

## **Social Safety Nets Project - 2020**

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The audit of financial statements of the Social Safety Nets Project 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 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 observations which I consider should be reported to the Parliament appear in this report.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

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According to the Financing Agreement of the Project, the Ministry of Finance is the Executing and Implementing Agency of the Project. The objective of the Project is 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 and the opinion reports have to be presented separately on the performance of the Components of the Project, as required by the Paragraph 4.2.3 of the Project Operational Manual. 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 31 March 2022.

### **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 this 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**

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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 as 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**

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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 skepticism 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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The work of the project had been divided in to three components and the physical and the financial progress of those component were at a very low progress. According to the information made available, the observation of those component were as follows.

<b>Components</b>	<b>Expected outcome of the component</b>	<b>Audit Issues</b>	<b>Management Responses</b>	<b>Auditor's Recommendations</b>
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(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. Further it was revealed that the Chairman of the Board was resigned from his post on 06 December 2019 and the new Chairman had not been appointed even on the date of audit on 23 March 2021.	Agreed.	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.	Even on the date of audit, 23 March 2021, the Project could not be obtain approvals from the Parliament and Legal Draftsmen's Department for the new Welfare Benefits Scheme.	Due to the dissolution of the parliament from November 2019 regulation was unable to be submitted for approval.	The action is required to be taken to influence the relevant parties to approve the Gazette notification of Welfare Benefits Scheme
(b) Integrated Service Delivery System.	Welfare Benefits Scheme beneficiaries qualifying under the eligibility criteria.	Eventhough the eligibility criteria had been notified in Gazette published in 20 June 2019, the Parliament had not been approved this Gazette. The implementation of the criteria – based selection had not been commenced.	Since the dissolution of the parliament the Gazette could not be approved. This Disbursement Link Result target has been changed in restructured document.	Action should be taken to educate responsible parties and close supervision is needed on the activities implemented by the Project.

To establish Technical Cell	project	In the previous year the mission advised to establish Project Technical Cell within the Samurdhi Department to coordinate the activities of Component -02. However, the action had not been taken by the Project office to establish the Technical Cell during the year under review.	-	Prompt action need to be taken to establish technical cell
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## 2.2 Contract Administration

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### Audit Issues

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- (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. The respective works had not been completed even on the date of audit on 23 March 2021. However, a sum of Rs. 1.41 million had been paid at the end of the year under review.

### Management Responses

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Agreed. Development of National Social Protection Strategy has been delayed due to various reasons. It took more than four months to review the draft assessment report provided by MultiTech solutions. Gaps have been identified by the Department of National Planning and comments to be discussed in the common forum with consultant and review committee immediately.

### Auditor's Recommendations

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Action should be taken to educated responsible parties on this regard and action should be taken to expedite the activities.

- (b) The contract for the developing Graduation strategy for the empowerment programmes Implemented under the Department of Samurdhi Development had been awarded to an individual consultant at an estimated cost of Rs. 2.4 million. According to the agreement, the assessment report and first draft of Graduation Strategy report should be submitted within the 15 weeks from the contract date. Eventhough a sum of Rs.240,000 had been paid during the year under review, the reports had not been submitted within the specific period.
- Agreed. The report was given by 09 July 2019 and the payment of Rs. 2.5 mn was made on 24 July 2019.
- The action is required to be taken to influence the contractors to comply the requirements of the contract agreement.