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Date }

**Management Audit Circular No. : DMA /02/2024**

All Secretaries to Ministries

Chief Secretaries of Provinces

Heads of Departments

District Secretaries

Heads of Government Corporations/Statutory Bodies/ State Owned Enterprises

**Project Management Guidelines**

With objectives such as achieving economic growth, preserving ecological balance and enhance religious and social harmony, successive governments have implemented various projects in Sri Lanka over the past few decades, funded through both local and foreign contributions. A review of these development projects reveals that while some have achieved their intended outcomes, most have not yielded the expected results relative to the financial resources spent.

2. Key components influencing the success or failure include project identification, planning, proposal evaluation and approval, monitoring and progress evaluation, stakeholder engagement, team skills and motivation, technology usage and the management of financial and other resources.

3. One of the main reasons for project failures, as identified by the Department of Management Audit during Audit and Management Committee meetings, is the absence of a comprehensive guideline covering the entire project process from planning, appraisal, implementation, monitoring and completion to handing over the project. Although, circulars and instructions have been issued by the Treasury Departments and various ministries at different times regarding project implementation, a complete and cohesive guideline had not been established.

4. To address the gaps, the Department of Management Audit has developed this Project Management Guideline in consultation with related Departments of the General Treasury and, considering all circulars related to project implementation previously issued by those departments and addressing current requirements.

5. This guideline outlines the necessary steps under the following main sections:

- i. Provisions and Institutional Arrangement for Project Implementation
- ii. Project Identification, Planning, Appraisal and Approval, Monitoring and Evaluation
- iii. Land Acquisition for Projects and Resettlement
- iv. Role and Responsibility of the Project Director and Major Project Sectors
- v. Project Completion of and Assets Transfer
- vi. Internal Auditing of Projects

6. It is essential to adhere to the instructions outlined in this guideline for all projects under your Ministry, Department, Provincial Council or Statutory body. Internal auditors are also required to follow this guideline to strengthen internal control processes.

7. For additional clarification on any matters contained in this guide, please contact the Department of Management Audit at 011-2484543 or via email at [dgma@dma.treasury.gov.lk](mailto:dgma@dma.treasury.gov.lk)



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### **Project Management Guidelines**

The failure to achieve the expected results from numerous development projects, funded by domestic and foreign sources, which were aimed at generating economic, social and financial benefits, or to deliver these results within the planned timeframe, is a key factor contributing to Sri Lanka's economic crisis.

An analysis of the recent project failures reveals that while some projects failed due to inherent issues, the majority were affected by economic, political, social and administrative factors. The failure to achieve the expected outcomes, or the outright failure of these projects, can be attributed to the direct or indirect impact of the following factors:

1. Weakness in project identification and planning

Shortcomings in planning, such as failure to accurately identify project requirements, non-compliance with international, national and sectoral policies and the selection of high-tech and high-cost projects unsuited to Sri Lanka's socio-economic conditions have led to projects not achieving their desired objectives.

2. Inability to maintain continuity in the project input chain

Unforeseen crises arising after a project's initiation, such as constraints on funding, human resources, and technology, hinder implementation. These constraints often reduce project quality, limit scope, and/or extend completion time.

3. Shortcomings in accountability and management

Diverting resources allocated for the project to other purposes can increase costs, delay project completion, or prevent the achievement of anticipated outcomes.

4. Policy instability

Frequent policy changes can disrupt project continuity, potentially leading to mid - project suspension or insufficient support for its successful completion.

5. Limited involvement of relevant stakeholders

The success of a project depends heavily on the support and input of those who directly benefit from it. Failure to engage these stakeholders can result in opposition or negatively impact the project's success.

6. Inadequate monitoring and evaluation

The absence of a formal methodology for continuous monitoring or evaluation makes it difficult to identify and address issues during project implementation, leading to missed deadlines and unresolved problems.

7. Neglect of environmental and social impacts

Failing to conduct thorough environmental assessments and insufficient evaluation of social impacts can result in legal challenges or opposition from affected communities.

8. Technical disruptions and changes

Initiating a project without adequate technical expertise, or failing to adapt to technological changes over time, can lead to project failure.

9. External influences

Factors beyond the project's control, such as natural disasters, global market fluctuations in raw materials and machinery prices, and economic decline, can significantly impact the project's performance and timeline.

10. Lack of sufficient risk management

Failure to identify potential risks related to the project's vision, mission, and objectives during the planning phase, combined with the absence of pre-planned solutions, can prevent the achievement of desired outcomes or cause delays in project completion.

To ensure the successful implementation of development projects and minimize the impact of the aforementioned factors, it is crucial to foster collective agreement and cooperation among government institutions, development partners, and other stakeholders. Various government institutions have issued circulars and guidelines to provide the necessary direction for carrying out development projects. This guide offers comprehensive guidance, incorporating the content of these circulars and guidelines, along with internal controls required for effective project administration, to address current needs.

The contents of this guideline are as follows:

1. Provisions and Institutional Setup for Project Implementation
  - 1.1. Provisions for Project Implementation
  - 1.2. Institutional Setup for Project Implementation
    - 1.2.1. Role and Responsibility of Executing Agency and Implementing Agencies
      - 1.2.1.1. Role and Responsibility of Executing Agency
      - 1.2.1.2. Role and Responsibility of Implementing Agency
2. Project Identification, Planning, Appraisal and Approval, Monitoring and Evaluation
3. Land Acquisition for Projects and Resettlement
4. Role and Responsibility of the Project Director and Main Project Sectors
  - 4.1. Role and Responsibility of the Project Director
  - 4.2. Project Administration
  - 4.3. Technical/Engineering Works
  - 4.4. Procurement
5. Completion of Projects and Transfer of Assets
6. Internal Audit of the Project
7. Relevant Circulars and Guidelines

## **1. Provisions and Institutional Structure for Project Implementation**

### **1.1. Provisions for Project Implementation**

Project planning is primarily conducted under expenditure planning according to Financial Regulation (F.R.) 3, while the programming of expenditure is carried out under F.R. 4. The Executing Agency (usually the line ministry responsible for the project) and the Implementing Agency (typically the relevant department or statutory body) should execute the projects in compliance with these provisions, along with the circulars and guidelines outlined here.

### **1.2. Institutional Setup for Project Implementation**

To achieve the main objectives of capital projects, activities such as project identification, planning, implementation, monitoring, evaluation, follow-up and reporting are carried out by the Executing Agencies, Implementing Agencies and other related entities under the supervision of the relevant Treasury departments. The National Audit Office, empowered

by the Constitution and the National Audit Act No. 19 of 2018, conducts audits and submits reports to the relevant institutions and Parliament.

### **1.2.1. Role and Responsibility of Executing Agency and Implementing Agency**

The primary role of both the Executing Agency and the Implementing Agency is to submit project proposals and carry out key tasks for project planning and expenditure programming according to F.R. 3 and 4, to achieve development objectives. The responsibilities and tasks of each agency should be clearly defined. In some instances, a single agency may serve as both the Executing Agency and the Implementing Agency.

#### **1.2.1.1. Role and Responsibility of the Executing Agency**

- Identifying projects on a priority basis and making policy decisions based on the sectoral planning framework, aligned with national policy.
- For projects of significant value, obtaining approvals from the Department of National Planning and the Cabinet of Ministers, in line with the Circular No MNPEA 02/2019, dated 10.01.2019 and titled “Guidelines for Submitting Development Project Proposals for Public Investment” issued by the Ministry of National Policies, Economic Affairs, Resettlement and Rehabilitation, Northern Province Development, Vocational Training and Skills Development and Youth Affairs. Depending on the nature of the project proposal, obtaining pre-approval from other relevant institutions such as the Department of Archaeology or the Department of Wildlife Conservation, before implementation.
- After formal approvals, the Secretary of the relevant ministry should incorporate the project into the budget estimates. For projects funded by the foreign loans or grants, consultation with the Department of External Resources is necessary to confirm loan / grant timelines. For domestically funded projects, the Department of National Budget should be consulted to manage expenditure within fiscal limits. Also, the instructions of the Budget Call Circular related to budget preparation should be followed when incorporating a project into the budget estimate.
- Conducting Steering Committee meetings to address issues identified therein, as required by Circular No. MOFE&PD/ERD/2020/1 dated 12.02.2020 issued by the Secretary to the Ministry of Finance, Economy and Policy Development.
- Submitting unresolved project issues to the Steering Committee or higher authorities for solutions.

- Conducting two (02) Project Audit and Management Committee Meetings per year chaired by the Chief Accounting Officer in line with the DMA circulars.
- At the project identification, establishing Risk Management Committees under the Chief Accounting Officer's guidance to review the project plan, identify risks and create a risk management framework. Circular No. 01/ 2024 issued by the Department of Management Audit, provides guidance on risk management. Proposals identified/recommended by the Risk Management Committee should be further discussed in the Project Steering Committee meetings and the Project Audit and Management Committee meetings.
- Ensuring all preliminary functions (land acquisition, re-installation of common amenities, tools and equipment), necessary approvals and legal provisions are completed before requesting budget allocations for construction or goods and services procurement.
- Fulfilling the responsibility of the Implementing Agency when Executing Agency also serves as the Implementing Agency.
- Taking steps to complete preliminary procurement activities where possible.
- Ensuring the project's procurement activities are carried out within the prescribed timeframe.
- Maintaining a folder containing all relevant agreements, plans, permits and documents from the planning phase to project completion and formal handover, in compliance with the Right to Information Act, No. 12 of 2016 and other legal provisions.

#### **1.2.1.2. Role and Responsibility of the Project Implementing Agency**

- Steering and monitoring the projects in accordance with the circulars, regulations and guidelines issued time to time by the Department of Management Services and other relevant authorities.
- Achieving the desired project outputs and results within the planned timeframe.
- Providing technical support and information to the Executing Agency regarding the project.
- Supporting the procurement process managed by the Executing Agency.
- Holding Project Audit and Management Committee meetings as per the circulars issued by the Department of Management Audit.
- Conducting monthly progress review meetings for the projects.

## **2. Project Identification, Planning, Appraisal and Approval, Monitoring and Evaluation**

All stakeholders should ensure that development projects are identified, planned and implemented to produce sustainable positive impacts in environmental, social, economic, financial and technological aspects. To ensure project sustainability, objectives should align with stakeholder's need and expectations including beneficiaries and regulatory agencies. A robust monitoring and evaluation system should be established to assess the project's environmental, social and economic impacts, allowing for informed decisions to improve performance.

- 2.1. Line Ministries, departments, government corporations, state-owned enterprises and companies should adhere to Circular No. MNPEA 02/2019 issued on 10.01.2019 by the Ministry of National Policies, Economic Affairs, Resettlement and Rehabilitation, Northern Province Development, Vocational Training & Skills Development and Youth Affairs when seeking approval for development projects. Accordingly, initial or final project approval/recommendations shall be obtained from the Department of National Planning and Cabinet approval be obtained according to the circular.
- 2.2. If project proposals (approved according to the 2.1 above) align with the conditions specified in the 2<sup>nd</sup> paragraph of Budget Circular 03/2023, dated 16.06.2023 the Department of National Planning shall submit them to the National Development Committee for methodical appraisal to ensure effective use of public expenditure. Final recommendations shall be made to the Cabinet of Ministers by the said committee.
- 2.3. When preparing Project Appraisal Reports, any conditions imposed on recommended projects by the Department of National Planning should be monitored by the Executing Agency, Steering Committee and Project Audit and Management Committee to ensure compliance.
- 2.4. According to the Circular MNPEA 02/2019 dated 10.01.2019, a comprehensive project report/feasibility study should be prepared after the initial approval. These reports should then be submitted to the approval of the Cabinet of Ministers following approval from the Department of National Planning.
- 2.5. According to the letter No. ERD/IRCPRS/GEN/10 dated 17.02.2020 of the Department of External Resources, the cost of consulting services, new constructions and vehicles purchase should be minimized.



- 2.6. The provisions of Circular PS/EAD/Circular/16/2022 dated 09.01.2023 of the Secretary to the President should be followed when entering into bilateral and multilateral agreements and Memorandum of Understanding, under regional cooperation with foreign countries for development programs and projects by government ministries and provincial councils, as well as when collaborating with foreign financial institutions. Moreover, government institutions should not directly engage with development partners when formulating development projects for foreign financing, without formal approval for project implementation, as stipulated in Circular MF/ERD/2023/02 dated 24.03.2023 of the Ministry of Finance, Economic Stabilization and National Policies.
- 2.7. When determining the source of foreign financing, aspects such as the cost of borrowing, previous experience and procedures, conditions and the expertise of the respective lenders are considered. The Department of External Resources will include approved development project in the project pipeline/ country partnership strategy of the relevant lending agencies.
- 2.8. If project scope changes significantly due to Loan/Grant negotiations or other reasons, in order to amalgamate such changes to the project, approval shall be obtained from the relevant approving authority.
- 2.9. Unsolicited project proposals should be submitted via open competition, following procurement guidelines and the most advantageous proposal shall be selected.
- 2.10. The progress of projects under each line ministry should be submitted to the Cabinet of Ministers on a semi-annual basis.
- 2.11. Monthly progress review meetings should be chaired by the Chief Accounting Officer/Accounting Officer to assess the status of the project. The administrative, financial, planning and engineering sections of the Executing Agency/ Implementing Agency should regularly monitor the respective sub sections of the projects, identify any problems and present them at the progress review meetings, Steering Committee meetings or Project Audit and Management Committee meetings depending on the nature of the issues. Solutions to identified problems should also be proposed.
- 2.12. Quarterly progress reports for the project should be submitted to the Department of Project Management and Monitoring and/or other relevant institutions using the specified formats.
- 2.13. In accordance with Project Management and Monitoring Circular 01/2024, all government institutions should carry out development evaluations (programs/projects) in line with the National Evaluation Policy Implementation Framework from 2024 onward.

### **3. Land Acquisition for Projects and Resettlement**

- 3.1. The boundaries of the worksite should be clearly identified in accordance with the approved project design.
- 3.2. When acquiring lands for projects, priority should be given to undeveloped suitable state lands wherever possible, depending on the nature of the project.
- 3.3. Under the provisions of F.R. 53 private lands and building only be acquired if state land is unavailable.
- 3.4. A plan should be prepared and relevant information on the land to be acquired within the worksite boundaries should be collected, using the Geographic Information System (GIS) or any other suitable method.
- 3.5. All parties involved in land acquisition should coordinate in accordance with the Land Acquisition Act No. 09 of 1950 and other relevant rules and regulations, while maintaining accurate records of the acquired land.
- 3.6. It is mandatory to address the matters specified under (1) (a) of the Order 248 of the Land Acquisition Act before submitting a land acquisition application to the Secretary of the Ministry of Lands.
- 3.7. Depending on the nature of the project, recommendations and approval from the National Building Research Organization (NBRO) may be required for the land in acquisition and necessary actions should be taken accordingly.
- 3.8. Permission should also be obtained from other agencies such as the Department of Archeology and the Department of Wildlife Conservation, where necessary, based on the nature of the project.
- 3.9. If any common fixed assets/structures that need to be replaced due to the project implementation should be identified and documented.
- 3.10. For domestically financed projects, Order 38(a) of the Land Acquisition Act should be implemented. The Interim Order under provision 38(a) should only be applied in urgent cases. If immediate possession is required under this provision, a justification report should be submitted and it should be ensured that activities are completed within the planned timeframe. For foreign-funded projects, land acquisition should adhere to the conditions set by the financial institution as well.
- 3.11. When resettlement is required, a Resettlement Action Plan/Implementation Plan should be prepared adhering to the conditions set by the financial institution. Cabinet approval must be obtained for the Resettlement Plan, and the resettlement process should follow the Sri

Lanka National Involuntary Resettlement Policy (2001) or, for foreign-funded projects, the criteria of the relevant lending agency.

- 3.12. Prior to awarding contracts for construction work, all necessary land acquisition and utility service re-establishment activities required for project implementation should be completed as much as possible.
- 3.13. If the project has a consultant (land acquisition and resettlement specialist), the land acquisition process should be carried out under his guidance and supervision.
- 3.14. The relevant line ministry should coordinate with the relevant agencies to remove utility infrastructure such as electric poles, telephone lines, pipelines and related accessories from the worksite, to avoid project delays.
- 3.15. Provisions for compensating landowners and resettling displaced families should be allocated under annual budget provisions. Coordination with the Divisional Secretary should be ensured for the issuance of deeds and payment of compensation to resettled parties. Appeals should be handled in accordance with the 2013 Land Acquisition Orders.
- 3.16. When acquiring land with a certificate of title under the Registration of Title Act No. 21 of 1998, the acquired portion should be sub-divided. The both portions should be registered in the name of the owner and, following the acquisition process, the acquired portion should be registered in the name of the government or institution, while the remaining part should remain in the individual's name (in line with Section 7, xvi of Extraordinary Gazette No. 2308/27 dated 01/12/2022).
- 3.17. Legal proceedings related to land acquisition should be expedited.
- 3.18. Compensation payments for acquired land should be processed quickly based on Treasury provisions to minimize interest payments due to unnecessary delays.
- 3.19. Upon completing the land acquisition, actions should be taken in accordance with Section 44 of the Land Acquisition Act, with the Divisional Secretary transferring the relevant land to the implementing agency.
- 3.20. A folder containing certified copies of all documents related to land acquisition and resettlement should be maintained for the project. Upon project completion, this folder should be formally handed over to the relevant line ministry.
- 3.21. A summary of the land acquisition process is presented in Annex I.

#### **4. Role and Responsibility of the Project Director and Main Project Divisions**

##### **4.1. Role and Responsibility of the Project Director**

- 4.1.1. As per the Management Services Circulars, the Project Director should be appointed on a full-time basis and should remain in the office until the project is completed and formally handed over. Before offering a new appointment, it should be reviewed from the Chief Accounting Officer/Accounting Officer of the previous project entity that the project director has completed the projects properly and within the stipulated timeframe.
- 4.1.2. The Project Director should manage the resources provided for the project effectively and efficiently. Additionally, the Project Director should also coordinate all sections related to the project to ensure that the project tasks are completed within the stipulated time without any delays or wastage of resources.
- 4.1.3. The Project Director should direct, control, supervise and review project activities, prepare final accounts, submit them to the relevant stakeholders within the specified timeframe, and oversee project activities.
- 4.1.4. The role of the contractors and consultants should be closely monitored to ensure optimal efficiency in the use of resources.
- 4.1.5. The Project Director should monitor the performance of the contractors and consultants, ensuring their activities comply with the contract conditions and procurement documents, as well as agreements with lending agencies.
- 4.1.6. The Project Director should formally and closely monitor the engineering staff of the project and evaluate their performance.

##### **4.2. Project Administration**

- 4.2.1. Staff should be recruited in accordance with the provisions of the Management Services circulars and the requirements of the financial institution.
- 4.2.2. Key responsible officers should be identified, with specific duties (Terms of Reference - TOR) and Key Performance Indicators (KPIs) defined to ensure tasks are performed as assigned. Performance-based service extensions should be granted where possible.
- 4.2.3. A detailed list of duties should be assigned, with financial control powers delegated according to the nature of duties and officer experience, as per F.R. 135.
- 4.2.4. The approval of the Project Steering Committee should be obtained for implementing the overall project and annual action plan. KPIs for main project activities and responsible officers should be identified, along with critical interconnections to ensure timely project completion.

- 4.2.5. The Executing and Implementing Agencies should coordinate to formalize and update project management activities and issue instructions as necessary.
- 4.2.6. The Project Director should establish formal procedures for staff attendance, leave and field work of the project staff.
- 4.2.7. Control, supervision and custody, maintenance, insurance and other asset-related activities should be managed formally.
- 4.2.8. The Project Steering Committee meetings should be conducted, according to the provisions set out in No. 05 of the Circular No MOFE&PD/ERD/2020/1 dated 12.02.2020 of the Secretary to the Ministry of Finance, Economy and Policy Development. The Committee meeting reports should be forwarded to the organizations represented on the committee within two (02) weeks.
- 4.2.9. The Project Director should prepare a plan for monthly progress review involving all project divisions and evaluate performance accordingly.
- 4.2.10. In cases where circulars are unclear or ambiguous, clarification should be sought from the relevant institutions. If a matter is not addressed by a circular, instructions from the Executing Agency should be followed. The Project Director should issue formal instructions after reaching an agreement on the circulars and regulations with relevant institutions.

### **4.3. Technical/ Engineering Works**

- 4.3.1. Project works should be carried out according to the prescribed specifications, using quality materials and within the timeframe set by the contractor's work plan.
- 4.3.2. Specific responsibilities (TOR) and KPIs should be established for technical and engineering staff, with work assignments clearly designated.
- 4.3.3. A specific roles and responsibilities should be assigned to the respective supervising engineers.
- 4.3.4. The field engineer is required to submit a monthly work plan for the upcoming month, detailing their tasks, maintain field notebooks and daily progress notes, and submit a monthly performance report.
- 4.3.5. During progress review meetings, comments and observations should be made if deviations are noted and these observations should be included in the minutes of the Progress Review Committee meetings.

4.3.6. Support should be extended to the parties involved in land acquisition and resettlement as required.

4.3.7. Formal controls should be maintained regarding asset custody, maintenance, and reporting.

4.3.8. Special certificates should be issued according to F.R. 237.

4.3.9. Contract related administrative tasks should primarily be conducted with the support of assigned engineers.

#### **4.4. Procurement Activities**

4.4.1. The project procurement plan approved by the Project Steering Committee should be incorporated into the institution's overall procurement plan. Any revisions to the procurement plan should be approved by the Project Steering Committee.

4.4.2. In all instances where a financial institution does not specify the procurement procedure to be followed, the Procurement Guidelines of 2006 and the provisions in the supplementary amendment incidental thereto, along with any subsequent guidelines issued, should be followed.

4.4.3. The composition of the Procurement Committee shall be determined based on the total value of the procurement. The relevant procurement entity shall appoint members to both the Procurement Committee and the Technical Evaluation Committee, having first obtained the necessary authoritative approvals. The procurement process should not be fragmented into smaller parts for implementation by lower-level procurement committees. It is essential to ensure that the procurement is conducted in a cost-effective and beneficial manner through the Procurement Committee appropriate to the procurement value.

4.4.4. When purchasing vehicles for government-funded projects, the vehicles should be registered either in the name of the relevant Secretary to the Ministry or in the name of the Chief Accounting Officer/ Accounting Officer.

4.4.5. The appointment of members to the Procurement Committees and Technical Evaluation Committees should adhere to the procurement guidelines.

4.4.6. The procurement entity shall be responsible for preparing the bidding documents required for procurement.

4.4.7. The procurement entities should adhere to Electronic Government Procurement by following both the existing and any future circulars issued regarding Electronic Government Procurement. (e-GP).

## **5. Completion of the Project and Transfer of Assets**

5.1. The Project Director should coordinate directly with the Chief Accounting Officer or Accounting Officer during the project completion process.

5.2. A comprehensive plan should be developed for the completion of the project. Based on the nature of the tasks, it is required to identify the relevant parties, define clearly their responsibilities and duties, and establish a specific timeframe for completion.

5.3. All project stakeholders and staff members should be notified in advance of the project completion process, including the actions to be undertaken and the specified timeframe.

5.4. Prior to concluding the project, all pending tasks should be clearly identified through a comprehensive review of project activities. Additionally, measures should be taken to resolve these issues in consultation with relevant parties, prioritizing outstanding requirements stipulated in the agreement.

5.5. The process for transferring project assets should proceed as outlined below.

- Assets identified for transfer in the inventory survey, with their custody, current condition and value clearly defined, should be subsequently transferred to the Chief Accounting Officer.
- Guarantee certificates should be appropriately issued for the aforementioned assets and service agreements should be updated accordingly.
- It should be verified that actions related to acquired lands have been conducted in accordance with Section 44 of the Land Acquisition Act.
- All project assets, including those generated through project activities (construction, development, fittings, equipment, and apparatus) should be transferred to the Chief Accounting Officer in an appropriate manner and such assets should be properly recorded in accordance with F.R. 751 (Inventories, Accounting and Custody of Stores).
- The Project Director and the Chief Accounting Officer should ensure that vehicles assigned to the projects are properly transferred to the respective line ministries.
- In cases where imported vehicles and equipment are transferred to a third party without the requisite tax being paid, the tax due at the time of import must be remitted to the government.
- The annual depreciation amount of the depreciable assets purchased for the project should be incorporated into the project's work-in-progress value. The value, calculated based on the

remaining useful life of the relevant asset upon project completion, should then be transferred to the Ministry.

- When transferring digital assets (such as information systems and software), all other required items, including source codes, should be provided if they pertain to a program completed for software licenses and projects.
- Upon the completion of the project period, it is recommended to implement a procedure to ensure the efficient utilization of assets developed under the project and to address future maintenance activities.
- After the completion of the project, the total cost or market value of the completed assets shall be accounted by the entity taking over the ownership, classified as either fixed or moveable assets, depending on their nature

5.6. Advances and refundable deposits paid to third parties in connection with the project should be presented as separate assets in the project's financial statements.

5.7. All statutory payments related to the project, as well as utility bills (including electricity, water and telephone), and other liabilities should be settled.

5.8. To close bank accounts, the form No. TOD/BA/03 issued by the Treasury Operations Department (TOD), along with any other relevant documents, should be submitted to the TOD. This submission should comply with the instructions specified in Paragraph 6 of Public Finance Circular No. 02/2020, after ensuring that the balances of all bank accounts opened on behalf of the project have been zeroed.

5.9. If designated accounts have been opened in the Central Bank of Sri Lanka for projects, arrangements should be made to close the said accounts through the Department of External Resources and the Department of Treasury Operations, after comparing and verifying the accuracy of the account balances.

5.10. If any balance remains after reconciliation, arrangements should be made to settle the balance in accordance with the provisions of the loan agreement.

5.11. Retention should be released based on bank guarantee. The validity period of the bank guarantee should be set to cover the entire maintenance period.

5.12. Upon the completion of the project, all supplementary documents, records, and books related to payments shall be transferred to the Executing Agency.



5.13. The Project Director is required to submit a comprehensive report to the Chief Accounting Officer, including the project's objectives, challenges encountered, lessons learned, proposed future steps and sustainability aspects. Additionally, a reconciliation statement should be provided with the final report, detailing the balances of assets carried forward from the year preceding the project's completion and the actual balances transferred. Any variance between these values should be accompanied by a thorough explanation.

5.14. A copy of the project completion review report issued by the financing agency should be included to the project file and the lessons learned and the recommendations should be considered by the executing agency in implementing future projects.

5.15. The Chief Internal Auditor of the relevant Line Ministry is required to submit a comprehensive report to the Chief Accounting Officer, covering the achievement of project targets, project performance, the transfer of all assets, the settlement of liabilities and the measures taken to ensure the project's sustainability.

## **6. Internal Audit of the Project**

6.1. In terms of Section 40 (1) of the Audit Act and F.R. 133, the Internal Auditor appointed for Executive Agencies/ Implementing Agencies shall conduct the project audit. Furthermore, in terms of F.R. 134, the independence of the internal audit should be ensured.

6.2. Additionally, the provisions outlined in Management Services Circulars concerning the appointment of a Project Internal Auditor shall be adhered to.

6.3. As specified in Annex ii, the project internal audit plan shall be prepared and approved at the first Audit and Management Committee meeting for the project in the year, with recommendations from the Department of Management Audit. Furthermore, quarterly reports of the project internal audit shall be submitted to the Department of Management Audit.

6.4. A Total of 04 Audit and Management Committee meetings should be held annually for the project, out of which two meetings scheduled for the first and third quarters under the chairmanship of the Chief Accounting Officer and two meetings for the second and fourth quarters under the chairmanship of the Project Director. The key objectives of conducting these meetings are to manage resources efficiently and effectively, ensuring their full utilization in achieving the project's objectives. Furthermore, the meetings are intended to evaluate whether the anticipated progress is being realized by reviewing the progress to date and to make informed decisions to address any existing issues. The composition of the Audit and Management Committee for the project is detailed in Annex iii.

6.5. From the outset of the project, Audit and Management Committee meetings should be held and the progress achieved in relation to the following tasks shall be reviewed to determine whether the expected progress has been achieved.

- Whether the expected project performance been achieved? If not, a report detailing the reasons and providing recommendations for corrective actions should be submitted to the respective sections.
- The risk associated with the project, the relevant strategic plans and the proposal for mitigating the risk
- Procurement activities related to all contracts associated with the project.
- Evaluation of the overall project progress, including with the internal and external audit observations resulting from it.
- Evaluation of the overall progress of capital expenditures, assessment of contributions to sustainable development and ongoing monitoring and review of progress
- Conducting reviews regarding changes in the project scope
- Establishing a Management Information System or Information Reporting System for formal monitoring and evaluation during the project's initial phase, and assessing its effectiveness.
- Establishing controls and regulations pertaining to completed projects.
- Examination of other relevant incidental matters affecting project progress that have not been previously specified.

6.6. Minutes of the Audit and Management Committee meetings should be submitted to the Department of Management Audit, the Auditor General and other pertinent institutions.

6.7. It should be confirmed whether accurate project progress reports are submitted to the Department of Project Management and Monitoring within the specified timeframe.

6.8. The Internal Auditor shall submit an annual project performance report to the Project Steering Committee. This report should detail the extent to which the objectives for each project component have been achieved, any variances, lessons learned and weaknesses in the existing internal control systems along with recommendations for improvements to address these weaknesses and enhance the internal control systems.

## **7. Relevant Circulars and Guidelines**

### 1. Circulars related to project identification, planning, proposal appraisal, approval, and progress evaluation

- Circular No. MNPEA/02/2019 dated 10.01.2019 issued by the Ministry of National Policy, Economic Affairs, Resettlement and Rehabilitation, Northern Province Development, Vocational Training and Skill Development, and Youth Affairs.
- Circular No. MOFE&PD/ERD/2020/1 dated 12.02.2020 issued by the Ministry of Finance, Economy and Policy Development.
- Letter No. ERD/IRCPRS/GEN/10 dated 17/02/2020 of the Department of External Resources
- Circular No. PS/EAD/Circular/16/2022 dated 09.01.2023 issued by the Secretary to the President
- Circular No. MF/ERD/2023/02 dated 24.03.2023 issued by the Ministry of Finance, Economic Stabilization and National Policies
- Circular No. MF/ERD/2023/01 dated 27.03.2023 issued by the Ministry of Finance, Economic Stabilization and National Policies
- Budget Circular No. 03/2023 dated 16.06.2023 issued by the Ministry of Finance, Economic Stabilization and National Policies
- Risk Management Circular No. 01/20224 dated 21.06.2024 issued by the Department of Management Audit related to the implementing a Risk Management Framework.
- Project Management and Monitoring Circular No. 01/2024 dated 12.01.2024 issued by the Ministry of Finance, Economic Stabilization and National Policies

### 2. Project Human Resource Management

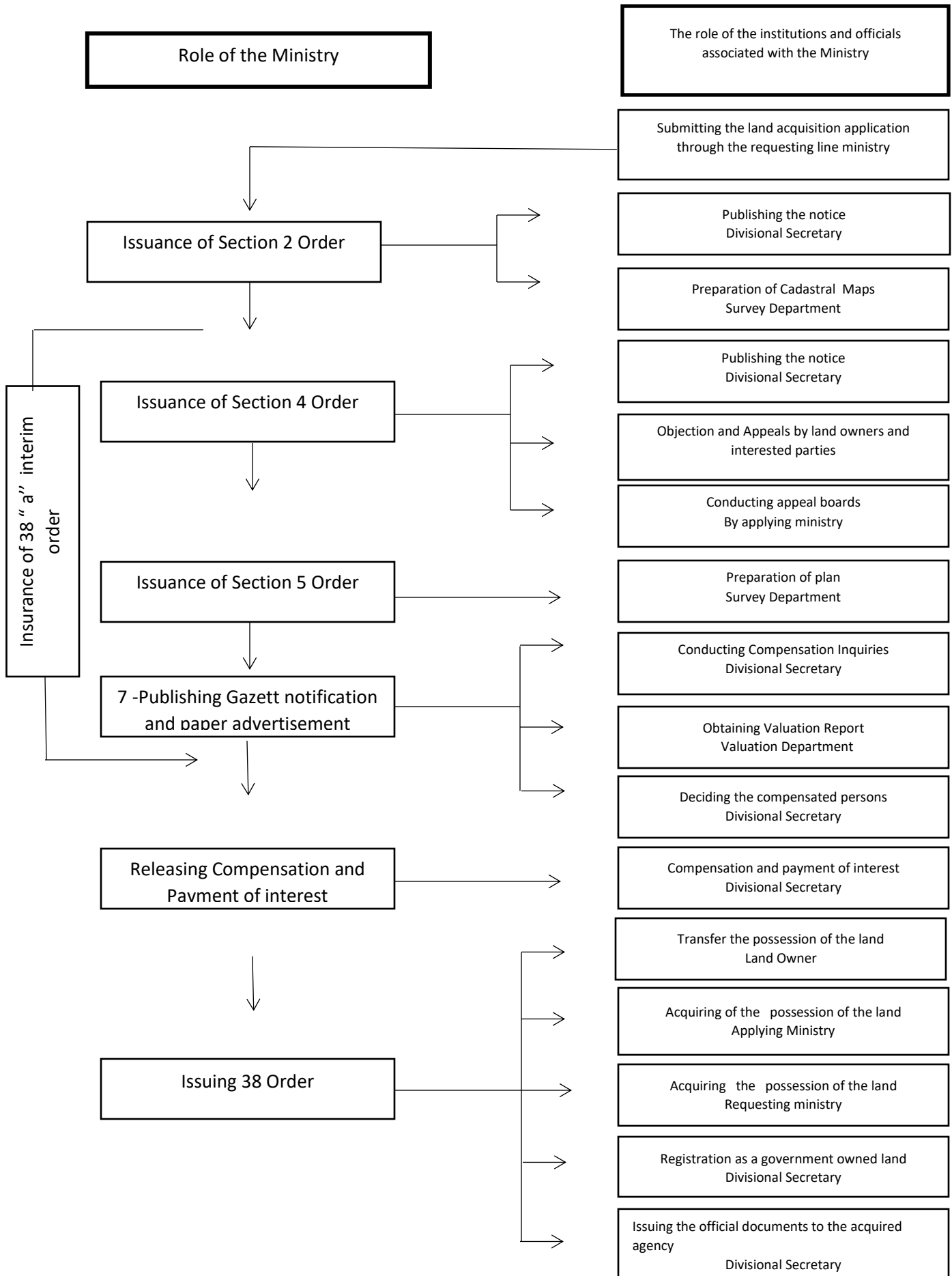
- Circulars issued by the Department of Management Services

### **Annexes:**

- i. Overview of the Land Acquisition Process
- ii. Internal Audit Plan for the Project - Format
- iii. Composition of the Audit and Management Committee Meetings of the Project

# Land Acquisition Process

## Annexure i





**Composition of Project Audit and Management Committee Meetings**

Composition of Project Audit and Management Committee Meetings which should be held annually in the first and third quarters under the chairmanship of the Chief Accounting Officer.

- |                                                                |                       |
|----------------------------------------------------------------|-----------------------|
| - Secretary                                                    | - Chairman            |
| - Chief Finance Officer / Chief Accountant, Line Ministry      | - Member              |
| - Department of Management Audit, Representer                  | - Member              |
| - Department of Project Management and Monitoring, Representer | - Member              |
| - National Audit Officer, Representer                          | - Observer            |
| - Chief Internal Auditor, Ministry                             | - Member and Convener |

Composition of Project Audit and Management Committee Meetings which should be held annually in the second and fourth quarters under the chairmanship of the Project Director.

- |                                                                |                       |
|----------------------------------------------------------------|-----------------------|
| - Project Director                                             | - Chairman            |
| - Project Accountant                                           | - Member              |
| - Department of Management Audit, Representer                  | - Member              |
| - Department of Project Management and Monitoring, Representer | - Member              |
| - National Audit Officer, Representer                          | - Observer            |
| - Internal Auditor                                             | - Member and Convener |