

Fiscal Management Efficiency Project - 2018

The audit of financial statements of the Fiscal Management Efficiency 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 4.05(a) of Article IV of the Loan Agreement No. 2624 dated 07 June 2010 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank (ADB).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, then Ministry of Finance and Planning presently, the Ministry of Finance is the Executing Agency and is the Implementing Agency of the Project. The objectives of the Project is to enhance the Borrower's fiscal space and efficiency in the public financial management system. As per the Loan Agreement, the estimated total cost of the Project was US\$ 40.8 million equivalent to Rs. 5,344.8 million and out of that US\$ 30.8 million equivalent to Rs. 4,034.8 million was agreed to be financed by Asian Development Bank. The balance amount of Rs. 10.00 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 01 May 2010 and scheduled to be completed by 31 October 2013. However, the date of completion of the activities of the Project had been extended up to 31 October 2018.

1.3 Opinion

In my opinion, the 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 Sri Lanka 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 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.

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. Physical Performance

2.1 Physical progress of the activities of the Project

The activities of the Project are implemented under two components of establishment of the Integrated Treasury Management Information System and Capacity Development. The following observations are made.

Component	Audit Issue	Impact	Response of the Management	Recommendation
Integrated Treasury Management Information System	The activities under the contract for designing, installation and operations of the Integrated Treasury Management Information System was scheduled to be completed by 13 January 2016. However, the Information System was not functioned to share the information of Government Spending Agencies with the General Treasury even as at 31 December 2018.	Additional funds need to be allocated from the Government of Sri Lanka to complete the works.	The reasons such as extensive customization requested to the system by Ministry of Finance, slow adaptation to the new system by the Ministries and Departments in system implementations made by the contractors etc had caused the delays.	Prompt action need to be taken to rectify the system errors and provide staff training which essential for the implementation of the System in effective manner.

2.2 Underutilized Resources

Audit Issue	Impact	Response of the management	Recommendation
It was observed that 1,000 personal computers procured at a cost of Rs.186.53 million and distributed to the Government Spending Agencies were not used for intended purposes.	Possible usage for other purposes, misuses and damages	No comments received.	The assets procured by the Project need to be used for intended purposes. Further, period of warranties need to be revised as enable to minimize the losses.