

Social Protection Project - Component 2 & 3.2 - 2025

The audit of financial statements of the Social Protection Project Component 2 & 3.2 for the period of 01 December 2024 to 31 December 2025 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 the provisions in the Loan Agreement No. 7363 – LK dated 23 September 2023 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 Rural Development, Social Security and Community Empowerment is the Executing Agency and Department of Samurdhi Development is the Implementing Agency of the Project.

The objective of the Project is to support Sri Lanka in providing better targeted income and livelihood opportunities to the poor and vulnerable and improving the responsiveness of the Social Protection System. The activities of the Project are implemented under 2 components namely Pilot to Enhance Opportunities for Poor and Vulnerable households (Component 2) and Project Management (Component 3.2).

As per the Loan Agreement, the estimated total cost of the Project was US\$ 200 million equivalent to Rs. 60,000 million was agreed to be financed by International Development Association. **Out of that US\$ 8 million equivalent to Rs. 2,400 million and an amount of Rs.260 million is expected to be financed by the Government of Sri Lanka for the above 2 components.**

The Project had commenced its activities on 14 December 2023 and scheduled to be completed by 30 September 2027.

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 2025, financial performance and its cash flows for the Period of 01 December 2024 to 31 December 2025 in accordance with Sri Lanka Public Sector 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 Public Sector 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.

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. Comments on Financial Statements

2.1 Non Compliance with Laws, Rules and Regulations

	Reference to the Laws, Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
I	Annex 4 of section 3 of Grant Agreement of pilot Economic Inclusion Manual (PEIM)	At the Grant Disbursement, beneficiary agrees to use the money received only for the livelihood activities approved in the business/employment plan and to submit statement of expenditure along with the receipts for the money spent within 90 days from the date of receipt of the grant. However, a statement of expenditure had been submitted relating to advance amounting to Rs.19.65 million out of total advance amounting of Rs.167.10 million within the period mentioned.	Accordingly, it has been identified that the delays in settling advances mainly resulted from the internal administrative arrangements and operational procedures followed during implementation. As at 31 May 2026, advance payment vouchers relating to 523 out of the 1,114 advances issued as at 31 December 2025 had been settled by the Project Office.	A proper system should be maintained to collect supporting documents (invoices, bills, etc) to verify the cash payment. Instructions should be issued in the review carried out in accordance with the provisions of section 38 (1) (c) of the National Audit Act No .19 of 2018.
II	Paragraph 02 (iv) of Public Administration circular No. 9/2009 dated 16 April 2009	Arrival and Departure times of all Public servants in all public institutions should be confirmed through the finger scanner. Further to confirm the arrival and departure through the finger scanners, if the time of arrival and departure is used as a basis for payment of allowances made outside regular duty hours such	In situations where the officers perform overtime duties within the office, their attendance and overtime hours are recorded through the fingerprint attendance system. However, when they are engaged in field inspections and other project-related activities away from the office, overtime payments	In accordance with the provisions of the public administration circular, overtime and holiday payments should be paid based on the arrival and departure times provided by the finger print machine.

		as Overtime and holiday pay etc. However, in Contrary to above Circular, an amount of Rs. 2.87 million had been paid as overtime and holiday payments without confirming the arrivals and departures through finger scanner.	relating to such field duties have been made based on certifications provided by the Project Director, who serves as the supervising officer. The Project Director has certified the periods during which the officers performed the relevant duties, and overtime payments were processed accordingly in compliance with the operational requirements of the project.	
III	Section 6.4 of Project Management Guidelines issued under Department of Management Audit circular No. 02/2024 dated 24 October 2024	A Total of 04 Audit and Management Committee meetings should be held annually for the project, out of which two meetings scheduled for the first and third quarters under the chairmanship of the Chief Accounting Officer and two meetings for the second and fourth quarters under the chairmanship of the Project Director. However, none of meeting had been held during the period stated.	The delay occurred due to the time taken to delegate the necessary authority to the internal audit function. The Internal Auditor has now been formally authorized to conduct internal audits through the Director General. Accordingly, the Internal Audit function will be implemented during the year 2026, and the necessary audit activities will be carried out in accordance with the approved authority.	Internal Audit Committee meetings should be conducted as per circular instructions.
IV	Component 18 of Annex 1: Implementation Agreement and support plan in project Appraisal Document	As per the project Appraisal Document, internal audit to be carried out by the internal audit units in Ministry of Finance, Economic Stabilization and National Policies and Department of Samurdi Development. However internal audit	The internal audit activities of the project could not be carried out during the reporting period due to delays in the formal delegation of authority to the Internal Audit Division to undertake audits of the project. Subsequently, the necessary authority	Internal Audit should be carried out to comply with the Appraisal Document.

had not been carried out during the period stated. was granted to the Internal Auditor by the Director General following the issuance of this authorization. The Internal Audit Division has been empowered to conduct internal audits of the project in accordance with the applicable government regulations and project requirements.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Component	Activity	As at 31 December 2025		Delay/ Audit Issue	Reasons for delays
		Expected physical performance Units	Performance achieved Units		
I Com - 2	Data Collection, Preparation of Family Development Plans, Business Plans, and Counselling. (Including Printing, Discussions, Designing, and Technical Assistance)	8,231	4,553	Although a sum of Rs. 4 million had been allocated during the year under review for data collection, preparation of family development plans, business plans, and counseling activities for 8,231 families, only 4,553 family development plans had been prepared by the end of the year under review at a cost of approximately Rs. 2 million. Accordingly, the implementation progress of the planned activities remained below the expected level.	Delay in beneficiary identification process. Due to that impossible to complete the planned awareness programs and prepare Family Development Plans within the scheduled timeframe.

Response of the Management

The overall project target is 10,975 beneficiaries, comprising 4,375 beneficiaries under Phase I and 6,600 beneficiaries under Phase II. Despite the implementation being limited to Phase I, beneficiary identification exceeded the Phase I target, and Family Development Plans were successfully

prepared and completed for all identified beneficiaries.

The funds allocated for Phase II were not utilized during the reporting period, as the activities planned under that phase had not yet commenced.

**Auditor's
Recommendations**

Main activity should be well planned and adhered to in order to successfully achieve the desired objectives of the project. Instructions should be issued in the review carried out in accordance with the provisions of section 38 (1) (c) of the National Audit Act No.19 of 2018.

II	Com - 2	Training Programs for Staff	1977	907	Although the project had targeted conducting 1,977 training programs for staff during the year under review with an estimated allocation of Rs. 22 million, only 907 training programs had been conducted at a cost of Rs. 4 million.	Delays in project commencement and initial implementation activities.
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**Response of the
Management**

Delays in project commencement, beneficiary identification, and other initial implementation activities affected the scheduling and execution of planned training programs. As a result, the expenditure incurred on training activities during the year was significantly lower than the original estimate. Therefore, the variance between the estimated and actual expenditure on training was mainly due to the adoption of a phased training strategy and delays in the commencement of project activities, which postponed the implementation of several planned training programs to subsequent phases of the project.

**Auditor's
Recommendations**

Necessary actions should be taken to expedite the training programs for staff.

III	Com - 2	Training Programs for Beneficiaries	28,482	8,157	Based on the seven districts where non-impact evaluation was not conducted under the pilot project, namely Ampara, Badulla, Colombo, Mannar, Monaragala, Ratnapura, and Vavuniya, it had been planned to conduct 28,482 training programs for beneficiaries during the year under review at an estimated cost of Rs. 20 million. However, as at 31 December 2025, only 8,157 training	Due to implementation delays and subsequent management decisions project activities were limited.
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programs had been conducted at a cost of approximately Rs. 3 million. Accordingly, the progress in implementing the planned training programs remained at a low level of 29 per cent.

Response of the Management

Certain planned mandatory training programmes, particularly those relating to business skills development and advanced financial literacy, could not be conducted within the reporting period as the relevant training modules, curriculum, and syllabus were still under development and had not been finalized.

Auditor's Recommendations

Necessary actions should be taken to expedite the training programs for beneficiaries.

IV	Com - 2	Transfer of Financial Inclusion Grants for Beneficiaries.	5,250	1,114	According to the annual budget for the year under review, a sum of Rs. 788 million had been allocated for the empowerment of 5,250 beneficiaries. However, business plans had been received from only 1,456 beneficiaries. Out of these, financial grants amounting to Rs. 150,000 each had been released to 1,114 beneficiaries in December 2025, totaling Rs. 167.1 million. Since the funds were disbursed at the end of the year under review, the progress and effectiveness of the beneficiaries' livelihood activities could not be properly monitored during the year under review. Furthermore, the audit observed that the number of beneficiaries who received financial assistance represented only 21 per cent of the total number of beneficiaries expected to be	Impacts of cyclone Ditwah and Delay in Cabinet approval for grant component.
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empowered under the program.

Response of the Management

Under the Annual Operational Plan, it was initially planned to provide business grants of Rs. 150,000 per beneficiary commencing in October. However, the required Cabinet approval for the business grant component was received only in October, resulting in a delay in implementation.

In addition, the preparation and evaluation of business plans required considerable attention due to their technical nature and complexity. Beneficiaries received support from Technical Officers in developing viable business plans, and the review and approval process required detailed assessment to ensure the appropriateness and sustainability of the proposed business activities. Consequently, the submission, evaluation, and approval of business plans took longer than originally anticipated.

Furthermore, following an assessment of the impacts of Cyclone Ditwah, the disbursement of business grants in affected areas, including Badulla, Mannar, and Colombo Kolonnawa, was temporarily suspended as a precautionary measure. As a result, the implementation targets could not be achieved within the planned time frame.

The project has established a comprehensive mechanism to ensure the efficient and intended utilization of funds by beneficiaries. Under this mechanism, business grants are provided as advances, and beneficiaries are required to account for the utilization of funds by submitting invoices, receipts, and other supporting documents relating to the goods and services procured for the approved business activities.

Auditor's Recommendations

Actions should be taken to ensure the transfer of financial grants for beneficiaries in a timely manner. Further, instructions should be issued in the review carried out in accordance with the provisions of section 38 (1) (c) of the National Audit Act No.19 of 2018.

V Com - 2	Monitoring and Evaluation	474	340	According to the monitoring framework specified in Section No. 4 of the Operational Manual of the Empowerment Program, monitoring activities are categorized into two main components: program-level monitoring and household-level monitoring. Household-level monitoring is further classified into household	Due to the absence of dedicated full-time staff for certain approved positions.
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livelihood monitoring and household welfare monitoring. During the period stated, Rs. 15 million had been allocated for operational and monitoring activities, with a target of conducting 474 programs. However, by the date of audit, only 340 programs had been conducted at a cost of Rs. 1 million. In addition, 118 meetings were held at district, divisional, and Grama Niladhari levels, while 211 monitoring visits were carried out at the same levels. Furthermore, although an amount of Rs. 167.1 million had been released to beneficiaries, the regular monitoring had not been effectively carried out to ensure that, the grants were utilized for the intended projects, financial integration mechanisms were addressing the issues faced by beneficiaries and the expected project outcomes were being achieved.

Response of the Management

At present, programme-level progress is monitored through a Google-based monitoring and reporting system. Significant improvements have been made during the year under review, and programme-level progress monitoring has now been effectively initiated and strengthened. The project management will continue to enhance both programme-level and household-level monitoring mechanisms to ensure effective supervision, accountability, and achievement of project objectives.

Auditor's Recommendations

Relevant activities should be carried out to achieve the desired objectives of the project as planned and instructions should be issued in the review carried out in accordance with the provisions of section 38 (1) (c) of the National Audit Act No.19 of 2018.

VI	Com - 2	Impact Evaluation	-	-	The program was planned to be implemented in 5 out of 12 districts with funding from the World Bank. It was expected to cover 44 out of 79 Divisional Secretariat Divisions within these five districts, including 352 Grama Niladhari (GN) Divisions. Out of these, 264 GN Divisions were included in the project implementation, while the remaining 88 GN Divisions, which were not covered by the project, were designated as control groups for impact evaluation purposes. A non-impact-based method was followed in selecting beneficiaries within the project areas. Accordingly, 25 beneficiaries with minimum facilities were selected from poor and extremely poor households registered under the Aswesuma program. Under this arrangement, 6,600 beneficiaries were expected to receive project benefits, while 2,200 households were included in the control group. Although Rs. 20 million had been allocated for conducting the impact assessment survey, and it had been planned to recruit an qualified and experienced external consultant to design and implement the assessment, the activities had not been carried out as intended. The future budget estimates for the period from 2024 to 2027 had been prepared in phases to facilitate the procurement	Delay in procuring a survey agency due to several operational and administration factors.
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process and implementation of the consultancy assignment. However, the process had not been properly executed relevant to 2024 and 2025. As a result, no effective measures had been taken, as at the date of audit, to inform, educate, or empower the beneficiaries in the five selected districts regarding the program and its intended outcomes.

Response of the Management

An allocation of Rs. 20 million was made in 2025 for the procurement of an external agency to conduct the baseline survey required for the project. The scope of the selected agency is limited to the collection of field data. The analysis of survey data and preparation of the final report are to be carried out jointly by the Department, the World Bank, Trinity College, United Kingdom, and the University of Peradeniya.

Recognizing this constraint, the project has now completed the recruitment of an officer to support and coordinate procurement-related activities, thereby strengthening the project's capacity to manage similar activities efficiently in the future.

In addition, during the third quarter of the previous year, it was decided to recruit a dedicated officer to coordinate activities related to the impact assessment study at the district level. The recruitment process has since been completed, and the officer is currently supporting the implementation of the survey activities.

At present, the survey is being conducted as planned, and field data collection is progressing. The survey work is scheduled to be completed by June and already completed 50% of data collection, following which data analysis, report preparation, and the subsequent project activities related to the impact assessment will commence.

Auditor's Recommendations

The project should take immediate action to recruit a qualified and experienced external consultant and conduct the impact assessment survey.

VII Com - 2 **Grievance Handling Mechanism**

548	1 TOT Programme and – 2 Zoom sessions	According to the implementation plan, awareness and training programs were expected to be conducted during the year under review at an estimated cost of Rs. 1 million to	Due to Social Safeguard Specialist was not recruited.
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educate officers on the grievance handling mechanism. However, only one training program was conducted for officers representing 12 districts at the Samanalawewa Training Center, while only two additional sessions were conducted for the same districts through Zoom technology.

Response of the Management

The allocation made under this budget line was intended not only for the establishment and operation of a Grievance Redress Mechanism (GRM) but also for activities aimed at minimizing or eliminating potential environmental and social impacts arising from project implementation. Accordingly, provisions were made for the preparation of the grievance redress mechanism, awareness programmes, and the printing and distribution of information materials such as leaflets, banners, and related communication materials. A formal awareness and communication programme relating to the Grievance Redress Mechanism will be implemented in the future to enhance stakeholder awareness and ensure greater accessibility and effectiveness of the grievance handling process.

Auditor's Recommendations

Awareness and training programs should be conducted as planned to improve the awareness of grievances.

3.2 Underutilized Resources

	Audit Issue	Response of the Management	Auditor's Recommendation
I	When considering the progress of utilization of funds as at 31 December 2025, it was observed that the project had utilized only USD 0.10 Mn or 1.25 percent of funds from USD 8 Mn of total allocation by the World Bank Loan. Therefore, the utilization of funds is ineffective when considering the rest of 21 months time period with balance funds.	The underutilization of funds during the reporting period was primarily attributable to delays experienced during the initial stages of project implementation. A significant portion of the allocated funds was intended for the provision of business and non-business grants to beneficiaries. However, project commencement was delayed due to the time required for project design activities, preparation of operational guidelines, development of training curricula and manuals, obtaining the necessary approvals, and	The project should prepare proper action plan & budget and responsibilities should be fixed accordingly. Instructions should be issued in the review carried out in accordance with the provisions of section 38 (1) (c) of the National Audit Act No.19 of 2018.

completing other preparatory activities essential for effective implementation. In addition, the adverse effects of the cyclone that occurred towards the end of the year affected project implementation in several areas, resulting in temporary delays in the release of grants and the achievement of planned targets within the reporting period.

Further, the low utilization of funds allocated for beneficiary training was influenced by the absence of a practical mechanism to release training funds directly to the districts. Although training activities were conducted, the original expenditure mechanism could not be effectively implemented. As a corrective measure, the project is currently promoting the reimbursement of eligible training expenses through Samurdhi Bank Societies, and greater emphasis will be placed on utilizing this mechanism in future.

II	The total agreed contribution of government of Sri Lanka for SPP was Rs. 260 million, but the cumulative use of government fund as at the period stated was only Rs.5.61 million and it is equivalent to 2.16 per cent of agreed amount. The use of remaining 97.8 per cent of agreed government fund in next year is uncertain.	An allocation of Rs. 120 million for 2025, Rs. 38 million for 2026, and Rs. 19 million for 2027 has been made to meet the administrative and operational expenses of the project. These funds have been released to the respective districts in accordance with the approved project implementation plan and are intended to facilitate field-level implementation, monitoring, supervision, coordination, and other administrative activities.	A proper action plan and budget should be prepared and responsibilities should be fixed accordingly. Instructions should be issued in the review carried out in accordance with the provisions of section 38 (1) (c) of the National Audit Act No.19 of 2018.
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