

## **Programmatic Project Preparation Facility - 2020**

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The audit of financial statements of the Programmatic Project Preparation Facility for the year ended 31 December 2020 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 2:05(c) in Article II of Financing Agreement Advance No: P 4910 dated 30 January 2018 entered into between the Democratic Socialist Republic of Sri Lanka and the International Bank for Reconstruction and Development (World 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**

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According to the Financing Agreement Advance, the Department of National Planning which was under then Ministry of Finance and Media, presently the Ministry of Finance, is the Executing Agency and the Ministry of Health, Nutrition and Indigenous Medicine, the Ministry Local Government and Provincial Councils and the Ministry of Agriculture Ministry of Mahaweli Development and Environment are the Implementing Agencies of the Project. The objective of the Project is to facilitate for the preparation activities of the projects, expected to be carried out under the financial assistance of the Lending Agency. As per the Financing Agreement, the estimated total cost of the Project amounted to US\$ 4.00 million equivalent to Rs. 636 million and entire amount was agreed to be financed by the International Bank for Reconstruction and Development. The Project had commenced its activities on 30 January 2018 and scheduled to be completed by 31 December 2020.

### **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 2020, 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 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**

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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 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

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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. Physical Performance

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### 2.1 Physical and Financial Progress of the Activities of the Project

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No	Component	Audit Issue	Management Response	Auditor's Recommendation
(a)	Public Sector Efficiency Strengthening Project	Although the main objective of the project is to provide financial assistance to facilitate the preparation of projects from 2017 to 2020, only 3 of them had been implemented in 2018.	Agreed. 05 anticipated Donor Funded Projects had not been implanted due to change of the Government Policy priorities.	Actions should be taken to achieve the objectives of the Project within the Project period.
(b)	Dam Safety and Water Resources Planning Project			

- (c) Provincial Road Preparations for the Integrated Development Project Water Supply and Water Resources Management
- (d) Sri Lanka Health System Project began last year and Strengthening Project project agreements were signed in 2021 to improve
- (e) Local Development dam safety and improve water Support Project distribution networks for irrigation. Further, activities
- (f) Climate Smart Irrigated of 5 projects had not been Agriculture Development done as a result of changing Project. government policies according to priority.
- (g) Strengthening Public Private Partnership Institutional and Legal Framework

## 2.2 Unutilized Resources

Audit Issue	Management Response	Auditor's Recommendation
Out of total allocation of US\$ 04 million equivalent to Rs.636 million made by the Lending Agency, a sum of US\$ 0.39 million equivalent to Rs. 87.6 million representing 9.75 per cent of the total allocation had only been utilized as at 31 December 2020 and unutilized balance had been refunded to Lending Agency.	Agreed.	Proper mechanism need to be established to utilize the funds in an effective manner.

## 2.3 Matters in Contentious Nature

Audit Issue	Management Response	Auditor's Recommendation
Eventhough office of the Project Management Unit of the Watershed and Water Recourses Management Project had been refurbished at a cost of Rs. 7.6 million, PMU office had been relocated another location subsequently. As a result, the above expenses were became a fruitless expenditure.	The PMU is located in the Ministry Premises using their space. Subsequently, PMU of the said project had been shifted to another location in the same Ministry based on the requirements made later in line with government policy.	Need to adhere with scope of the project and Managed Project finance efficiently and economically.