

Fiscal Management Efficiency Project - 2017

The audit of financial statements of the Fiscal Management Efficiency Project for the year ended 31 December 2017 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 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 (ADB).

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 and Mass Media 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 estimated total cost amounted to 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 was agreed to be provided by the Asian Development Bank. The activities of the Project commenced on 01 May 2010 and scheduled to be completed by 31 October 2013. Subsequently the period of the Project had been extended up to 31 October 2018.

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 opening and closing balances and withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (e) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (f) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (h) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards.
- (i) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether the financial covenants laid down in the Loan Agreement had been complied with.

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 2017 and the financial statements give a true and fair view of the state

of affairs of the Project as at 31 December 2017 in accordance with Sri Lanka Accounting Standards,

- (b) The funds provided had been utilized for the purposes for which they were provided,
- (c) The Statements of Expenditure submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement,
- (d) The opening and closing balance, withdrawals from and replenishments to the Special (Dollar) Accounts had been truly and fairly disclosed in the books and records maintained by the Project and the balances as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka, as at that date,
- (e) The 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.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics in relating to the financing, budgetary provisions for the year under review, utilization of funds during the year under review and up to 31 December 2017 are shown below.

Source	Amount agreed to be financed in the Loan Agreement		Allocation made in the Budget Estimate for year 2017	during the year under review	Funds Utilized as at 31 December 2017	
	US\$ million	Rs. million			Rs. million	US\$ million
ADB	30.80	4,034.80	1,979.00	1,431.00	20.78	2,947.00
GOSL	10.00	1,310.00	216.00	213.00	3.47	488.00
	<u>40.80</u>	<u>5,344.80</u>	<u>2,195.00</u>	<u>1,644.00</u>	<u>24.25</u>	<u>3,435.00</u>

According to the above information, out of the total allocation of US\$ 30.80 million equivalent to Rs.4,034.80 million, only US\$ 20.78 million equivalent to Rs.2,947 million representing of 67 per cent of the total allocation had been utilized by the Project even after lapse of 07 ½ years from the date of the commencement of the activities of the Project. Therefore, the possibility of use of the balance of allocation of US\$ 10.02 million representing of 33 per cent of total allocation during the remaining period of 10 months, is very remote.

3.2 Physical Progress

The activities of the Project comprised with 02 main components namely, establishment of the Integrated Treasury Management Information System and Capacity Development. The following observations are made on physical progress of the activities under the components as at 31 December 2017.

- (a) The contract for the supply of information system infrastructure, customization and implementation of Integrated Treasury Management Information System had been awarded at US\$ 17.76 million equivalent to Rs. 2,356.75 million to a foreign company on 14 October 2013 and expected to be completed by 13 January 2016. Even though the Integrated Treasury Management Information System had been established during the year under review, the physical progress on activities carried out under customization of newly established information system had remained slow as at the end of the year under review. The Project Director had informed that the disagreements in data sharing between Ministry of Finance and Mass Media with the Interfacing Agencies and poor responses made thereon had contributed for prolong delays in system customization and action had been taken in September 2018 to minimize the gaps and resolved the errors identified in the system.
- (b) It was observed that the annual targets for officers to be trained under the Capacity Development Component had not been determined by the Project at the initial stages. However, the foreign trainings for 140 senior officers and local training for 100 other staff members of the Ministry of Finance and Mass Media and other departments under the purview of the Ministry had only been provided during the year under review.

3.3 Contract Administration

According to the information received, delays in the development and internal testing of interfaces, resolution of defects and finalization of data migration by the system developer and lack of continued and dedicated involvement of the staff of the Line Ministry had caused delays in completion of the activities for the establishment of the Integrated Treasury Management Information System and Capacity Developments.