

## **Programmatic Project Preparation Facility - 2019**

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The audit of financial statements of the Programmatic Project Preparation Facility for the year ended 31 December 2019 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 Section 2:05(c) in Article II of the Advance Agreement No: P 4910 dated 30 January 2018 entered into between the Democratic Socialist Republic of Sri Lanka and the International Bank for Reconstruction and Development (World Bank). My comments and observations which I consider should be report to Parliament appear in this report.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Advance Agreement, the Department of National Planning which was under then Ministry of Finance and Media, presently the Ministry of Finance, is the Executing Agency and the Ministry of Health, the Ministry of Public Service, Provincial Councils and Local Government and the Ministry of Irrigation are the Implementing Agencies of the Project. The objective of the Project is to facilitate for the preparation activities of the projects, expected to be carried out to implementation of the financial assistance of the Lending Agency. As per the Agreement, the estimated total cost of the Project amounted to US\$ 4.00 million equivalent to Rs. 609.55 million and the total amount was agreed to be financed by the International Bank for Reconstruction and Development. The Project had commenced its activities on 30 January 2018 and scheduled to be completed by 20 January 2020.

### **1.3 Opinion**

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019, statement of expenditure and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

### **1.4 Basis for Opinion**

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **1.5 Responsibilities of management and those charged with governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

## **1.6 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 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.
- 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 internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, 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.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 2. Comments on Financial Statements

### 2.1 Non Compliance with Laws, Rules and Regulations

No	Reference to the Laws, Rules and Regulations etc.	Non –compliances	Impacts	Management Responses	Auditor’s Recommendations
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(a)	Financial Regulation 134 (3) and Management Audit Circular No. 05 of 26 July 2010 of the Department of Management Services.	The transactions of the Project during the year under review were not subjected to audit of the Internal Audit division of the Ministry of Finance, Economy and Policy Development.	Internal controls may not be properly implemented.	As per given instructions of the Financial Regulation 134 (3) and Management Audit Circular No. 05 of 26 July 2010 of the Department of Management Audit, internal audit of the Programmatic Project Preparation Facility Project (PPPF) was carried out by the internal audit unit of the Ministry of National Policies and Economic Affairs in the year 2019. The progress and related issues of the PPPF project was discussed in the Audit and Management Committee Meeting during the year 2019.	The transactions of the Project should be audited by the Internal Audit division.
(b)	Section 09 of the Circular No. 01/2019 of 15 March 2019 of the Department of Management Services.	Project Steering Committee meetings had not been conducted during the year under review	The monitoring activities of the Project may not be carried	Programmatic Project Preparation Facility Project is not a Project as same as others but doing coordination role of the World Bank funded Projects in preparatory stage. Therefore, conducting of Project Steering Committee is not necessary. However, other line ministries who	Need to comply with the circular instructions.

out effectively . are implementing of Projects under the Programmatic Project Preparation Facility are conducted Project Steering Committee Meetings on regular basis. As a coordination arm, the Programmatic Project Preparation Facility conducted meetings whenever required discussing progress and issues they are facing.

### 3. Physical Performance

#### 3.1 Physical and Financial Progress of Projects

	<b>Project Components</b> -----	<b>Audit Issues</b> -----	<b>Impact</b> -----	<b>Management Response</b> -----	<b>Auditor's Recommendations</b> -----
(a)	Public Sector Efficiency Strengthening Project	According to the information received from the Ministry of National Policies and Economic Affairs, the main objective of the Project is to provide financial assistance to facilitate the preparation of proposed 09 Projects. Out of the 09 Projects, the activities of 03 Projects had been implemented previous year and preparatory activities of Integrated Watershed and Water resources	The main objective of the Project had not been achieved.	Initially nine Projects were identified to implement during the period of 2017 – 2019, and it was commence in 2018 after one year lapsed. 07 Projects had been materialized and detailed design has already prepared. However, Programmatic Project Preparation Facility	Actions should be taken to achieve the objectives of the Project within the Project period.
(b)	Dam Safety and Water Resources Planning Project				
(c)	Provincial Road Development Project				
(d)	Sri Lanka Health System Strengthening Project				
(e)	Local Development				

- Support Project Management Project had been started during the year under review.
- (f) Climate Smart Irrigated Agriculture Development Project According to the explanations submitted by the Project Management Unit of the Department of National Budget, it was stated that activities of 04 anticipated Donor Funded Projects had been materialized and prepared detailed designs in year 2018 and 03 Project agreements had been signed with World Bank during the year under review. The preparatory activities of other 02 Projects had been postponed.
- (g) Strengthening Public Private Partnership Institutional and Legal Framework

funds were not utilized for some Projects. But the Department of National Planning and other relevant Government Agencies were provided their technical knowhow for the preparation of the Projects. 02 Projects were postponed.

Furthermore, some projects were not implemented due to change of the Government priority. Therefore, it is noted that this list of Project is subject to change based on the Project pipeline to be funded by the World Bank considering the Government requirements and priorities.

### 3.2 Underutilized Resources

No	Audit Issues -----	Impacts -----	Management Responses -----	Auditor's Recommendations -----
(i)	According to the financial targets stipulated in the Cabinet Memorandum, it was expected to be utilized US\$ 4 million equivalent to Rs.609.55 million at the end of the year under review. However US\$ 0.37 million equivalent to Rs.64.07 million only or 9.25 per cent of the respective target had been achieved as at 31 December 2019.	Government of Sri Lanka had to incur Rs. 11.51 million as commitment charges on undisbursed balance.	Commitment charges had not been incurred during the financial year 2019.	Proper financial plan need to be prepared and implemented.
(ii)	The Project had only been utilized Rs. 39 million representing 12 per cent of the total allocation of Rs 325 million during the year under review.	Underutilized allocations of proceeds of the Loan.	The reasons for the underutilized allocations are as follows a) Rs. 84 mn. (25% of total capital provision) has been allocated for the compulsory savings as per the budget circular No. 4/2019 and 5/2019. Accordingly net provision for the project was reduced from Rs..325 mn. to Rs 241 mn. b) Expected expenditure was not occurred during the year, due to activate the loan agreements for three projects before the schedule time period. c) Most of preparatory activities were undertaken by the relevant government officials, therefore	Proper mechanism need to be established to utilize the funds in an effective manner.

loan funds were not utilized as expected.

d) Some expected projects were not implemented due to change of government priorities.

e) Some of the projects were phase out due to limited fiscal space.