

Social Safety Nets Project - 2022

The audit of financial statements of the Social Safety Nets 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 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 the International Development Association. 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 is the Executing and Implementing Agency of the Project. The objectives of the Project are to contribute to the improved equity, efficiency and transparency of the Social Safety Nets Programmes for the benefit of poor and vulnerable groups in Sri Lanka. The activities of the project consisted with 03 components. As per the Financing Agreement, the estimated total cost of the Project was US\$ 75 million equivalent to Rs 10,949 million and entire cost of the Project was agreed to be provided by the International Development Association. The Project had commenced its activities on 01 January 2017 and scheduled to be completed by 30 June 2022 and extended up to 30 June 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

2.1 Financial Activities of the Project

The following observations are made.

Audit Issue	Response of the Management	Auditor's Recommendation
(a) The ledger accounts of the Project had not been maintained properly.	Agreed. Noted to correct as per the observation in future.	Ledger accounts should be prepared correctly.
(b) The three items amounting to Rs.174 million which was related to the previous years had been adjusted to the statement of financial position of the year under review, however it had not been recorded in the relevant ledger accounts.	The amount received on completion of DLI related to component one and two in 2019 and 2020 has been corrected as per the Department of External Resources report.	Relevant adjustment entries should be recorded properly.
(c) Although this project was scheduled to be completed on 31 March 2022, due to the extension of more than one year until June 2023, it was observed that the additional administrative cost for the	Agreed. But project was extended up to June 2023 and it is not an additional administration cost as per the loan agreement.	Cost efficiency should be ensured.

project for the period from April 2022 to March 2023 has been done and it was amounting to Rs.9.7 million. Out of that amount, Rs.7.5 million or 78 percent was paid for personal wages and overtime allowances for the project staff.

2.2 Utilization of Funds

Audit Issue	Response of the Management	Auditor's Recommendation
(a) The Commitment charges amounting to Rs. 115 million had been paid to the lending agency uneconomically.	Noted	Action should be taken to utilized the total allocation funds.
(b) The total estimated cost of the project was US\$ 75 million, In which there was a provision of US\$ 12.7 million for the activities to be carried out in the year 2022. US\$ 0.122 million equal to Rs.31.82 million had been utilized as at 31 December 2022, which was only 0.96 Percent of the estimated utilization of allocation for the year 2022.	Not commented	It is required to take necessary action to achieve all targets as intended and to utilize allocation funds in maximum.

3. Physical Performance

Component / Activity / Sub Activity	Expected Physical Performance as at 31 December 2022	Audit Issue	Response of the Management	Auditor's Recommendations
03 – Support for Implementation, Monitoring and Planning.	Selection of suitable number of families to provide subsidies in a transparent, fair and efficient manner covering all Divisional Secretariats in the island.	(i)The agreement was entered into with the relevant contractor company on 10 August 2022 to prepare the Integrated Social Welfare Management System to achieve the expected performance. As per the agreement, this work should be completed by 10 April 2023 and the project period is scheduled to end on 30 June 2023. Although this Computer System had not been completed up to 23 June 2023.	Initial process was changed due to the system implementation before completion of IWMS development modules. Data collection was done using the system developed in-house. Decision was taken by the WBB to migrate existing system into IWMS and use all modules for Identification of persons Eligible to Receive Welfare Benefit Payments.	It is required to take necessary action to achieve all targets as intended.

(ii) The contract of Rs. 25 million was awarded to a private company for the preparation of Integrated Social Welfare Management System (IWMS). The performance guarantee presented in relation to this contract had expired on 31 March 2023, and had not been extended. The financial Performance for this System is Rs.4.5 million or 20 percent of the total contract value as at 23 June 2023.

Performance bond doesn't require the consultancy service. The consultancy procurement guideline also mentioned the above requirement. Accordingly, at the time of requested EOI and REP both documents were not requested for a performance bond. However even after awarding the contract SSNP requested the performance bond from the consultant as a measure of initial reliability for the completion of the contract upon over request they provided it for the consultancy period.

It is required to take necessary action to obtain performance guarantees as requested and achieve all targets as intended.