

Pooled arrangement of Contingent Emergency Response Component of the World Bank Funded Investment Project - 2022

The audit of financial statements of the Pooled Arrangement of Contingent Emergency Response Component of the World Bank Funded Investment Project for the year ended 31 December 2022 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 provision of the Financing Agreements No. 6371 LK, 6228 LK, 8878 LK and 6346 LK dated 08 September 2020 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. 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 Loan Agreement, the Ministry of Finance, Economic Stabilization and National Policies is the Executing and Implementing Agency of the Project. The objectives of the Project are to activate CERC of the above said projects and pool funds to a single CERC pool account on joint Co-Financing basis to ensure efficient and coordinated response using a single emergency action plan to implement the Government Response and recovery plan of Covid – 19 pandemic situation with short to medium term interventions, covering Health, Social Protection, Agriculture, Education and Transport Sectors and the delivery of Public Services remotely using ICT solutions. As per the Loan Agreement, the estimated total cost of the Project was US\$ 56 million equivalent to Rs.10,491 million was agreed to be financed by the International Development Association. The project had commenced its activities on 17 June 2020 and scheduled to be completed by 31 March 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 2022, statement of use of funds 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 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 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. Financial Performance

2.1 Financial Progress of the activities of the Project

Following Observations are made

No.	Audit Issue	Response of the Management	Auditor's Recommendation																
(a)	The project had identified the agricultural crop production to strengthen food security as first priority. However, it was observed that a sum of Rs.3,640 million representing 85 percent from the total provision was provided for the Ministry of Education whereas the provision for the Ministry of Agriculture was Rs.264 million which indicates 6 percent from total provision.	<p>The expenditure for Agriculture reported as given below,</p> <table border="1"> <thead> <tr> <th></th> <th>As at 31st Dec 2021 Rs.(MN)</th> <th>As at 31st Dec 2022 Rs.(MN)</th> <th>Total Rs.(MN)</th> </tr> </thead> <tbody> <tr> <td>1. Supply of seed & planting materials</td> <td>2,101</td> <td>-</td> <td>2,101</td> </tr> <tr> <td>2.Provision of storage facilities</td> <td>116</td> <td>264</td> <td>380</td> </tr> <tr> <td>Total</td> <td>2,217</td> <td>264</td> <td>2,481</td> </tr> </tbody> </table> <p>Due to the prevailing economic crisis in the country, it was crucial to guarantee provision of a nutritionally balanced meal to vulnerable children across the country in an effort to combat stunting and malnutrition and boost school attendance and educational performance.</p> <p>The CERC pool decided to provide support to implement the project on providing Mid-day meals for 1,081,927 children in 7,926 needy schools island wide utilizing a sum of USD 19.08 Mn.</p>		As at 31 st Dec 2021 Rs.(MN)	As at 31 st Dec 2022 Rs.(MN)	Total Rs.(MN)	1. Supply of seed & planting materials	2,101	-	2,101	2.Provision of storage facilities	116	264	380	Total	2,217	264	2,481	It is required to take necessary action to achieve all targets as intended.
	As at 31 st Dec 2021 Rs.(MN)	As at 31 st Dec 2022 Rs.(MN)	Total Rs.(MN)																
1. Supply of seed & planting materials	2,101	-	2,101																
2.Provision of storage facilities	116	264	380																
Total	2,217	264	2,481																
(b)	Although, as per the financial progress for the year under review, out of the total net provision amounting to Rs.4,283 million made under the foreign loan and Rs.2.5 million made under the Foreign Finance Associated Cost, during	<p>Last year economic crisis created implementation challenges related with ongoing and volatile situation. Consequently, there was a risk that some of the planned activities under CERC Pool did not complete in time of CERC Pool closing by 30 December 2022.</p> <p>As a result of this, cash balance at balance sheet amounting Rs.707,594,230.00 was remained unutilized.</p>	Action should be taken to maximize the utilization of project funds and achieve the project objectives.																

the year under review, the provisions of a sum of Rs.4,009 million and Rs.1.2 million respectively had only been utilized.

- (c) Although the Agriculture, Education, Transport, Disaster Management and ICT platform for public sector home based work have been identified on the priorities of the project, according to the Balance Sheet, the sum of Rs.708 million had not been utilized for the aforesaid project priorities even up to 31 December 2022.
- Last year economic crisis created implementation challenges related with ongoing and volatile situation. Consequently, there was a risk that some of the planned activities under CERC Pool did not complete in time of CERC Pool closing by December 30, 2022.
- Action should be taken to maximize the utilization of project funds and achieve the project objectives.

2.2 Physical Progress of the Activities:

Audit Issue		Response of the Management	Auditor's Recommendation
The overall Physical Target and Physical progress of the project as at 31 December 2022 As follows;		The implementation of planned activities of the CERCs project has been very slow due to hindrance primarily by acute economic & fiscal crisis leading to price escalations.	Project objectives should be achieved during the project period.
Overall Physical Target of the Project	Physical Progress (as at 31.12.2022)	Consequently, the project activities related to Agriculture (Construction of stores), Education (provision of water/sanitary facilities) and Transport (Construction of sanitary facilities) were delayed and the relevant IAS failed to achieve the expected physical target by 31, December 2022.	
<ul style="list-style-type: none"> Construction of 102 stores for field crops and seed potato 	32 projects were cancelled and 4project were terminated 66 projects are in function outs of that 36 stores are completed		

- Provision of water for 486 schools 313 no of schools are completed
- Provision of sanitary facilities for 881 schools Sanitary facilities has been completed in 734 schools
- Provision of sanitary facilities for 12 railway stations and 21 SLBT depots Construction of 9 toilets at depots are completed
Construction of 5 toilets in railway stations are completed