

Food Security and Livelihood Recovery Emergency Assistance Project - 2022

The audit of financial statements of the Food Security and Livelihood Recovery Emergency Assistance Project for the year ended 31 December 2022 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, Financial Agreement No. 4205-SRI and Grant Agreement No. 9229-SRI dated 09 September 2022 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comments and observations which I consider should be reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, The Ministry of Finance, Economic Stabilization and National Policies is the Executing Agency and the Department of National Planning, Ministry of Women, Child Affairs and Social Empowerment, Ministry of Agriculture, Department of Samurdhi Development, Department of Agrarian Development and Department of Agriculture are the Implementing Agencies of the Project. The objective of the Project is to improve food security and protect the livelihoods of the poor and vulnerable nationwide. As per the Loan and Grant Agreements, the estimated total cost of the Project was US\$ 203.36 million equivalent to Rs.74,090.15 million was agreed to be financed by Asian Development Bank. The Project had commenced its activities on 09 September 2022 and scheduled to be completed by 29 February 2024.

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 2022, statement of expenditure and its cash flow 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 misstatement, 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 scepticism 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. Financial Performance

2.1 Financial Progress of the Activities of the Project

| Audit Issue | Response of the Management | Auditor's Recommendation |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|
| (a) Although Rs.5,000 per person was to be paid for the beneficiaries of the Samurdhi waiting list, it was observed that as per the schedule submitted to the audit, less than Rs.5,000 per person was paid in the months of September and October. The sum of such underpayments for the beneficiaries was Rs.187 milion. | It was observed that one beneficiary was paid Rs.4,700 in September 2022 and one beneficiary was paid Rs.3,000 in October 2022 under Samurdhi waiting list. | Action should be taken to payments of the approved amount. |
| (b) In relation to the payment of Samurdhi allowances and additional allowance (Top Up) to the existing Samurdhi beneficiaries, given under Note No. 01 of the financial statements, the relevant | Agreed. | Action should be taken to shown under the correct classification. |

allowance was shown as a total amount, without classified separately according to the number of family members of the beneficiaries.

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| (c) | A schedule was not submitted to the audit for the amount of Rs. 614 million which was not paid as at 31 December 2022, shown as receivable in the financial statements. | This money should have been brought to Samurdhi Development Department from Samurdhi Banks, but the related schedule was not sent to this department. | Action should be taken to submit the annexes on the no of beneficiaries. |
|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|

2.2 Utilization of Funds

| Audit Issue | Response of the Management | Auditor's Recommendation | |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| (a) | The estimated cost of the project for the year 2022 was US \$ 203.36 million, In which there was a provision of US \$ 172.12 million for the activities to be carried out in the year 2022. However only US \$ 153.7 million equal to Rs.55,930 million had been utilized as at 31 December 2022, which was only 84 percent of the estimated cost for the year 2022. | Agreed. | It is required to take necessary action to achieve all targets as intended and to utilize allocated funds in maximum. |
| (b) | In addition to the US \$ 200 million loan provided by the Asian Development Bank for this project, the Asian Development Bank had agreed to provide a grant of US\$ 3 million for the financing of the related project activities. Out of that grant a provision of US \$ 0.58 million equal to Rs.212.55 million had been received in the year 2022, however that provision had not been fully utilized for the activities supposed to be performed. | This Department has received the grant fund amounting Rs.212.55 Mn on 16.12.2022. However, Activities have not been finalized before 31 st December 2022, since the project proposal was being prepared by Ministry of Agriculture and Ministry of Women, Child Affairs and Social Empowerment. | It is required to take necessary action to achieve all targets as intended and to utilize allocated funds in maximum. |

3. Physical Performance

| Audit Issue | Response of the Management | Auditor's Recommendations |
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| <p>Although the amount of Rs. 6,000 million equivalent to US \$ 22.04 million had been allocated for providing subsidies to farmers in the months of September, October and November 2022, at the end of the year under review, only Rs.127.02 million or 2.11 percent of the allocation had been given as subsidy to farmers. The remaining Rs.5,872.98 million was stated under current liabilities as subsidies payable.</p> | <p>Under this project, cash transfer for the poor and vulnerable families and financial assistance to the farmers were only implemented during the year 2022.</p> | <p>It is required to take necessary action to achieve all targets as intended.</p> |
| <p>According to the action plan in the year under review, providing the nutritional food for pregnant mothers and nutritional allowance for lactating women & children under two years of age were stated as the activities in the project under foreign loan financing in the year 2022. Although the budget provision of Rs.2,650 million has been made, this money allocation was not used for the relevant activities under this project and it had been transferred to another expenditure subject by F.R. 66.</p> | <p>The remaining allocation has been transferred to other vote as the opening of new bank account of pregnant mothers at Bank of Samurdhi has not been completed before 31st December 2022. Further, advices to opening of bank account have been given and Bank Accounts were opened for identified beneficiaries as per circular and payment has been completed.</p> | <p>It is required to take necessary action to achieve all targets as intended.</p> |