Social Protection Project - 2024

The audit of financial statements of the Social Protection Project (the Project) for the year ended 31 December 2024 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 the provisions in the Loan Agreement No. 7363-LK dated 21 September 2023 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, Planning and Economic Development is the Executing Agency and the Welfare Benefits Board is the Implementing Agency of the project. The objectives of the project are to support Sri Lanka in providing better targeted income and livelihood opportunity to the poor and vulnerable and improving the responsiveness of the social protection system. The activities of the project are implemented under 03 components namely Cash transfers, Pilot to enhance Opportunities for poor and Vulnerable Households, Project management and Strengthening the Social Protection System and Project management for Ministry of Women, Child Affairs and Social Empowerment. As per the Loan Agreement, the estimated total cost of the Project was US$ 192 million equivalent to Rs.61,399.68 million agreed to be financed by the International Development Association. The Project had commenced its activities on 14 December 2023 and scheduled to be completed by 21 September 2027.

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 2024, financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

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 Responsibility of the 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 Sri Lanka Public Sector Accounting Standards, 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. Financial Performance

2.1 Financial Progress of the Activities of the Project

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	The revised allocation of the component 01 of the Project for the year 2024 was Rs.27,390 million, while actual expenditure was totaling Rs.19,949 million. This resulted in an unutilized balance of Rs.7,441 million, representing	Agreed.	Actions must be taken to ensure that the allocated budget is effectively utilized for the timely completion of the Project.

	approximately 27 percent of the allocated funds. The variance reflects a significant overestimation of the reimbursable amount.		
(b)	Out of Rs.148,260 million transferred to beneficiaries by the Welfare Benefits Board in 2024, a sum of Rs.415 million had been returned due to various reasons, including incorrect bank account numbers, closed or restricted accounts, and other related issues. This also contributed to the reduction in the reimbursable amount.	Agreed.	Need to strengthen the beneficiary data management system and establish an effective mechanism for monitoring and follow-up.
(c)	Under Component 3.1 of the Project, a revised allocation of Rs.430 million was set aside for the year 2024, while the advance provided by the World Bank amounted to Rs.70 million. However, actual expenditure stood at Rs.57.8 million, resulting in an unutilized balance of Rs.12.2 million, which represents approximately 17 percent of the allocated amount.	Agreed.	Actions must be taken to ensure that the allocated budget is effectively utilized for the timely completion of the Project.
(d)	Under the expenditure activities for Project management and strengthening the social security system, funds were disbursed across 15 activities. Of these, 9 activities retained more than 70 percent of the allocated funds. This was primarily due to delays in procurement processes within the expected timeframe, failure to implement the planned capacity-building programs, and the non-utilization of entire allocation of Rs.200 million for the Enumeration Fee.	Agreed.	Necessary actions should be taken to expedite the procurement process and other related activities to ensure the effective utilization of funds.
(e)	For the year 2024, a total amount of Rs.4,668,724 is comprising Rs.3,659,532 for building rent, Rs.545,492 for the provision of cleaning services and Rs.463,700 for fuel for vehicles had been incurred by the Project. However it was observed that, these expenses are generally covered both the Project and the Welfare Benefits Board.	Agreed.	The internal controls over payments should be strengthened.

3. Physical Performance

3.1 Physical Progress of the activities of the Project

	Component/ Activity / Sub Activity	Expected Physical Performance as at 31 December 2024	Audit Issue	Response of the Management	Auditor's Recommendations
(a)	Component 3.1 - Project Management and Strengthening the Social Protection System	Developed 12 modules of the Integrated Welfare Management System	By the end of the extended contract period of one year for the IWMS system, which had an estimated contract value of Rs.25 million, only 8 out of the 12 modules had been developed. However, Rs.15 million or 60 percent of the contract value had already been paid. The remaining 4 modules, with an estimated value of Rs.10 million, had not yet been developed.	Agreed.	The Project must strictly enforce contractual obligations and expedite the completion of the remaining modules.
(b)	Component 1 - Cash Transfers	By December 2024, all eligible beneficiaries had been registered in the Integrated Welfare Management System.	According to the information provided by the Welfare Benefits Board, a total of Rs.12,630 million had been paid among 2,233,159 system-registered low-income and elderly benefit recipients, while Rs.2,389 million was paid among 520,707 non-system-registered beneficiaries in the month of December 2024 which representing 19 percent of the total payments. However, action had not yet been taken to register all the beneficiaries in the system.	All the components of the IWMS system procured by the Social Safety Net Project had not been completed to register categorical beneficiaries. Therefore, the Social Protection	Measures should be implemented to register all beneficiaries within the system and to ensure that all payments are executed solely through the established system.

				Project has signed an agreement with System Developer to carry out modifications and maintenance of the system, under three priorities namely P1, P2, P3 to accommodate re-enumeration and registering of elderly, Chronic Kidney Disease of Unknown etiology and disable beneficiaries with the IWMS.	
(c)	Component 3.1 - Project Management and Strengthening the Social Protection System	The agreement of IWMS should be clearly incorporated on system maintenance and responsibilities and post-expiry services	The agreement related to the system development (IWMS) did not contain provisions concerning system maintenance or delineation of responsibilities. However, even after the expiration of the agreement, the developer continued to provide services for a period of 7 months without a formal agreement.	Agreed.	Actions should be taken to ensure that all services are procured under formal contractual agreements.
(d)	Component 3.1 - Project Management and	The IWMS system should be implemented within the	The IWMS system had been planned to fully implement during the extended phase of one year the Social Safety Net Project funded by a World		

Strengthening the Social Protection System	Project period	Bank loan and initially planned as a five-year initiative. Although the system was expected to be operational within the Project period, a feasibility study had not been conducted, a clear timeline had not been established, and the responsible officials did not adequately plan or execute the necessary actions. As a result,		
		(i)The system remains incomplete and had not met its intended objectives.	Agreed.	A well-structured plan must be developed and adhered to in order to successfully achieve the desired objectives of the project.
		(ii)The Welfare Benefits Board entered into a new agreement with the developer of the IWMS system on 16 January 2025 for system maintenance and customization, at a cost of Rs.26 million. This expenditure was also planned to fund by the Project. Accordingly, the total cost for the development of the system had increased to Rs.41 million, with the additional Rs.26 million representing a 63 percent increase over the original cost.	Agreed.	A well-structured plan must be developed and adhered to in order to successfully achieve the desired objectives of the project.
		(iii)According to information available to the audit, a new system titled “Social Protection Information Management System” is planned to replace the IWMS starting from 2026. This system is intended to function as a sustainable Social	Agreed.	A well-structured plan must be developed and adhered to in order to successfully achieve the desired objectives

			Protection Information Management System, integrating all relevant platforms and incorporating modern technologies and methodologies in alignment with national digital economy policies. Accordingly, there is a risk that the costs incurred and efforts invested in the development and customization of the IWMS may become redundant.		of the Project.
(d)	Component 3.1 - Project Management and Strengthening the SP system	The audit had been carried out as planned.	The system audit intended to identify the weaknesses of the IWMS system and the improvements required in the future was not carried out as planned in 2024.	After the completion of the contract, a consultancy firm to be selected to conduct an assessment and a system audit for the existing IWMS system. Further, the World Bank approval has been received for procurement of a consultancy firm and the procurement process has already been started.	System audit should be conducted without further delay.

3.2 System and Controls

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	A proper mechanism had not been established within the system to connect with the data systems of other relevant government institutions such as the Department of Inland Revenue, Land Registry Department, Department of Motor Traffic, financial institutions, the Credit Information Bureau of Sri Lanka, the Department of Immigration and Emigration for the purpose of verifying beneficiary information.	Noted. We have requested our needs to the Department of Motor Traffic and several rounds of discussions were also conducted in this regard. However, they has not responded so far positively to the request made. However, with the new Social Protection Information Management System we will be able to integrate with other institutional services.	A secure data integration mechanism needs to be developed and implemented in coordination with the respective government institutions.
(b)	At the end of the year under review, 40% of the grievances received through the grievance redress mechanism remained unresolved. Furthermore, only 24 out of 341 Divisional Secretariats had submitted information to the Welfare Benefits Board for data updates and revision of beneficiary records. This resulted in delays in the selection of eligible beneficiaries. Consequently, the Project funds allocated for these activities were not utilized effectively.	Agreed.	The mechanism for handling grievances needs to be improved, and coordination with the Divisional Secretariat should be enhanced to ensure the timely submission of beneficiary data.