

Social Safety Nets Project - 2021

The audit of financial statements of the Social Safety Nets Project for the year ended 31 December 2021 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 Financing 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 observation 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 Financing Agreement of the Project, the Ministry of Finance is the Executing and Implementing Agency of the Project. The objectives of the Project are to contribute to the improved equity, efficiency and transparency of the Social Safety Nets Programmes for the benefit of the poor and vulnerable groups in Sri Lanka. The activities of the Project consisted with 03 components. As per the Financing 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 30 June 2022. However, date of completion of the Project had been extended up to 30 June 2023.

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 2021, statement of expenditure 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 Responsibility of the Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles and for such internal control as the management determines 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 scepticism 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. Comment of the Financial Statements

2.2 Non-Compliance with Rules and Regulations

Reference to the Rules and Regulations	Non-Compliances	Management Responses	Auditor's Recommendations
(a) Financial Regulations 134(3) and Management Audit Circular No.5 of 26 July 2010	The transactions of the Project had not been subjected to audit of Internal Audit Section of the Ministry of Finance.	We have already reminded the Internal Audit division by two letters.	Need to comply with the Circular instructions and Financial Regulations.
(b) Management Service Circular No. 01/2019 dated 15 March 2019	According to the Circular, Steering Committee Meeting should be conducted at least once in two months. However, only 01 steering committee meeting had been conducted during the year under review.	Steering Committee Meetings were unable to be conducted due to the Covid situation in the country. We are planning to conduct PSC meeting immediately.	Need to comply with the Circular instructions.

3. Physical Performance

3.1 Physical and Financial Progress of the Activities of the Project

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

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

The main objective of the Project is to establish equity, efficiency, transparency with the social safety programs in Sri Lanka, through the establishment of an effective and transparent mechanism for selecting, managing and graduating families supported by the various social welfare programs. According to the information made available, effective and transparent mechanism for selecting, managing and graduating families could not be established at end of the Project and overall physical progress of the Project had remained in unsatisfactory level. Therefore, a sum of US\$ 07 million had only been utilized up to 31 December 2019, out of the total allocation of US\$ 75 million. Subsequently, considering the Covid-19 pandemic situation, the Government of Sri Lanka requested to restructure the Project in order to support to the pandemic situation. Accordingly, the Project had been restructured and a sum of Rs. 45 million released during the year 2020, out of the balance proceeds of the Loan. However, The Project had to be incurred Rs. 436.02 million as interest charges and Rs.107.54 million as commitment charges up to 31 December 2021.

The following observations are made thereon

Physical Performance - Component 1 & 2

	Components	Activities	Audit Issues	Management Responses	Auditor's Recommendations
(a)	Building a Unified Social Registry	Establishment of the Welfare Benefits Board and fully functional	Eventhough the Welfare Benefits Board had been established in year 2017, it was not functioned as expected.	Necessary action has been taken to Establishment of the Welfare Benefits Board and fully functional.	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.
		A formal policy on entry and exit for the Welfare Benefits Scheme programmes approval and publishing.	The Project could not be obtain approvals from the Parliament and Legal Draftsmen's Department for the new Welfare Benefits Scheme even on the date of audit on 23 March 2022.	Regulation of the welfare schemes has not completed by the date of submission to parliament. Therefore, chairman of the WBB decided to re-submit the Regulation for parliament together with the legal draftsman's approval. Once WBB appointed the regulation will be submitted.	The action is required to be taken to influence the relevant parties to approve the Gazette notification of Welfare Benefits Scheme.
		Social Registry information system active and operational	The completion of data validation of remaining Divisional Secretaries within the period of the Project is remained in doubt.	SRIS had been developed considering the situation at the 2017 and decided to cover 4 major programs targeting to the low-income category as per the project appraisal document.	Action should be taken to address all the welfare programs currently operating in the country.
(b)	Integrated Service Delivery System	Welfare Benefits Scheme beneficiaries qualifying under the eligibility criteria.	The implementation and the criteria – based selection had not been commenced.	Regulation of the welfare schemes has not completed by the date of submission to parliament. Therefore, chairman of the WBB decided to re-submit the Regulation for parliament together with the legal draftsman's approval. Once WBB appointed the regulation will be submitted.	The action is required to be taken to influence the relevant parties to approve the Gazette notification of Welfare Benefits Scheme.

3.2 Contract Administration- Component 03

Audit Issues	Management Response	Auditor's Recommendations
-----	-----	-----
(a) According to the information received, the contract for conduct a comprehensive Assessment of Existing Social Protection Strategy and Developing the National Social Protection Strategy for Sri Lanka had been awarded to a consultancy firm at an estimated cost of Rs.14.1 million on 22 January 2019 and expected to be completed by 01 September 2019. According to the information available, the respective works had not been completed even on the date of audit on 23 March 2022. However, a sum of Rs. 5.64 million had been paid at the end of the year under review.	There were delays in the finalization of the Final Assessment report due to Gaps identified by the NPD and the difficulties faced in the process of field data during the Pandemic Situation.	Action should be taken to educated responsible parties regarding this and expedite the activities.
(b) The contract for the developing Graduation Strategy for the empowerment programs Implemented under the Department of Samurdhi Development had been awarded to an individual consultant at an estimated cost of Rs. 2.4 million on 20 July 2020 and expected to be completed by 31 July 2021 According to the information available, the respective works had not been completed even on the date of audit on 23 March 2022. However, a sum of Rs. 1.2 million had been paid at the end of the year under review.	There was a delay due to the difficulties to conduct certain filed surveys due to Covid Pandemic Situation. The Graduation Strategy report has already been submitted and final stage evaluation will be provided recommendation of the payment approval.	The action is required to be taken to influence the consultant to comply the requirements of the contract agreement.