

Food Security and Livelihood Recovery Emergency Assistance Project - 2024

The audit of the financial statements of the Food Security and Livelihood Recovery Emergency Assistance 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. 4205-SRI dated 09 September 2022 and Grant Agreement No. 9229-SRI (EF) 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 Financing Agreement of the Project, the Ministry of Finance, Planning and Economic Development 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 Financing Agreement, the estimated total cost of the Project was US\$ 203.36 million equivalent to Rs.74,090.15 million and out of that US\$ 203 million equivalent to Rs.73,958.99 million was agreed to be financed by Asian Development Bank. The balance amount of Rs.131.16 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 30 August 2022 and scheduled to be completed by 29 February 2024. However, the date of completion of the activities of the project had been extended up to 29 August 2026.

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 flow 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 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 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 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 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) According to the budget estimate for the year 2024, a total allocation of Rs.2,290,000,000 was made under 05 expenditure subjects to carry out the activities of the Project. However, a total of Rs.1,486,457,820 was subsequently transferred under Financial Regulation 66. Out of this Rs.1,411,439,058 was reallocated to expenditure subjects within the same project, while Rs.75,018,762 was transferred to other projects implemented under the Department of National Planning. This indicates that the budget estimates prepared for the implementation of the Project activities during the year under review were not realistic.	Due to the 2024 Presidential and General Elections, project activities were delayed. As a result, 3.27% of the project's allocation was reallocated to another departmental project to optimize resource use.	The prompt actions should be taken to ensure that budgetary provisions are realistic and appropriately utilize in order to achieve the objectives of the Project.
(b) Furniture and office equipment valued at Rs.4,625,366, as reported in the audited financial statements for the year 2023, had not been carried forward at the corresponding value in the financial statements for the year under review. Instead, a similar amount was incorrectly classified and recorded under vehicles in the statement of financial position.	Comments had not been received.	Assets should be accurately classified under the appropriate asset category.

2.2 Utilization of Funds

Audit Issue	Response of the Management	Auditor's Recommendation
(a) The loan amount of US\$ 200 million had been provided by the Asian Development Bank for this Project. A provision of US\$ 1.25 million or Rs.365.20 million was made to carry out the Capacity development of officer's island wide under the improvement of livelihoods of low-income families for the year 2024, but only Rs.11.33 million equal to US\$ 0.03 million had been utilized to perform related activities in the year 2024. It shows only 3 percent of the estimated cost for the year 2024.	An amount of Rs.365.20 million has been allocated for capacity development of officers under the Food Security and Livelihood Restoration Emergency Assistance Project implemented the Department of Samurdhi Development. Only Rs.119 million has been approved for officer training referred to this department on 31.07.2024.	Special attention should be made to optimize the utilization of allocated funds and prevent underutilization.
(b) In addition to the loan amount of US\$ 200 million provided by the Asian Development Bank for this project, the Japan Fund for Poverty Reduction (JFPR) through the Asian Development Bank had agreed to provide a grant of US\$ 3 million for the financing of related project activities. A provision of US\$ 1.57 million or Rs.460.07 million had been made for the year 2024 from that grant, however only Rs.281.28 million equal to US\$ 0.83 million had been used to perform related activities in the year 2024. It shows only 61 percent of the provision for the year 2024.	Due to the presidential and general elections, the activities of this project did not proceed as planned.	Appropriate measures to be taken ensure to maximize the utilization of grant.

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| (c) | According to the Government Debt Accounting System of the Department of External Resources, an amount of Rs.4,335,889 equivalent to US\$ 13,845 had been paid as Commitment Charges to the lending agency on 31 December 2024. | Agree | Appropriate measures to be taken ensure to maximize the utilization of grant. |
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3. Physical Performance

3.1 Physical Progress of the Activities of the Project

Audit Issue	Response of the Management	Auditor's Recommendations
(a) Asian Development Bank Loan An estimated cost of US\$ 2.65 million or Rs.965.47 million had been allocated to develop Customer Relationship Management (CRM) system in Department of Samurdhi Development (DSD) and "Geogovia" system in Department of Agrarian Development (DAD). However, those allocated funds had not been utilized as at 31 December 2024.	Customer Relationship Management (CRM) System The process of selecting a company to provide services has not yet been completed after the termination of the service agreement for CRM in November 2022. Hence, the amount allocated for CRM has not yet been utilized. Geo-Govia System Only the first phase of the Geo-Govia database, managed by the Department of Agrarian Development, is currently operational.	The Project should expedite the implementation process by taking necessary and timely actions.
(b) A provision of Rs.448.33 million had been allocated under the Emergency Assistance Program for vulnerable groups, including women, children, and persons with	The Project faced delays due to the presidential and general elections. Additionally, the original Ministry of Women,	Appropriate measures to be taken to optimize the utilization of allocated funds.

disabilities. However, only Rs.276.88 million equivalent to 62 percent of the allocated provision had been utilized during the year, indicating underutilization of the allocated funds.

Children's Affairs and Social Empowerment was later split into two separate ministries. The allocated funds remained unutilized because the Procurement Committee of the Ministry of Women and Children's Affairs did not submit the necessary procurement decision.

- (c) The Department of Probation and Child Care Services had purchased 100 desktop computers and 100 printers out of the funds of the project and distributed to 100 Child Development Centers across 9 provinces, aiming to fulfill the basic needs and support the physical development of these centers. Eastern province had not submitted documentation regarding the distribution to their respective Provincial Departments of Probation. Furthermore, there was no documentary evidence submitted to the audit, confirming that these devices had been entered into the inventory of the respective Child Development Centers. Additionally, although 3 desktop computers and 3 printers had been provided to a closed-down Paraththa Research and Training Center where no research or training activities are currently being conducted. As a result, the equipment had remained idle and unused since the date of handover.
- Still Ministry had not received distribution details from Eastern Province.
- Project fund should be utilized effectively.
- According to the Department of Probation and Childcare Services (DPCCS), Paraththa Research & Training Centre is still on renovation and is to be open near future. Also, MWCA has supplied 03 PCs and 03 Printers to said centre as instructions received from DPCCS.