31 December 2024, the Department had a total of 35 vacancies, including 16 senior level vacancies and 11 secondary level vacancies. Further, in accordance with Public Administration Circular 14/2022 dated 22 June 2022, 07 senior level officers and 04 secondary level officers of the Department of External Resources had been obtained unpaid domestic/foreign leave. However, any action had not been taken to fill the existing vacancies or to rationalize unnecessary positions following a staff review by the Department during the year under review.	A part of its scope, the Department of External Resources was required to assign to the Debt Management Office. Consequently, after completion of those tasks, a staff review of the Department was to be conducted to fill the vacancies. Therefore, officers were not appointed to those vacancies.	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.