

Food Security and Livelihood Recovery Emergency Assistance Project - 2023

The audit of financial statements of the Food Security and Livelihood Recovery Emergency Assistance Project for the year ended 31 December 2023 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, Loan Agreement No. 4205-LK and Grant Agreement No. 9229-SRI(EF) dated 09 September 2022 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. 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 of the Project, The Ministry of Finance, Economic Stabilization and National Policies is the Executing Agency and the Department of National Planning, Ministry of Women, Child Affairs and Social Empowerment, Ministry of Agriculture, Department of Samurdhi Development, Department of Agrarian Development and Department of Agriculture are the Implementing Agencies of the Project. The objective of the Project is to improve food security and protect the livelihoods of the poor and vulnerable nationwide. The activities of the Project are implemented under support vertical and horizontal expansion of direct financial support for the poor and vulnerable, provide support for livelihood development activities of the poor and vulnerable Improvement of social protection system of Department of Samurdhi Development and Department of Agrarian Development. As per the Loan and Grant Agreements, the estimated total cost of the Project was US\$ 203.36 million equivalent to Rs.74,090.15 million was agreed to be financed by Asian Development Bank. The Project had commenced its activities on 09 September 2022 and scheduled to be completed by 31 August 2024.

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 2023, statement of receipts and payments and its cash flow 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

Audit Issue	Response of the Management	Auditor's Recommendation
(a) According to the budget estimate for the year 2023, a total of Rs.8,577,500,000 has been allocated under 03 expenditure subjects to fulfill the tasks of the project, and then a total of Rs.7,118,648,822 has been transferred under the Financial	The allocation of Rs.8,577.50 mn has been obtained in the Budget Estimates 2023 to provide the support for livelihood development activities of farmers & low income families and improvement of the information systems; CRM & Geogoviya.	To efficient fulfillment of Project's objectives, provision should be allocated from the budget estimate in proper manner.

Regulations 66. In these transfers, a total of Rs.4,207,602,965 was made to account under the expenditure items of the project, and a total of Rs.2,911,045,856 for other projects implemented under the Department of National Planning. Thus, no realistic budget estimates have been prepared for the execution of the works of the project in the year under review.

The expenditure on livelihood development of farmers amounting Rs.1,424,062,928 has been accounted under that vote. Since the provision of subsidies for pregnant mothers, which was expected to be implemented in the year 2022 but could not be completed, and implemented in the year 2023, the allocation of Rs.1,533,200,000 has been transferred to correct item code within the same project.

Based on a government policy decision, the Samurdhi program was changed from July 2023 to a “Aswasuma” program and the organizational structure of implementation was also changed. Beneficiary selection under the “Aswasuma” program was done with a new methodology.

Accordingly, the selection of beneficiaries for empowerment has been delayed for this reason. As a result, the Livelihood Development Program for the Samurdhi beneficiaries could not be carried out in the year 2023, saving the allocated provision for it. This event is beyond the control of the project team. By now, the approval of the Cabinet has been obtained for the “Aswasuma” Programme.

Further, in order to account the expenditure related to this project in correct item codes, provision has been transferred within the same project under FR 66. After that, the remaining allocation had been transferred to other sub-project based on the requirement of the Department of National Planning and aiming at managing the government resources effectively.

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| <p>(b) The actual expenditure incurred by the Samurdhi Development Department had not been taken to prepare the financial statements of the respective year. As a result, overstated amount of Rs. 3,030,998,302 had been restated in the year under review.</p> | <p>After confirming the expenses related to the year 2022 by the Department of Samurdhi Development (DSD), the Department of National Planning accounted the expenses related to the year 2022, At the liquidation process done in the year 2023, expenditure relevant to the year 2022 was amended by the DSD. Due to the revision of the expenses confirmed by the DSD in 2022, this adjustment was made in the financial statements of the reviewed year and the expenses related to the year 2022 were revised.</p> | <p>The accurate expenditure amount to be shown in the financial statement of respective year.</p> |
| <p>(c) According to the records of Department of Agrarian Development, financial assistance of Rs. 7,424,062,928 had been paid among 1,039,961 farmers during the period December 2022 to June 2023. However, as per the records of the project, subsidies had been given only for 1,035,218 farmers. Accordingly, a shortfall of 4,743 was observed.</p> | <p>As mentioned in this audit inquiry, there is a discrepancy in the number of farmers, so the Chief Financial Officer of the Agricultural Development Department (DAD) was informed through the Commissioner General of the DAD. Once we received the required information, we will inform you in future.</p> | <p>Action should be taken to present the accurate figures.</p> |

2.2 Utilization of Funds

Audit Issue	Response of the Management	Auditor's Recommendation
<p>(a) In addition to the loan amount of US\$ 200 million provided by the Asian Development Bank for this project, JFPR through the Asian Development Bank had agreed to provide a grant of US\$ 3 million for the financing of the related project activities. Out of that grant, US\$ 0.1902 million or Rs.68.36 million was allocated for the year 2023. However, only US\$ 0.09 million or Rs.33.57 million or 47 percent of the estimated cost had been utilised by the project in the year 2023</p>	<p>-</p>	<p>It is required to take necessary action to achieve all targets as intended and to utilize allocated grant fully in an effective manner.</p>
<p>(b) According to the Government Debt Accounting System of the Department of External Resources, US\$ 45,801.27 which equivalents to Rs. 15,105,802 had been paid as Commitment Charges to the lending agency on 15 March 2024 due to un-utilization of funds</p>	<p>Agree.</p>	<p>Action should be taken to promptly utilize the total allocated funds</p>

3. Physical Performance

Audit Issue	Response of the Mangement	Auditor's Recommendations
<p>3.1 ADB loan Even though a US\$ 2.65 million or Rs.965.47 million had been estimated for Improving the effectiveness and efficiency of social safety systems (CRM in DSD and Geogovia in DAD) in the year under review, no any utilization had been made.</p>	<p>Under this Project it was proposed to improve the CRM system of the DSD and the Agricultural Development Department. Before the improvement of those systems, it was decided to assess existing systems and propose suggestions for required improvement of the systems. Accordingly, studies have been completed and implementing agencies have been informed to submit project proposals for improvements. Accordingly, the related system improvements are expected to be made within the project period.</p>	<p>It is required to take necessary action to achieve all targets as intended and to ensure maximum utilization of allocated funds.</p>
<p>3.2 (a) ADB Grant The following observations are made during the audit examination carried out to review the progress of the action plan as at 15 March 2024 in relation to the tasks under the grants for emergency assistance for the vulnerable (women, children and persons with disabilities) under the Ministry of Women, Children Affairs and Social Empowerment which the estimated cost of Rs. 695,394,000.</p>	<p>(i) Agree The financial progress was only Rs.182,271,606 or 27 percent of the estimate at the end of the year under review.</p> <p>(ii) Agree. Some of the activities in the original action plan have been suspended (cancelled) by the Ministry of Women, Child Affairs and Social Empowerment and new activities have been identified and action</p>	<p>- Do - - Do -</p>

plan has been revised. The revised action plan has been approved by this department through the letter No. NP/ADB/01/2022/MOWCS dated 22.03.2024.

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| (iii) There were no any progress in relation to 24 sub-activities related to 08 main activities. | As per the revised action plan, implement, these activities will be implemented in the future. | - Do - |
| (b) There was no any progress for the provision US\$ 0.06 million or Rs.21.86 million in relation to the agricultural advisory services at the end of the year under review. | These activities are expected to be implemented in the future. | - Do - |
| (c) Agricultural Awareness and Training Programs (GAP) had been allocated US\$ 0.25 million or Rs.91.08 million of grants for the years 2023/2024. However, only Rs.57,353 had been utilized at the end of the year under review. | Agree.
These activities are on-going and planned to be completed within the project period. | - Do - |