

## **Social Safety Nets Project - 2019**

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The audit of financial statements of the Social Safety Nets Project for the year ended 31 December 2019 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**

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According to the Loan Agreement of the Project, then Ministry of Finance presently the Ministry of Finance, Economy and Policy Development 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 Nets project for the benefit of the poor and vulnerable groups in Sri Lanka. The activities of the Project consisted with 03 components and the opinion reports have to be presented separately on the performance of the Components of the Project, as required by the Paragraph 4.2.3 of the Project Operational Manual. As per the Loan Agreement, the estimated total cost of the Project was US\$ 75 million equivalent to Rs.11, 212.50 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 31 March 2022.

### **1.3 Opinion**

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In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019, statement of expenditure and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

### **1.4 Basis for Opinion**

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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 this 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**

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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**

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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. Comments on Financial Statements

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### 2.1. Non – Compliance with Laws, Rules and Regulations

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Reference to the Laws Rules and Regulations	Non- compliance Issue	Impact	Management Response	Recommendation
Financial Regulation No.757	Board of surveys on Property, Plant and Equipment procured at a cost of Rs.14.26 million had not been carried out during the year under review.	Existence of such assets located at the Project Monitoring Unit and the Divisional Secretariats could not be verified in audit.	Board of survey was carried out by the MoF and the report was given to annual audit on 13 <sup>th</sup> February 2020.	Board of Survey need to be conducted to ensure the existence of the Property, Plant and Equipment shown in the financial statements.

## 3. Physical Performance

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### 3.1 Physical and Financial Progress of the activities of the Project

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The activities of the Project are implemented under 03 components namely,

- (a) Building a Unified Social Registry,
- (b) Introducing an Integrated Service Delivery System and
- (c) Support for Project Implementation Monitoring and Planning.

According to the information made available, overall physical progress of the Project had remained in unsatisfactory level. The following observations are made thereon.

<b>Components</b>	<b>Activities</b>	<b>Audit Issues</b>	<b>Impacts</b>	<b>Management Responses</b>	<b>Auditor's Recommendations</b>
(i) Building a Unified Social Registry	Establishment of the Welfare Benefits Board and fully functional	Even though the Welfare Benefits Board had been established in year 2017; it was not functioned as expected. Further it was revealed that the Chairman of the Board was resigned from his post on 06 December 2019 and the new Chairman had not been appointed even on the date of audit on 26 May 2020.	The intended benefits will not be received to the stakeholders.	Agreed. Chairman of Welfare Benefits Board resigned due to request made by The Secretary to the Treasury for Resignation from Boards of State Enterprises, Government Owned Companies & Statutory Agencies. Further Welfare Benefits Board chairman has been appointed based on the Constitutional Council approval. Therefore, the position of Chairman will not be appointed until the new Constitutional Council approval.	Need to take immediate action to appoint a Chairman and to fill vacancies in key positions to ensure the smooth operation of the Welfare Benefits Board.
(ii) Building a Unified Social Registry.	A formal policy on entry and exit for the Welfare Benefits Scheme programmes	Even on the date of audit, 26 May 2020, the Project could not be obtain approvals from the Parliament and Legal Draftsmen's Department for the	International Development Association would not release a sum of US\$ 2.5 million on loan installment. during	Due to the dissolution of the parliament from November 2019 regulation was unable to be submitted for approval.	The action is required to be taken to influence the relevant parties to approve the Gazette notification of Welfare

	approval and publishing.	new Welfare Benefits Scheme.	the year under review, and the intended benefits will not be received to the stake holders.		Benefits Scheme	
(iii)	Building a Unified Social Registry.	Social Registry information system active and operational.	According to the information made available the contract for development of a Social Registry Information System was awarded to a private party on 31 October 2017 and expected to be completed by 31 March 2018. However, this software development activity had not been completed even the date of audit on 26 May 2020.	The period of the contract had to be extended and it will affect to the overall time schedules of the Project, As a result of this the International Development Association had not been released a sum of US\$ 08 million during the year under review.	Development of Social Registry Information System has been Completed by 31 December 2019.	As there is no evidence on completion of Development of Social Registry Information System, prompt action need to be taken to establish a Unified Social Registry
(iv)	Building a Unified Social Registry.	Welfare programme budget under Welfare Benefits Scheme.	Due to incomplete development of the Social Registry Information System and delay in obtaining approvals from the Parliament for a new Welfare Benefit Scheme with this activity which had not been conducted during the year under review.	The International Development Association had not been released a sum of US\$ 03 million as a loan installment during the year under review.	Data migration process (Samurdhi, Disability, Elderly and Kidney) is in progress. Data verification process to be commenced immediately after the migration. 04 District Secretariat divisions have been selected for the data verification selection criteria testing through the Social Registry Information System.	Action should be taken to educate responsible parties and close supervision is needed on the activities implemented by the Project.

(v) Integrated Service Delivery System.	Social registry populated with current data on beneficiaries of programmes under the Welfare Benefit Scheme	Due to incomplete development activities of the Social Registry Information System, the data entry process had not been commenced.	The activities of the Project will be completed with delays. The International Development Association would not release a sum of US\$ 04 million on loan installment during the year under review.	Development of the Social Registry Information System. was unable to complete by 31 December. Data migration is in progress.	Action should be taken to educate responsible parties and close supervision is needed on the activities implemented by the Project.
(vi) Integrated Service Delivery System.	Welfare Benefits Scheme beneficiaries under the eligibility criteria.	Eventhough the eligibility criteria had been notified in Gazette published in 20 June 2019, the Parliament had not been approved this Gazette. The implementation of the criteria – based selection had not been commenced.	The intended benefits will not be received by the stake holders as a result of this, the International Development Association had not been released a sum of US\$ 05 million on the loan installment, during the year under review.	Since the dissolution of the parliament the Gazette could not be approved. This Disbursement Link Result target has been changed in restructured document.	Action should be taken to educate responsible parties and close supervision is needed on the activities implemented by the Project.
(vii) Integrated Service Delivery System.	Divisional secretariats using the Integrated Management Information System for programme delivery.	This activity had not been started even on the date of audit, 26 May 2020 due to incompleteness of Social Registry Information System.	The activities of the Project will be completed with considerable period of delays. As result a sum of US\$ 06 million had not been released by the International Development Association on the loan installment	Out of 332 District Secretariat divisions, 92 District Secretariat divisions completed for technical training.184 Welfare Benefit Information Unit officers have been trained. Due to the Covid pandemic	Action should be taken to educate responsible parties and close supervision is needed on the activities implemented by the Project.

during the year under review. balance training sessions got postponed.

### 3.2 Contract Administration

#### Audit Issues

#### Impacts

#### Management Responses

#### Auditor's Recommendations

(i) According to the information received, the contract for conduct a comprehensive assessment on existing social protection strategy and developing the national social protection strategy for Sri Lanka was awarded to a consultancy firm at an estimated cost of Rs. 141 million on 22 January 2019 and expected to be completed by 01 September 2019. According to the information made available, the respective works were not completed even on the date of audit, 26 May 2020. However, a sum of Rs. 1.46 million had been paid to the consultancy firm at the end of the year under review.

The expected benefits will not be received to the stakeholders.

Agreed. Development of National Social Protection Strategy has been delayed due to various reasons. But the contract amount should be corrected as Rs.14.1 Mn. It took more than four months to review the draft assessment report provided by MultiTech solutions. Gaps have been identified by the Department of National Planning and comments to be discussed in the common forum with consultant and review committee immediately.

Action should be taken to educated responsible parties on this regard and action should be taken to expedite the activities.

- (ii) The contract for the preparation of Business Continuity and Disaster Recovery Plans for Social Registry Information System had been awarded to an individual consultant at an estimated cost of Rs. 6.25 million. According to the agreement, the report should be submitted on 14 February 2019. However, the report had been submitted on 08 July 2019 with a delay of 05 months. Eventhough the development of the Social Registry Information System had not been completed, and a sum of Rs. 4.36 million had been paid to the consultant at the end of the year under review.
- The intended benefits could not be reached. Agreed. The report was given by 09 July 2019 and the payment of Rs. 2.5 mn was made on 24 July 2019. The action is required to be taken to influence the contractors to comply the requirements of the contract agreement.

### 3.3 Observations made on site visits

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Audit Issue -----	Impact -----	Management Response -----	Auditor's Recommendation -----
It was observed in site visits made by the auditors in Divisional Secretariats in Colombo District that the technical training programmes conducted with a cost of Rs. 1.7 million were fruitless, due to most of the officers who have under gone such training on Social Information Registry System had been transferred to other Departments and Ministries.	Wasteful expenses	It was decided to employ dedicated officers for the WBIU to manage Social Registry Information System at the Project Technical Committee. Also discussion was held with Ministry of Home Affairs to find a sustainable solution.	The activities of the Project should be properly planned in order to achieve the objectives of the Project



### 3.4 Underutilized Resources

Audit Issues	Impacts	Management Response	Auditor's Recommendation
<p>(i) It was observed that 332 Laptop Computers procured at a cost of Rs. 29 million through Information and Communication Technology Agency and distributed to the Divisional Secretariat's in year 2017 were not use for intended purposes due to incompleteness of Social Registry Information System. Further it was revealed that the warranty period of the above computers had been expired without being used.</p>	<p>(a) Possible usage of Laptops for other purposes.</p> <p>(b)Asset procured not utilized for intended purposes.</p>	<p>Project involvement for purchasing and delivering laptops is zero. Funds have been allocated to the Information and Communication Technology Agency by the Ministry of Finance to develop Social Registry Information System and provide required resources to Divisional Secretariats to access the system.</p> <p>332 laptops have been provided by Information and Communication Technology Agency to Divisional Secretariats level. These laptops along with the warranty information are under the custody of Divisional Secretaries. We observed that officers who are attached to WBIU using those laptops at the training sessions conducted by Social Safety Nets Project. Further we are maintaining a record of the laptops handed over to them.</p>	<p>Need to maintain proper coordination with Divisional Secretariates.</p>
<p>(ii) According to the financial targets stipulated in the Project Operational Manual, it was expected to be granted US\$ 31 million equivalents to Rs. 5622.78 million at the end of the year under review and only US\$ 2.5 million equivalents to Rs. 457.95 million or 08 per cent of the respective target had been achieved as at 31 December 2019.</p>	<p>Entire allocation of funds would not be utilized at the end of the period of the Project.</p>	<p>In March and May 2020 we have received US\$ 5Mn and US\$ 45Mn respectively resulting in a cumulative progress of 72%.</p>	<p>Action should be taken to adhere with targets stipulated in the Project Appraisal Manual.</p>

### 3.5 Procurement Management

<b>Audit observation</b>	<b>Impact</b>	<b>Management Response</b>	<b>Auditor's Recommendation</b>
The procurement of supplying, installing, commissioning, testing and training of 331 Digital Multifunction Photocopiers and supply and testing of 356 Laptop Computers for Social Safety Information Units had been cancelled during the year under review.	It will affect to the expected results and the outcome of the Project.	Equipment was to be run online at Divisional Secretariat Division level. Due to delay in installation of Social Registry Information System decision has taken by Project Steering Committee to hold this procurement.	Action should be taken according to the plan.

### 3.6 Issues Relating to the Project Management Unit

<b>Key Cadre Position</b>	<b>Period of the service in the Project Management Unit</b>	<b>Whether Employed in Other Entities</b>	<b>Impact</b>	<b>Management Response</b>	<b>Auditor's Recommendation</b>
Project Director	From May 2018 to date	National Institute of Language Education and Training	The operation of the activities of the Project will be affected.	Chairman position at National Institute of Language Education and Training is not a permanent position.	Need to be comply with the circular instructions.

### 3.7 Issues Related to Human Resources Management

Cadre position	Cadre Approval	As at 31 December 2019		Impact	Management Response	Recommendation
		Actual Cadre	No of Vacancies			
Social Protection Capacity Development Manager	01	0	01	(a) Activities of the Project may not be properly coordinated, implemented and monitored	Application was called and interviews held according to election regulations.	The staff members are needed to be recruited as per circular instructions, to continue smooth operations of the Project.
IT Manager	01	0	01	(b) Performance of the Project will be affected due to fail to fill the 07 vacancies of key posts.	Recruited in January 2020	
Social Protection Capacity Development Officer	01	0	01		Application was called and interviews held according to election regulations.	
Development Officer	01	0	01		Recruited in March 2020	
Communication Officer	01	0	01		Recruited in March 2020	
Driver	04	02	02		Two drivers are sufficient. Cadre should be revised.	
<b>Total</b>	<b><u>09</u></b>	<b><u>02</u></b>	<b><u>07</u></b>			

Audit issue	Impact	Management Response	Recommendation
Even though a Project Director had been appointed to the Project on a permanent basis and paid a sum of Rs. 3.97 million as salary for the period from June 2018 to 31	The operation of the activities of the Project were severely affected.	Project Director was appointed on full time basis as a result of decision taken by cabinet based on the Management Circular 01/2019 para 2.2.4. His extension for the period from 23 <sup>rd</sup> May 2019 was also approved by Cabinet on 19 <sup>th</sup> July 2019. Appointment of Chairman for National Institute of Language Education and Training (NILET) was done based	Need to be comply with the circular instructions.

December 2019. It was observed in audit that he had obtained a sum of Rs. 1.79 million as salary for the same period without terminating his prior appointment as the Chairman of the National Institute of Language Education and Training.

on the PED circular 03/2015 and he was entitled for an allowance.

Two letters have been issued with regard to the payment for Project Director and being the Chairman.

One sent by Project Director to Director General of Department of State Enterprise request for advise to withdraw payments for both positions on 31<sup>st</sup> July 2018. The second letter was sent by Director General of National Institute of Language Education and Training to Director General of Department of State Enterprise on 23 September 2019 inquiring the same. No response had not been received so far.

Hence we have to make the payment to Project Director as per the Management Circular 01/2019 obeying his appointment and extensions thereafter made by Cabinet of Sri Lanka.