

Additional Financing for COVID – 19 Emergency Response and Health Systems Preparedness Project (Sub Component -1.2) - 2021

The audit of financial statements of the Additional Financing for COVID – 19 Emergency Response and Health Systems Preparedness Project (Sub Component -1.2) for the year ended on 31 December 2021 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 Loan Agreement of the Project, 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/or 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 equivalents 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 2.1 of my report, the accompanying financial statement give a true and fair view of the financial position of the Project as at 31 December 2021, 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 Responsibility of the Management and Those Charged with Governance for the Financial Statements

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

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 Accounting Deficiencies

No	Audit issue	Management Responses	Auditor's Recommendation
(a)	According to the information received, the front end fee amounting to Rs. 19.5 million and interest charges amounting to Rs. 147.39 million had been recovered by the Lending Agency for sub component 1.2 and sub component 1.2 (b) as at 31 December 2021 had not been brought to the financial statements.	Necessary accounts were prepared for forwarded expenses and reimbursements. No reimbursement has been made by this Ministry regarding the matter mentioned in this Audit Query.	Front end fee and the interest recovered by the Lending Agency should be brought to the ledger accounts of the Project

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| <p>(b) According to the Financial Regulations 626, the financial statements of each Project should be prepared based on separate accounting records maintained by the Project. However, the separate set of Ledger Accounts had not been maintained by the Project.</p> | <p>The necessary accounts were prepared for forwarded expenses and reimbursements. No reimbursement has been made by this Ministry regarding the matter mentioned in this Audit Query.</p> | <p>Annual accounts should be prepared based on accounting records of the project maintained in accordance with acceptable accounting principles on and accrual basis and all books and records should be maintained on double entry basis.</p> |
| <p>(c) According to the record of the General Treasury, the total loan balance as at 31 December 2021 of the Loan No.6727 was US\$ 10.2 million and Loan No 6728 was SDR 13.19 million. However, the corresponding balances were shown as US\$ 12.2 million and SDR 14.18 million respectively in the reports of the External Resources Department. Therefore, differences of US\$ 2 million and SDR 0.99 million had been observed during the course of audit.</p> | <p>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.</p> | <p>Need to reconcile the difference and made suitable adjustments to the relevant ledger accounts.</p> |

2.2 Lack of Documentary evidence for audit

Audit issue	Management Responses	Auditor's Recommendation
<p>In order to provide facilities to the people who affected by the Covid epidemic, the Government had provided allowances amounting to Rs. 2,326 million for Kidney Patients, Disabilities and Low Income Elders over 70 and 100 years and a sum of Rs. 830.94 million had been reimbursed during the year under review by the Project as per the Finance Agreement entered with the International Development Association. According to the books maintained by the District Secretariats, receipt and reimbursement out of proceeds the</p>	<p>The responsibility of the State Ministry of Samudhri, Household Economy, Microfinance, Self-Employment and Business Development was only to submit expenses applications to the accounts maintained by the Treasury to reimburse the expenses incurred by the beneficiaries, Development.</p>	<p>Project should separately record the Project expenditure from other allowances and also informed to all District Secretariats to record the Project expenditure separately and report to the Project office monthly.</p>

Loan provided by the International Development Association could not be identified separately. However, the Government had provided funds exceeding the allocation of the Loan for the affected people.

2.3 Non Compliance with Laws, Rules and Regulations

No	Reference to the Laws, Rules and Regulations	Non Compliance	Management Response	Auditor's Recommendation
(a)	Paragraph (d) of the schedule 2 of the Loan Agreement	Project Coordination Unit had not been established and maintained within the Ministry.	The responsibility of this State Ministry of samurdhi, Household Economy, Microfinance, Self Employment and Business Development was only to submit expenses applications to the accounts maintained by the Treasury to reimburse the expenses incurred by the beneficiaries, who were entitled, through the "Client Connection" method conducted by the World Bank. Therefore, no project unit has been established under the State Ministry of Samurdhi, Household Economy, Microfinance, Self-Employment and Business Development.	Project should be established and maintained Project Coordination Unit within the Ministry
(b)	Project Paper No PAD 4021			
i.	Paragraph 45	According to the Project paper the Project had not assigned sufficient staff with adequate qualifications and experience to manage financial management activities under the Project.	The responsibility of the State Ministry of Samurdhi, Household Economy, Microfinance, Self Employment and Business Development was only to submit expenses applications to the accounts maintained by the Treasury to reimburse the expenses incurred by the beneficiaries, who were	Project should be assigned sufficient staff with adequate qualifications and experience to manage financial management activities under the Project.

entitled, through the “Client Connection” method conducted by the World Bank.

ii. Paragraph 51	The Project had not collected and recorded the monthly expenditure reports covering payments made to all categories from the District Secretariats.	The responsibility of the State Ministry of Samurdhi, Household Economy, Microfinance, Self Employment and Business Development was only to submit expenses applications to the accounts maintained by the Treasury to reimburse the expenses incurred by the beneficiaries, who were entitled, through the “Client Connection” method conducted by the World Bank.	Project should be collected and recorded the monthly expenditure reports covering payments made to all categories from the District Secretariats
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iii. 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.
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iv. Paragraph 5.6.11	According to the circular reimbursements claimed and received should be reconciled and any difference should be taken up with the donor, the Project had not been reconciled.	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.	Reimbursements claimed and received should be reconciled and any difference should be taken up with the donor
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(c) Auditor General’s Circular No. AGS/SFS/2021/65 of February 2020	The financial statements of the Project for the year ended 31 December 2021 requires to be submitted for audit on or before 28	Answer cannot be accepted.	The financial statements should be submitted for the audit on due dates.
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February 2022 had
been submitted only
on 16 October 2022.

- (d) Financial Regulation Internal Audit had The Internal Audit had not The transaction of the
133 and Section 53 of not been conducted been conducted for the Project. Project should be
the Project for the Project. audited by the Internal
Administration Audit Section of the
Document, Ministry

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\$ 35.49 million equivalent to Rs.6,433.32 million representing 40.5 per cent had been utilized for this purpose as at 31 December 2021.