

Additional Financing for COVID – 19 Emergency Response and Health Systems Preparedness Project - 2021

The audit of financial statements of Additional Financing for COVID – 19 Emergency Response and Health Systems Preparedness Project for the year ended 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 article V of the Section of 5.01 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 (IDA). 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 Financing Agreement of the Project, Ministry of Finance, Economic Stabilization and National Policies is the Executing 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 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 effect of the matters described in the Table 2, the accompanying financial statements 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 Generally Accepted Accounting Principles .

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 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 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. Financial Statements

2.1 Accounting Deficiencies

| No. | Audit Issue | Response of the Management | Auditor's Recommendation |
|-----|---|---|---|
| (a) | The government had entered into a Loan Agreement with the International Development Association (IDA) to provide Rs.5,000 allowances and Rs.10,000 worth of essential good pack for those who lost their livelihood due to the lockdown and curfew of the country. Accordingly, the IDA had disbursed a sum of Rs.9,887 | The relevant loan agreement has been amended on 20.01.2021 Since the allocations given by the Treasury to the district secretaries were government funds, it was not mentioned as money given under World Bank assistance. The World Bank has not agreed to reimburse the entire cost incurred by the Treasury. Therefore, all the money held by the Treasury was not reimbursed. The government has spent more money than the World Bank assistance | The record should be maintained to identify the use of government and world bank fund Separately. |

million for the above allowances whereas the Government had spent Rs.12,249 million. However the separate information relating to the IDA disbursement had not been provided for audit.

amount reimbursed to the Treasury for the overall payments.

- (b) It was observed that the Front End Fee amounting to Rs.19.4 million had been recovered by the Lending Agency as at 31 December 2021 had not been brought to the financial statements.
- For the second and third wave of the COVID-19 epidemic, this accounting report was prepared only in relation to the reimbursement of expenses incurred by the Treasury and it is appropriate to account for the front end fee related to this loan under the parent project related to this program. Clarifications in this regard can be obtained from the Department of Foreign Resources.
- All the project expenditure should be disclosed in statement of Expenditure

3. Physical Performance

3.1 The following observations are made on sample audit conducted in site visits

(a) Harispattua and Akurana Divisional Secretarial

| No | Audit issue | Response of the management | Auditor's Recommendation |
|-----|---|----------------------------|--|
| (a) | An amount of Rs. 21.5 million and Rs. 30.6 million was spent to distribute food bags in Harispattua and Akurana Divisional Secretariat areas without sufficient assurance from the health service officials as to whether they belong to quarantined families. | Not Response | All the distributions should be done in accordance with the rules and regulations |
| (b) | As per Circular No. PTF/03-2021(ii) dated 22 August 2021 of the Secretary of the Presidential Task Force for Economic Revitalization and Poverty Alleviation to control the Covid 19 project, it has been decided to pay an allowance of Rs.2,000 to those who have lost their livelihood due to the temporary shutdown of the country. Accordingly, a total of Rs.14.9 million was distributed to 7,441 people; however the documents signed by the beneficiaries were not submitted for audit, so it could not be satisfactorily checked. | Not Response | The beneficiaries' information and record with signature should be provided for audit. |
| (c) | According to the Prime Minister's Secretary's Circular No. PTF/01/Circular/01 dated 31 March 2020, Rs.710,000 was paid as an allowance of Rs.5,000 to 142 beneficiaries on the waiting list during the Covid-19 epidemic, without obtaining signatures of receipt of the money. | Not Response | Receipt of benefits should be confirmed by signatures and submitted to audit. |

(b) Kurunagala Divisional Secretarial

| No | Accounting Deficiencies | Management Response | Auditor's Recommendation |
|-----------|--|----------------------------|---|
| (a) | According to the population and housing census, the total number of families in Kurunegala district excluding government, semi-government and pensioner families is 322,143 (excluding armed forces), however Rs.5,000 allowance was paid to 563,652 families, exceeding the total number of families in the district. | Not Response | The number of benefited families should be tally with the government statistics. |
| (b) | According to Kurunegala District Secretary's letter No. DSKU/ADM/SUD/SS/NSEDL/02 dated 30 April 2020, in the payment related to May 2020, if any benefit has been paid on loss of livelihood for the elderly over 70 years of age, to receive the allowance of Rs.5,000 Despite not being qualified, 30 adults in selected domains of 04 Divisional Secretariats were paid contrary to proper regulations. | Not Response | Payment should be made on the basis of correct data |
| (c) | Cases were observed where both Samurdhi Allowance and Livelihood Loss Allowance were given under the same house number under Narammala Divisional Secretariat and they were not allocated to sub-families. | Not Response | Determining the method of receiving aid and making payments |
| (d) | When paying allowances to disabled people in several Village Officers Division of Narammala Divisional Secretariat, the recommendation of the Social Service Officer / Social Development Assistant / Development Officer and the disability of the relevant application form were not fully recommended and Part F which was recommended by the Divisional Secretary was not completed. | Not Response | The allowances Should be distributed in accordance with the recommendation of relevant officers |
| (e) | The allowances had been paid for 215 beneficiaries in 11 Village officers division of Kotawehera Divisanal Secretariat without submitting the format introduced by the Circular No. PTE/01/Circular /01 dated 15 April 2020. | Not Response | The allowances Should be distributed in accordance with the government rules and regulation |
| (f) | Elderly, disabled, loss of livelihood allowance for persons whose names were not included in the voter register of Iluppagedara domain had been given on 8 occasions by committee decisions. | Not Response | The allowances Should be distributed in accordance with the government rules and regulation |

(c) Polonnaruwa & Anuradhapura Divisional Secretarial

| No | Accounting Deficiencies | Management Response | Auditor's Recommendation |
|-----------|---|----------------------------|---|
| (i) | According to paragraph 05 of the Prime Minister's Secretary's Circular PTF/02/2020(i) dated 03 April 2020, the list of beneficiaries recommended by the rural committees in the social benefit payment program implemented by the government during the catastrophic situation caused by the Corona epidemic should be approved by the divisional secretary. Rs.2,2 million in relation to 03 Rural Service Domains without the approval of the Divisional Secretary and Rs. 460,000 in relation to 02 Rural Service Domains without the recommendation of the Rural Committee had been paid. | Not Response | The allowances Should be distributed in accordance with the government rules and regulation |
| (iii) | Contrary to the provisions of Prime Minister's Secretary's PTF/03/2020(iv) and Circular dated 20 April 2020, Rs.25,000 was paid to 05 beneficiaries who received farmer pensions in Alahera Divisional Secretariat Division. | Not Response | The allowances Should be distributed in accordance with the government rules and regulation |
| (iv) | During the inspection of the payment vouchers of Diyabenduma Grama Niladhari domain, it was observed that 03 cases where the recommended names were removed by the village committees and payments of Rs.15,000 were made instead. | Not Response | The allowances Should be distributed in accordance with the government rules and regulation |
| (v) | According to the Prime Minister's Secretary's PTF/03/2020(iv) and the Prime Minister's Secretary's circular dated 20 April 2020, the expatriate members were to be paid benefits after verifying that they had not sent money and had no previous savings, however no amount of Rs.50,000 was paid for 10 beneficiaries of Diyabeduma domain. It was observed that payments were made without balance verification, | Not Response | The allowances Should be distributed in accordance with the government rules and regulation |
| (vi) | An amount of Rs.60,000 was paid for 12 beneficiaries of Alahera Divisional Secretariat Division and an amount of Rs.80,000 for 16 beneficiaries of Higurakgoda Divisional Secretariat Division was paid without providing of ID numbers. | Not Response | The allowances Should be distributed in accordance with the government rules and regulation |