

Programmatic Project Preparation Facility Project - 2018

The audit of financial statements of the Programmatic Project Preparation Facility Project for the First Accounting Period from 26 January 2018 to 31 December 2018 year 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 Section 2:05(c) in Article II of the Financing Agreement Advance No: P 4910 dated 26 January 2018 entered into between the Democratic Socialist Republic of Sri Lanka and the International Bank for Reconstruction and Development. 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 Financing Agreement Advance of the Project, the Department of National Planning remained under the Ministry of Finance and Media, presently remained under the Ministry of National Policies, Economic Affairs Resettlement and Rehabilitation, Northern Province Development and Youth Affairs is the Executing Agency and the Ministry of Health, Nutrition and Indigenous, the Ministry Local Government and Provincial Councils and the Ministry of Agriculture, Rural Economic Affairs, Livestock Development, Irrigation and Fisheries and Aquatic Resources Development 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 under the financial assistance of the Lending Agency. As per the Financing Agreement Advance of the Project, the estimated total cost of the Project amounted to US\$ 4.00 million equivalent to Rs. 609.55 million and the entire amount was agreed to be financed by the International Bank for Reconstruction and Development. The Project commenced its activities on 26 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 2018 and the statement of financial performance 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 Accounting Deficiency

Accounting Deficiency	Amount Rs. million	Impact	Response of the Management	Auditor's Recommendations
The consultancy payments made by the Local Development Support Project had been erroneously shown under Personal Emoluments.	1.90	Understatement The cost on consultancy services had been understated	The accounting error will be corrected in the next year.	Controls over the passing accounting errors should be strengthened.

3. Physical Performance

3.1 Physical progress of the activities of the Project

The main objective of the Project is to provide financial assistance for the preparatory activities under 09 Donor Funded Projects anticipated to implemented by the Department of National Planning and out of that the activities of 03 Projects only had been completed and implemented during the year under review. According to the explanations made the activities of other 04 anticipated Donor Funded Projects had been materialized and prepared detailed designs during the year under review. The preparatory activities of other 02 Projects had been postponed due to the changes of the government priorities.

3.2 Underutilized Resources

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
-----	-----	-----	-----
The Project had only been utilized Rs.25.71 million representing 8.31 per cent of the total allocation of Rs.609.55 million during the first accounting period ended as at 31 December 2018.	Intended objective had not been achieved.	The preparatory activities carried out by the expertise and the expenses thereon had not been incurred in the Programmatic Project Preparation Facility Fund.	Action should be taken to expedite on utilization of funds.