

Social Safety Nets Project - 2018

The audit of financial statements of the Social Safety Nets Project for the year ended 31 December 2018 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 International Development Association. My comments and observations which I consider should be reported to the 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 objective of the Project is to contribute to the improved equity, efficiency and transparency of the social safety net programmes for the benefit of the poor and vulnerable groups in Sri Lanka. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 75 million equivalent to Rs.11,212 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 March 2022.

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 2018, financial performance and its cash flows 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 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 misstatements, 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. Physical Performance

2.1 Physical progress of the activities of the Project

The operations of the Project are conducted under 03 Components such as Building a Unified Social Registry, Integrated Service Delivery Systems and Support for Project implementation, monitoring and planning. The following observations are made on the physical progress on activities implemented by the Project.

Component	Activity	Audit Issue	Impact	Response of the Management	Auditor's Recommendation
(a) Unified Social Registry	Establishment of the Welfare Benefits Board.	Eventhough the Welfare Benefits Board had been established, it was not functioned as expected.	Intended benefits will not be received by the intended parties.	Due to delays in recruiting of key persons, the Welfare Benefits Board could not be functioned.	Action should be taken to educate responsible parties and recruit suitable persons to the Board.
(b) Unified Social Registry	Building of a Unified Social Registry.	For the purpose of amalgamating data of all current and former beneficiaries had not been established.	The activities of the Project will be completed with delays.	Due to delays in procuring of a Systems Developer for the Social Registry information system.	Prompt action need to be taken to establish the Unified Social Registry as it is the core of the reformed the welfare system.
(c) Integrated Service Delivery System	Developing of an Integrated Service Delivery System.	Eventhough the activities for developing of Welfare Benefit schemes had been initiated during the year under review, the collection of data relating to Samurdhi beneficiaries to the Social Registry Information system had not been commenced. According to the Project appraisal document, it least 10 per cent of Divisional Secretaries were expected to provide access facilities to the Management Information System. However, no such activities had been done during the year under review.	The activities of the Project will be completed with delays.	The Project could not achieve this target and conducted the preliminary activities to gather relevant information.	It is required to make influence to the Systems Developer through Information and Communication Technology Agency of Sri Lanka to complete the system development activities.
(d) Integrated Service Delivery System	Establish a Project Technical Cell at the Line Ministry	No action had been taken by the Project to establish the proposed Technical Cell.	The activities of the Project will be delayed.	Not properly explained.	As planned, the action need to be taken to establish.

2.2 Contract Administration

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
An independent third party had not been appointed to verify the performance of Disbursement Link results.	Without certification on third party, the International Development Association will not be released loan installments.	This task was delayed, due to delaying the Social Registry Information System.	According to the Project Operation Manual, the action should be taken to appoint an Independent Third Party.