

Additional Financing for COVID – 19 Emergency Response and Health Systems Preparedness Project - 2020

The audit of financial statements of the Additional Financing for COVID – 19 Emergency Response and Health Systems Preparedness Project for first Accounting period from 23 July 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 5.01 of Article v of the Financing Agreement No.6727 LK and 6728 LK dated 23 July 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 the Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Finance Agreement of the Project, then the Ministry of Women and Child Affairs and Social Security, presently the State Ministry Samurdhi, Household Economy, Micro Finance, Self Employment and Business Development is the Executing and Implementing Agency of the Project. The objectives of the Project is to scaled – up cash transfers through Existing Cash Transfer Programs to the elderly persons with disabilities and chronic disease patients by including applicants on the waitlist during the pandemic and providing increased amount during the pandemic under Existing Cash Transfer Programs. As per the Financing Agreement, the estimated total cost of the Project amounted to US\$ 87.24 million equivalent to Rs. 16,248.45 million was agreed to be financed by the International Development Association. The Project commenced its activities on 23 July 2020 and scheduled to be completed by 31 December 2023.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 02 of my report, the accompanying financial statements give a true and fair view of the financial position Project as at 31 December 2020, statement of expenditure and its cash flows for the year then ended in accordance with the Generally Accepted Accounting Principles.

1.4 Basis for Qualified 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 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. Comments on Financial Statements

2.1 Accounting Deficiencies

No	Accounting Deficiencies	Responses of the Management	Auditor's Recommendations
(a)	The Loan funds amounting to Rs. 5,602 million had been distributed to the District Secretariat in order to reimburse allowances made for Kidney Patient, Disabilities and low income Elders over 70 and 100 years. According to the books maintained by the District Secretariat, receipt and	The State Ministry maintains the records of the eligible beneficiaries who received cash transfer under the	Project should separately record the Project expenditure from other allowances and also informed to all

reimbursement out of proceeds the Loan provided by the International Development Association could not be identified separately from the treasure funds.	component 1.2 of the project. Overall Financial Statements are prepared by the Project Office at the Health Ministry.	District Secretariats to record the Project expenditure separately and report to the Project office monthly.
(b) According to the financial statements of the Project, a sum of Rs. 5,602 million had been reimbursed as at 31 December 2020 and according to records of the External Resources Department, the corresponding value of the withdrawals was Rs. 5,341.48 million. However, the reasons for the difference of Rs. 250.90 million had not been explained to Audit.	The difference between the amount mentioned in the withdrawals and the reimbursed amount should be verified from the Department of Treasury Operations where the account of the Project is maintained.	Need to reconcile the difference and made suitable adjustments to the relevant ledger accounts.
(c) According to the information received, the front end fee amounting to Rs. 19.5 million recovered by the Lending Agency as at 31 December 2020 had not been brought to the financial statements.	Not commented	Front end fee should be brought to the financial statements of the Project.

2.2 Non-Compliance with Laws, Rules and Regulations

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(i)	Paragraph (d) of the Schedule 2 of the Finance Agreement	Project Coordination Unit had not been established and maintained within the Ministry.	The responsibility of this State Ministry is to submit withdrawal applications on eligible expenditure to the World Bank through the World Bank.	Steps should be taken to maintain a Project Coordinating Unit responsible to the Ministry.
(ii)	Project Paper No PAD 4021 (a) Paragraph 45	According to the Project paper, the Project had not assigned sufficient staff with adequate qualifications and experience to	Not commented	Project should be assigned sufficient staff with adequate qualifications and experience to manage financial management

		manage financial management activities under the Project.		activities under the Project.
	(b) Paragraph 51	The Project had not collected and recorded the monthly expenditure reports covering payments made to all categories from the District Secretariats.	Not commented	Project should be collected and recorded the monthly expenditure reports covering payments made to all categories from the District Secretariats.
(iii)	State Accounts Circular No 30/94 dated 20 April 1994. (a) Paragraph 5.6.2	According to the Circular, Project should operate on a separate imprest and bank account. However, the Project had not maintained separate imprest and bank account.	The State Ministry made Rs. 5,000 payment for the eligible people who are affected by COVID – 19 pandemic from the allocations provided by the Treasury.	Project should be operated a separate imprest and bank account.
	(b) Paragraph 5.6.6	According to the Circular all claims are accomplished by certified statements of expenditure. However, the evidences had not been submitted to the audit regarding that.	Monthly expenditure details were prepared based on the payment made to the eligible beneficiaries and they were submitted along with the withdrawal applications for reimbursement.	All claims should be accomplished by certified statements of expenditure.
	(c) Paragraph 5.6.11	According to the Circular, reimbursements claimed and received should be reconciled and any difference should	The difference between the amount mentioned in the withdrawals and the reimbursed amount should be verified from the	Reimbursements claimed and received should be reconciled and any difference should be taken up with the Donor.

		be taken up with the Donor. However, the Project had not reconciled.	Department of Treasury Operations where the account of the Project is maintained.	
	(d) Paragraph 5.10	The Project had not maintained the financial statements on accrual basis and acceptable accounting principles in accordance with the Circular Instruction	A separate Audit Report is prepared for the parent project implemented by the project Office at the Health Ministry.	Annual accounts should be prepared based on accounting records of the Project maintained in accordance with acceptable accounting principles.
(iv)	Auditor General's Circular No. AGS/SFS/2021/65 of February 2020	Eventhough the financial statements of the Project required to be submitted on or before 28 February 2021 had been submitted only on 16 August 2021.	Not commented	The financial statements should be submitted for the audit on due dates.

3. Financial Performance

3.1 Financial Progress of the Activities of the Project

In order to provide facilities to the people who affected by the Covid pandemic, the Government had provided allowances for Kindly Patients, Disabilities and Low Income Elders over 70 and 100 years. Subsequently, the Government had entered into Loan Agreement with the International Development Association to finances the above allowances. Out of total allocation of US\$ 87.24 million equivalent to Rs. 16,248.45 million made by the Lending Agency, only a sum of US\$ 29 million equivalent to Rs. 5,602 million representing 34.47 per cent had been utilized for this purpose as at 31 December 2020.