

Inclusive Connectivity and Development Project Contingent Emergency Response Component (CERCs-2) for Minimizing the Impacts of the Economic Crisis and Restoring Social Stability - 2022

The audit of financial statements of the Inclusive Connectivity and Development Project Contingent Emergency Response Component (CERCs-2) for Minimizing the Impacts of the Economic Crisis and Restoring Social Stability 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 Loan Agreement No. 9290-LK dated 03 November 2021 entered into between the Democratic Socialist Republic of Sri Lanka and the World 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, The Ministry of Finance and Department of National Planning are the Executing Agencies and the Ministry of Women, Child Affairs and Social Empowerment and Ministry of Agriculture are the Implementing Agencies of the Project. The objectives of the Project are to provide a short to medium term intervention to minimize the adverse impact of the current economic crisis on the poor and vulnerable communities of the country while restoring the social stability. As per the Loan Agreements, the estimated total cost of the Project was US\$ 325 million equivalent to Rs 108,062 million was agreed to be financed by World Bank. The Project had commenced its activities on 09th May 2022 and scheduled to be completed by 09th November 2023.

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

Utilization of Funds

The following observations are made.

Audit Issue	Response of the Management	Auditor's Recommendation
(a) After paying the beneficiary allowances from the advance money given to the Department of Samurdhi Development, the remaining amount of Rs.1,096 million and Rs.93 million due to over estimate was settled on 29 December 2022 and 18 April 2023 with a delay of 4 months and 8 months respectively.	Agree with your observation.	Funds should be used efficiently to achieve project objectives by using the accurate data.
(b) The total estimated cost of the Project was Rs.108,225 million which was equivalent to US \$ 325 million, and it was for the activities to be carried out in the year 2022. Total utilization of the funds of the project during the year under review was US\$ 274.37 million equalent to Rs.99,903 million which was 84 percent of the estimated cost of the project.	Agreed.	It is required to take necessary action to achieve all targets as intended and to utilize allocated funds in maximum.
(c) According to the Government Debt Management Information System in Department of External Resources, US\$ 6,934.5 equivalent to Rs.2.26 million had been paid to Lending Agency as Commitment Charges on undisbursed loan amount. The Commitment charges amounting to Rs. 2.26 million had been paid to the lending agency uneconomically.	The sum of USD 500 Mn has been allocated to Ministry of Transport and Highways under the Inclusive Connectivity Development Project (ICDP). However, due to the emergency situation of the country, a sum of USD 325 Mn was re-allocated by activation of the Inclusive Connectivity Development Project (ICDP) – CERCs with the aim of minimizing the impact of the economic crisis and restoring the social stability which was implemented by this department. Accordingly, it is observed that the commitment charges amounting USD 679,985.04 which has been mentioned in the Audit	Action should be taken to utilize the total allocated funds.

observations has been paid for the entire ICDP project (Including the project implemented by the Ministry of Transport & Highways).

3. Physical Performance

Component / Activity / Sub Activity	As at 31 December 2022		Audit Issue	Response of the Management	Auditor's Recommendations
	Expected Physical Performance	Performance Achieved			
Agriculture & Food Security Fertilizers	Purchase 150,000 MT Urea fertilizer and distributed them through Agrarian Service Centers during 2022/23 Maha season for No. of 1,000,000 farmer beneficiaries.	By the end of December 2022, 107,713 metric tons of Urea had been procured.	Although, the project has expected to procure the quantity amount 150,000 tons of Urea fertilizer during the year under review, the total number of 107,713 tons only has been procured in the year 2022 and further number of benefited farmers to whom the fertilizer stock was distributed have not been submitted to the audit.	Based on the decision taken at the meeting held on 08.03.2023 with the chairmanship of the Secretary, Ministry of Agriculture and participation of officials of the Department of National Planning and the World Bank, a letter was sent to the Secretary, Ministry of Agriculture on 10.03.2023 requesting information on the use of beneficiary farmers benefited from the fertilizer distribution for Maha season 2022/23.	It is required to take necessary action to achieve the targets as intended and evidence should submit to the audit.