

## **Social Safety Nets Project (Component 01 and 02) – 2017**

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The audit of financial statements of the Social Safety Nets Project (Component 01 and 02) for the first accounting 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 II b (3) of the Loan Agreement No.5915-LK dated 28 December 2016 entered into between the Democratic Socialist Republic of Sri Lanka and International Development Association.

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

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According to the Loan Agreement of the Project, the Ministry of Finance and Mass Media is the Implementing Agency of the Project. The objective of the Project is to contribute to the improved equity, efficiency and transparency of the social safety net programs for the benefit of the poor and vulnerable groups in Sri Lanka. The activities of the Project consisted with 03 components and this report is presented separately on the performance of the Components 01 and 02 of the Project, as required by the Paragraph 4.2.3 of the Project Operational Manual. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 75 million equivalent to Rs.11,212 million and entire amount was agreed to be provided by the International Development Association. The Project commenced its activities on 01 January 2017 and scheduled to be completed by 30 March 2022.

### **1.3 Responsibility of the Management for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standard 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**

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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 initial deposits 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 Standard, and
- (i) Whether the financial covenants laid down in the Loan Agreement had been complied with.

## **2. Financial Statements**

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### **2.1 Opinion**

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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 purpose for which they were provided,

- (c) the initial deposits 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,
- (d) the Statements of Expenditure submitted could be fairly relied upon to support the application for reimbursement in accordance with requirements specified in the Loan Agreement, 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 relating to the financing, budgetary provision for the year under review and the utilization of funds up to 31 December 2017 are shown below.

Sources	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized up to 31 December 2017	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million
IDA	75.0	11,212.5	1,351.7	2.5	389.0
<b>Total</b>	<b><u>75.0</u></b>	<b><u>11,212.5</u></b>	<b><u>1,351.7</u></b>	<b><u>2.5</u></b>	<b><u>389.0</u></b>

#### 3.2 Physical Progress

As mentioned in the above, the operations of the Project are conducted under 03 components and the Disbursement Link Indicators under the Component 01 and 02 are consisted with the activities such as building a unified social registry and integrated service delivery systems. The following observations are made on the progress of implementation of the above activities.

- (a) According to the information received, the Welfare Benefits Board had been established under the Welfare Benefit Act, No. 24 of 2002 and functioned with effect from 20 August 2016 and therefore, the target stipulated under the Disbursement Link Indicator-01 had been achieved before the commencement of the activities of the Project.
- (b) It was observed that the Project had not taken action to establish the Social Registry Information System and the Social Registry Unit during the year under review with

suitably qualified staff as per Disbursement Link Indicator – 02 of the Project Operating Manual. According to the explanations made by the Project Director, the activities required to be implemented under the Disbursement Link Indicator – 02 of the Project could not be achieved, due to delays of Information and Communication Technology Centre to select a firm to develop Social Registry Information System. Therefore, the allocation of US\$ 05 million equivalents to Rs.778.24 million made under Disbursement Link Indicator – 02 of the Project had not been utilized during the year under review.

- (c) According to the Project Appraisal Document and the paragraph 4.41 of the Project Operational Manual, an independent third party with qualifications and experiences are required to be engaged to verify the performance of Disbursement Link Results. In addition, the Project Management Unit should collect the third party assessment and submit to the Department of Project Management and Monitoring for verification purpose. However, the action had not been taken by the Project to select and appoint the third party entity for the above purpose.