

Fiscal Management Efficiency Project - 2014

The audit of financial statements of the Fiscal Management Efficiency Project for the year ended 31 December 2014 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 the Section 4.05 (a) of Article IV of the Loan Agreement No. 2624 SRI dated 07 June 2010 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank .

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Fiscal Management Efficiency Project, then Ministry of Finance and Planning, presently the Ministry of Finance is responsible for the execution and implementation of the Project. The objective of the Project is to enhance the Borrower's fiscal space and efficiency in the public financial management system. According to the Loan Agreement, the total cost of the Project was US\$ 40.8 million equivalent to Rs 5,344.8 million and out of that US \$ 30.8 million equivalent to Rs 4,034.8 million including a Grant of US\$ 2 million for technical assistance purposes was agreed to be provided by the Asian Development Bank. The Project had commenced its activities on 01 May 2010 and was scheduled to be completed by 31 October 2013. The period of the Project had been extended up to 30 April 2016.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or

error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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 Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records, etc. relating to the operations of the Project.
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Loan, etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (e) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards.
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether the financial covenants laid down in the Loan Agreement had been complied.

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Sri Lanka Accounting Standards.
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the withdrawals from and replenishments to the Special (Dollar) Account during the year ended 31 December 2014 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2014 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- (d) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement,
- (e) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) the financial covenants laid down in the Loan Agreement had been complied with.

2.2. Audit Observations

2.2.1 Non- compliance with Laws, Rules, Regulations and Management Decisions

It was observed that the Project Director had drawn salaries amounting to Rs. 195,000 during the year under review exceeding the limit stipulated under the Paragraph 4.2.1 of the Circular No.MSD 33 of 05 April 2007 of the Department of Management Services and the decision of the Ministers of Cabinet of 29 April 2009.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing of funds, budgetary provisions for the year under review, utilization of funds during the year under review and the cumulative expenditure as at 31 December 2014 are shown below.

Source	Amount agreed to be financed as per Loan Agreement		Allocation made in the Budget Estimate for the year 2014	<u>Amount utilized</u>			
	US\$ million	Rs. millions		US\$ million	Rs. million	US\$ million	Rs. million
ADB	30.80	4,034.80	1,000.00	1.25	164.00	6.00	799.00
GOSL	10.00	1,310.00	65.00	0.43	56.00	1.30	171.00
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	40.80	5,344.80	1,065.00	1.68	220.00	7.30	970.00
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The following observations are made.

- (a) According to the above information, only 19.48 per cent of the proceeds of the Loan had only been utilized by the Project as at 31 December 2014 even after lapse of four years of the period of the Project.
- (b) The allocation amounting to Rs.471.6 million made for the procurement of consultancy services had not been utilized entirely even as at 31 December 2014.

3.2 Physical Progress

The Project is comprised with two main components namely, establishment of the Integrated Treasury Management Information System and Capacity Developments. The following observations are made on physical progress of such components as at 31 December 2014.

- (a) The contract for the supply of information system infrastructure, customization and implementation of Integrated Treasury Management Information System had been offered to a foreign company on 14 October 2013 and the physical progress thereon was remained slow as at 31 December 2014 due to delays in installing of Local Area Network, upgrading of existing accounting system, speeding up of the System Requirement Specifications and changes to be made on the roles of the Line Ministries etc.,
- (b) According to the work plans, approximately 5000 user parties are required to be trained on Integrated Treasury Management Information System. However, action had not been initiated even as at 31 December 2014 due to delays in system installations.

3.3 Extraneous Expenses

It was observed that the printing charges amounting to Rs.9,459,620 incurred by the Project was not directly related to achieve the objectives of the Project.

3.4 Issues on Financial Controls

A Register of Fixed Assets had not been maintained according to the provisions made in the Treasury Circular No. 842 of 19 December 1978