

## **Head 155-Ministry of Internal and Home Affairs, Provincial Councils and Local Government**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statement of the Ministry of Internal and Home Affairs, Provincial Councils and Local Government for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and statement of financial performance and cash flow statement for the year then ended 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 provisions of the National Audit Act, No. 19 of 2018. In terms of Sub-section 11(1) of the National Audit Act, No.19 of 2018, the summary report including my comments and observations on the financial statements of the Ministry of Internal and Home Affairs, Provincial Councils and Local Government was issued to the Chief Accounting Officer on 26 June 2020. In terms of Sub-section 11(2) of the National Audit Act, the Annual Detailed Management Audit Report relating to the Ministry of Internal and Home Affairs, Provincial Councils and Local Government was issued on 21 August 2020 to the Chief Accounting Officer. This report will be tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements prepared in terms of provisions of the State Accounts Circular No.271/2019 of 03 December 2019 give a true and fair view of the financial position of the Ministry of Internal and Home Affairs, Provincial Councils and Local Government as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Qualified 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 my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **1.3 Responsibility of the Chief Accounting Officer for the Financial Statement**

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The Chief Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and in terms of Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as the Chief Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Ministry of Internal and Home Affairs, Provincial Councils and Local Government is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Ministry.

In terms of Sub-section 38(1) (c) of the National Audit Act, the Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Ministry of Internal and Home Affairs, Provincial Councils and Local Government and carry out periodic reviews to monitor the effectiveness of such system and accordingly make any alterations as required for such systems to be effectively carried out.

#### **1.4 Auditor's Responsibility for 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 summary 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 the Ministry's internal control.
- 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 the Chief Accounting Officer regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 1.5. Report on Other Legal Requirements

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As required by Sub-section 6 (1) (d) and Section 38 of the National Audit Act, No.19 of 2018, I state the followings:

- (a) that the financial statements are consistent with the preceding year.
- (b) recommendations made by me on financial statements of the preceding year have been implemented.

## 1.6 Comments on Financial Statements

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### 1.6.1 Statement of Financial Performance

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The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(a) According to Final Treasury Accounting Statements, the total recurrent expenditure had been Rs.9,027.80 million. However, it had been overstated as Rs.9,031.13 million in the financial statements by Rs.3.33 million. As such, the balance of the Imprest Account of the statement of financial performance had decreased by Rs.3.33 million as at 31 December 2019.	Financial statements should be prepared accurately according to circular instructions.	The difference of recurrent expenditure between the Treasury Accounting Statement and the statement of financial performance is Rs.3.33 million and failure in tallying the account of the internal affairs division is the reason for the said difference.
(b) In terms of paragraph 3.1 of the State Accounts Circular No.271/2019 of 03 December 2019, figures of the statement of financial performance should be prepared based on figures appeared in the Final Treasury Accounting Statements. According to the Final Treasury Accounting Statements, receipts and payments of advances should be Rs.443.83 million and Rs.1,810.62 million	Financial statements should be prepared accurately according to circular instructions.	Even though receipts and payments of advances had been mentioned as Rs.448.83 million and Rs.1,810.62 million respectively in your audit query, according to Final Treasury Accounting Statements, receipt of advances should be corrected as Rs.443.83 million. In recording receipts and payments of advances in the statement of financial

respectively in the year 2019. However, it had been indicated as Rs.448.00 million and Rs.1,786.85 million respectively in the statement of financial performance. Accordingly, receipts and payments of advances had been overstated and understated by Rs.4.17 million Rs.23.77 million respectively in the statement of financial performance.

performance, receipts and payments of advances have been overstated and understated by Rs.4.17 million and Rs.23.77 million respectively as mentioned in the query.

- (c) Receipts and payments of advances of the General Deposit Account had been understated in the statement of financial performance as Rs.6.39 million and Rs.6.39 million respectively due to failure in taking action in terms of the circular as mentioned in (b) above.
- Financial statements should be prepared accurately according to circular instructions.
- Receipts and payments of the General Deposit Account have been understated by Rs.6.39 million.
- (d) In terms of paragraph 7(ii) of the State Accounts Circular No.271/2019 of 03 December 2019, revenue collected for other Revenue Accounting Officers should have been indicated as other receipts in the statement of financial performance. According to the consolidated detailed trial balance of the Ministry, the revenue collected by the Ministry under 09 revenue codes relating to other Revenue Accounting Officers, had been Rs.78.23 million. However, the said receipt had been shown as Rs.86.54 million overstating by Rs.8.31 million in the statement of financial performance.
- Financial statements should be prepared accurately according to circular instructions.
- Interest income of Advance B Account, financial receipts received to the revenue account and surcharges of Objects etc. have been indicated as other receipts in the statement of financial performance.

- (e) According to paragraph 3.5 of the Circular, variation between net provision and actual expenditure for every Object under each Object Code and reasons for such variations, in case the said variation is more than 5 per cent or Rs.10,000 whichever is higher of the total net provision, should be furnished in ACA -2(ii). However, despite having saved provision under Object Code 112 exceeding the due limit, the Format ACA – 2(ii) had not been submitted with explanations therefor.
- Financial statements should be prepared accurately according to circular instructions.
- Accounts of sub-offices along with the Account of the Head Office had been presented to Audit and particulars relating to ACA-2 (ii) have been indicated in the financial statements of those sub-offices.

## 1.6.2 Statement of Financial Position

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
<p>(a) In terms of paragraph 3.1 of the State Accounts Circular No.271/2019 of 03 December 2019, figures included in the statement of financial position should be based on figures appeared in the Final Treasury Accounting Statements. According to the Final Treasury Accounting Statements, the value of property, plant and equipment as at 31 December 2019 amounted to Rs.1,496.23 million. Nevertheless, the said value had been shown as Rs.986.83 million understating by Rs.509.40 million in the statement of financial position.</p>	<p>Financial statements should be prepared accurately according to circular instructions.</p>	<p>Even though the value of property, plant and equipment had been indicated as Rs.1,496.23 million in the Final Treasury Accounting Statements, the actual values of property and plant of sub offices were as follows.</p> <p>Local Government and Provincial Council Sector- Rs.510.94 million Home Affairs Sector- Rs.434.31 million Internal Affairs Division – Rs.41.58 million</p> <p>Accordingly, the actual value of property and plant was Rs.986.83 million. As the reason for the said difference is a technical error in the CIGAS</p>

Programme, the relevant divisions have been notified to rectify it. Accordingly, the balance of property and plant indicated in the statement of financial position is correct.

(b) The value of net assets had been shown as Rs.1,190.00 million understating by Rs.915,819 in the statement of financial position due to failure in taking action to obtain the value of net assets in terms of paragraph 7(v) of the said Circular. Financial statements should be prepared accurately according to circular instructions. As a sum of Rs.0.9 million paid for election duty had remained as unsettled advances, the value of net assets appeared in the statement of financial position is correct.

### 1.6.3 Cash Flow Statement

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
<p>(a) Even though the revenue collected under other Heads according to consolidated detailed trial balance of the Ministry had been Rs.78.10 million, it had been shown as Rs.85.57 million overstating by Rs.7.47 million in the cash flow generated from operating activities of the cash flow statement.</p>	<p>Financial statements should be prepared accurately according to circular instructions.</p>	<p>Interest income of Advance B Account, financial receipts received to the revenue account and surcharges of Objects etc. have been indicated as other receipts in the statement of financial performance.</p>
<p>(b) According to the consolidated detailed trial balance, expenditure incurred for personal emoluments and operations, subsidies and transfers and for other Expenditure Heads had been Rs.3,258.58 million, Rs.163.51 million and Rs.202,661.96 million respectively. However, moneys spent for investment activities had been indicated as Rs.691.98 million, Rs.142.47</p>	<p>Financial statements should be prepared accurately according to circular instructions.</p>	<p>According to your audit query, the amount indicated as expenses for personal emoluments and operations, subsidies and transfers and for other Expenditure Heads according to the consolidated detailed trial balance, is incorrect and it should be rectified as Rs.203,478.42 million. The difference between the sum of Rs.203,479.54 million</p>

million and Rs.202,645.09 million in the cash flow statement. As such, the cash flow allocated for operations had been shown as Rs.203,492.24 million understating by Rs.2,604.50 million in the cash flow statement.

- (c) Even though the recovery of advances according to consolidated detailed trial balance had been Rs.47.95 million, the said value had been shown as Rs.23.11 million understating by Rs.24.84 million in the cash flow generated from investment activities of the cash flow statement.

- (d) Even though sums of Rs.66.93 million and Rs.13.58 million had been spent for payment of advances and acquisition of physical assets according to consolidated detailed trial balance, the said values had been indicated as Rs.51.23 million and Rs.2,539.60 million respectively in the cash flow spent for investment activities of the cash flow statement.

Financial statements should be prepared accurately according to circular instructions.

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indicated as operations in the cash flow and the sum of Rs.203,478.42 million indicated in the consolidated detailed trial balance is brought to account through cross entries.

The cash flow statement is prepared on cash basis. As such, the receipts entered as cross entries is the reason for the difference between the sum of Rs.47.96 million indicated in the consolidated detailed trial balance and the sum of Rs.23.11 million indicated as the value under investment activities of the cash flow statement.

According to your audit query, the payments made through cross entries is the reason for the difference between the advance payments of Rs.66.94 million indicated in the consolidated detailed trial balance and the advance payment of Rs.51.23 million indicated in the cash flow statement. Moreover, there is a difference between the sum of Rs.13.58 million indicated in the consolidated detailed trial balance as acquisition of physical assets and the sum of Rs.2,539.60 million indicated in the cash flow statement and the reason for the said difference is that expenditure incurred for all other capital Objects except for acquisitions under Expenditure Heads 2102 and 2103, has been entered as

construction or purchase of physical assets and acquisition of other investments.

(e) According to the consolidated detailed trial balance, receipts and payments of deposits had been Rs.124.08 million and Rs.207.14 million respectively. However, according to cash flow generated from financial activities in the cash flow statement, receipts and payments of deposits had been indicated as Rs.32.12 million and Rs.191.99 million.

Financial statements should be prepared accurately according to circular instructions.

The cash flow statement is prepared on cash basis. As such, the receipts and payments entered as cross entries are the reason for the difference between the receipts and payments indicated in the consolidated detailed trial balance and receipts and payments indicated under financial activities of the cash flow statement.

#### 1.6.4 Reconciliation Statement on Advances to Public Officers Account

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) Even though according to the summary on classification of individual balances, the debit balances totalled Rs.1,421.90 million, the total of debit balances had been indicated as Rs.1,405.39 million according to the reconciliation statement, thus indicating a difference of Rs.16.51 million.	Action should be taken to identify balances correctly included in the total of debit balances.	Not commented.
(b) Even though there was a difference of Rs.3.76 million between the departmental books and Treasury print outs, the reconciliation statement by which the reason for the said difference is explained, had not been submitted in terms of the Financial Regulation 427(4) and paragraph 2.1 of the State Accounts Circular No.256/2017 of 05 July 2017.	Action should be taken in terms of circular instructions.	Not commented.



### 1.6.5 Non-maintenance of Registers and Books

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<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
----- According to paragraph 2 of the Letter dated 13 March 2019 of the Director General of Budget, the purchase of motor vehicles for Rural Infrastructure Development Project in Emerging Regions, should be inventoried through the new CIGAS Programme and according to paragraph 3 of the said Letter, a separate register had not been maintained for motor vehicles purchased on long term lease.	----- Action should be taken in consultation with the Director General of Budget.	----- As purchase of motor vehicles only under Objects 2101, 2102 and 2103 can be entered into the CIGAS Programme, there is no possibility of entering motor vehicles purchased under other Objects into the said Programme.

### 1.6.6 Responsibilities of the Chief Accounting Officer

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<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the District Secretariat</b>
----- In terms of provisions in Section 38 of the National Audit Act, No.19 of 2018, the Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists, in the Ministry and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out. The said reviews shall be in writing and copies of the same shall be made available to the Auditor General. However, statements that such a review was carried out, had not been made available to Audit.	----- Action should be taken in terms of provisions of Section 38 of the National Audit Act, No.19 of 2018.	----- Action will be taken to correct it in the future.

### 1.6.7 Non-compliance with Laws, Rules and Regulations

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Instances of non-compliance with the provisions in laws, rules and regulations observed during the course of audit test checks are analyzed below.

	Observation	Recommendation	Comments of the Chief Accounting Officer
<b>Reference to Laws, Rules and Regulations</b>	----- <b>Non-compliance</b> -----	-----	-----
<b>Management Services Circulars</b>			
Circular No.1/2019 of 05 March 2019			
(i) Paragraph 2.3.3 (c)	<p>An officer confirmed in the Public Service while serving in his/her substantive post may be released to serve in a project on acting basis. However, contrary to provisions in circulars, Commissioners of Local Government in the North Central and Uva Provinces had been appointed as Provincial Directors and Deputy Directors of Pura Neguma Project, Rural Infrastructure Development Project in Emerging Regions and Regional Infrastructure Development Project implemented under this Ministry and paid a sum of Rs.2.2 million as salaries.</p>	<p>Action should be taken to recover salaries paid contrary to laws, rules and regulations, to regularize appointments and to take action in accordance with circular instructions.</p>	<p>The Project Director has been instructed to find out whether the Chief Secretaries had acted contrary to provisions in Management Circular No.1/2019 and to report immediately on the situation.</p>
(ii) Paragraph 6.1	<p>The Project Steering Committee may recommend that foreign training programmes are necessary to carry out duties of the project. However, a sum of Rs.4.29 million had been spent without obtaining such approval.</p>	<p>Action should be taken as per circular instructions.</p>	<p>As details on this training is mentioned in the Project Manual which is an annexure of the loan agreement, a special approval would not be necessary.</p>

(iii) Paragraph 6.2	In the selection of officers for foreign trainings, it should be strictly based on project needs. However, officers of the Ministry who are not involved in the project activities had also been made to participate.	Action should be taken as per circular instructions.	The project staff was selected based on the duties performed and the remaining staff has been selected by the Ministry.
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## 2. Financial Review

### 2.1 Management of Expenditure

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(a) Approval had been granted by Letter No.BD/GPS/155/08/03 of 13 March 2019 of the Director General of the Department of National Budget for purchase of 10 cab vehicles under finance lease facilities of the Bank of Ceylon for the Rural Infrastructure Development Project in Emerging Regions and instructions had been given to pay the lease interest under Object 1406 and the capital installment under Object 2108. However, provisions had not been made for one relevant Object. As per instructions of the Chief Financial Officer, the project had paid a sum of Rs.4.61 million as interest on lease and Rs.7.20 million as capital payment under expenditure on operations of the project in the year under review.	It is appropriate to make future payments by making provisions mentioned in Objects 1406 and 2108.	It has been instructed to take further action by consulting the Department of National Budget.
(b) The savings out of the total provisions of Rs.1,256.52 million relating to 20 Recurrent Objects under operations and development purposes amounted to Rs.1,064.96 million and it represented a percentage of 84.75 per cent.	The attention of the management is drawn to the preparation of estimates realistically.	In terms of budget circulars 03/2019 and 05/2019, the compulsory savings out of the capital provisions made from the annual estimate was 25 per cent. Moreover, in terms of budget

Accordingly, in the preparation of Estimates of Expenditure, attention had not been paid to the matter stressed by Financial Regulation 50.

circular Nos.04/2019 and 07/2019, savings of estimated provisions had been indicated due to financial discipline and appropriate control criteria in order to ensure proper expenditure control.

Further, the Department of Treasury Operations had not released imprests according to the requirement of imprests. As such, the inability of properly settling commitments and liabilities incurred in the preceding year had also directly contributed to the above savings.

- (c) The total provisions of Rs.5,181.96 million relating to 16 Capital Objects under operations and development purposes, had been saved. Action should be taken to utilize provisions as prescribed. These provisions have been saved due to reasons such as revisions made in the State Minister's Office, non-submission of bills for payments of the Rural Infrastructure Development Project in regions with low facilities (emerging), failure in making requests for imprests relating to Health Sector Development Project, delays in the procurements relating to supply of equipment for fire extinguisher vehicles for the Colombo Municipal Council and supply of waste collecting compactors for Local Authorities and non-receipt of funds for the General Education Modernization Project, delay in awarding contracts of the Greater Colombo Wastewater Management Project, failure in spending provisions released to other departments

- under the Public Library Construction Project of the Batticaloa Urban Council and inadequacy of provisions made for accounting the expenses of the Rural Bridges Construction Project.
- (d) The savings out of the total provisions of Rs.8,937.45 million relating to 42 Capital Objects under operations and development purposes, had been Rs.6,170.74 million and represented 69.04 per cent as a percentage. Action should be taken to utilize provisions as prescribed.
- (e) Even though the capital transfers in the year under review had been indicated as Rs.754.19 million, the actual capital transfers in the year was Rs.23.96 million. The said expenditure is the transfer made to the Sri Lanka Institute on Local Governance under 155-1-2-2201. Capital expenditure not falling under capital transfers had been brought to account under capital transfers. Proper accounting should be carried out. Expenses included in Object 2202 of Note 12 of ACA 2 (i) as development assistance, should be included under capital transfers. Accordingly, all expenses amounting to Rs.754.19 million, of projects in which the relevant Object is included, had been included as capital transfers.
- (f) As indicated in paragraph 6 of the State Accounts Circular No.271/2019 of 03 December 2019, the variance between Original Expenditure and Revised Expenditure Estimate to be submitted through Specimen Form ACA 2-iii used in the preparation of financial statements, had not been explained. Financial statements should be accurately prepared according to circular instructions. The accounts of sub-offices had been submitted to Audit along with the account of the Head Office and details relevant to ACA 2-iii have been indicated in the financial statements of the sub-offices.

## 2.2 Incurring of Liabilities and Commitments

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
Liabilities relating to Rs.166.63 million had been incurred in the year under review by the Home Affairs Sector exceeding net	Action should be taken in terms of provisions in Financial Regulation 216 (a).	It is informed that authority is granted for incurring of commitments not exceeding 50 per cent of the average provision made during the previous three financial

provisions contrary to provisions in Financial Regulation 216 (a).

years for liabilities which will fall due to be discharged in the ensuing financial year relating to annual recurrent supplies in terms of Financial Regulation 94 (2).

## 2.3 Deposit Balances

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Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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In terms of Financial Regulation 571, deposits lapsed for over a period of two years should be credited to the Revenue Account. However, the Provincial Councils and Local Government Sector had not taken action in terms of Financial Regulation 571 relating to deposits of Rs.23 million older than 02 years.	Action should be taken in terms of Financial Regulation 571.	Action is being taken.

## 3. Operating Review

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### 3.1 Vision and Mission

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Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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The vision and mission had not been prepared so as to include the expected results after performing the role of the Ministry.	The vision and mission should be prepared so as to include the expected results after performing the role of the Ministry.	Has not commented.

### 3.2 Non-achievement of expected Benefits

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The Cabinet approval had been obtained for Cabinet Paper No.CP/17/1375/744/005-II/ TBR on 19 July 2017 for establishment of 9 compost turner machines manufactured in Japan with a production capacity of 17 tons of compost by using 50 tons of waste per day as a future step to producing compost by using urban waste and accordingly, 9 compost turner machines had been purchased at an expense of Rs.935.69 million by 31 December 2017 contrary to the formal procurement procedure. Moreover, 9 contracts relating to building constructions for installation of machines had been awarded to 6 contractors for Rs.733.26 million. The following matters were observed in this connection.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(a) According to Cabinet Memorandum No.CP/2017/04, the annual financial profit of a single machine amounts to Rs.80 million and the production capacity of compost of a machine per day is 17 tons. Even though using compost turner machines located in the areas of Lankapura, Dambulla and Kurunegala had been commenced, no production of compost had taken place during the year under review. As such, no income had been earned. Further, 06 out of 09 machines purchased in the year 2017, had not been made use of up to now.	Necessary action should be taken to achieve targeted objectives.	Has not commented.
(b) The lands in the Western and Uva Provinces required for installation of the said machines, have not been settled. As such, two contracts had been awarded for installation of the said two machines in the areas of Galle and Katthankudi one year after purchasing them. Moreover, the said constructions could not be completed even by 31 August 2020.	As the machines purchased in year 2017 remain idle, necessary action should be taken to complete the works in terms of agreements.	Previously selected places had to be changed due to public protest.
(c) The progress of constructing buildings in the areas of Vadamarachchi, Hambantota and Kegalle was at a weak level and works could not be completed within the period of contract.	As the machines purchased in year 2017 remain idle, necessary action should be taken to complete the works in terms of agreements.	The works of the Vadamarachchi yard are in the final phase and the production activities of Hambantota was commenced on 25 June 2020. The works of Kegalle have been completed.

### 3.3 Projects abandoned without completing

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<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
Six construction projects commenced by the Ministry had been abandoned without completion after incurring an expenditure of Rs.121.8 million.	Action should be taken to complete projects and achieve expected objectives.	Projects had been abandoned due to non-completion of tests required for constructions, non-allocation of provisions, non-release of lands and public protest.

### 3.4 Delays in Execution of Projects

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<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
According to budget proposals of year 2018, construction of facility centres for pilgrims of Adam's Peak, Madu Church and Koneswaram Kovil had been included in the Action Plans of the years 2018 and 2019. Except for entering into a Memorandum of Understanding with the Department of Buildings which is the consulting company on constructing the Koneswaram Facility Centre, no progress whatsoever could be achieved of the aforesaid projects during the year under review.	Necessary action should be taken to implement projects within the due period according to the state policy.	Has not commented.



### 3.5 Annual Performance Report

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
The Performance Report for the Ministry including all sectors such as Internal Affairs, Home Affairs, Provincial Councils and Local Government had not been prepared as per the instructions of the Public Finance Circular No.402 of 12 September 2002 and separate two Performance Reports had been prepared and furnished by the Provincial Councils and Local Government Sector and by the Home Affairs Sector.	The Annual Performance Report should be prepared and tabled in Parliament as per the circular instructions.	Not commented.

### 3.6 Foreign Funded Projects

The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comment of the Chief Accounting Officer</b>
<b>(a) Provincial Road Development Component of the Transport Connectivity and Asset Management Project</b>		
(i) Even though qualified Officers in the Ministry of Provincial Councils and Local Government should be attached to the Project Management Office and the Project Implementation Units in terms of the Decision of the No. ୧୦୧/18/1682/805/051 Cabinet of Ministers dated 15 August 2018, it was observed that external persons, who are not the employees of the	Action should be taken as per the Decision of the Cabinet of Ministers. Otherwise, action should be taken to revise the Decision of the Cabinet of Ministers.	It has been stated that the payment of salaries of the Public Officers of the Project should be paid through local funds, as per Chapter 25 of Annexure 3 of the Financial Agreement of the Initial Project. As such, provisions amounting to Rs.100 million had been made for the Project from the Annual Estimate 2019.

Ministry had been recruited to the Project Management Office and a salary amounting to Rs.9.65 million had been paid, contrary to that provision.

- (ii) Even though the awarding of 18 road construction contracts relating to 2 Phases in the First Part should be completed by the end of the year 2019, only 7 contracts had been awarded by the end of the year 2019 and Placement Advances had been paid to four contractors. Any physical progress whatsoever had not been reported relating to sub-projects as at 31 December 2019.
- Responsible parties should act according to the plans.
- Seven contracts had been awarded after receiving procurement advertisements for 08 road contracts in the First Phase and, after the evaluation, and the delay in awarding that Package had been affected on making a further inquiry for the 8<sup>th</sup> Package..

**(b) Rural Bridges Project (RBP)**

- (i) A proper procedure did not prevail on selecting places for the bridges that are being constructed by utilizing the loans provided as export development loans of the respective countries, from the private banks of countries such as the United Kingdom and the Netherlands. Sufficient contribution had not been received relating to this project, implemented as an integrated, large- scale contract (turn- key) project, despite having a project staff.
- The relevant places should be selected in a manner that a maximum economic and social contribution is being rendered from the loan obtained from foreign private banks.
- The construction of more than 500 bridges out of 1000 bridges in the 2<sup>nd</sup> and 3<sup>rd</sup> Phases in this project had been carried out with the contracting companies from December 2014 to July 2015 by the Ministry of Economic Development and a Project Management Unit had been established from June 2016 under the purview of this Ministry. Places are being selected by forecasting on the number of present and future beneficiaries and on the private lands in selecting places in which the bridges are being constructed. It is being noted, to carry out this procedure under a proper methodology by studying the procedure of selecting the bridges, again.

- (ii) The planning, supplying and the installation of 537 steel bridges under the Rural Bridges Project Phase II, implemented by utilizing a loan obtained from the Deutsche Bank in Tokyo had been initiated in the year 2015 and, was scheduled to be completed in the third quarter of the year 2018. The relevant functions had been completed in the year 2019, extending the due date on several instances. However, an Action Plan stating the specific number of bridges that should be constructed by this contract, of which its contractual value being 100 Sterling Pounds, was not furnished to Audit.
- The Action Plan should be prepared and the approval of the National Operating Committee should be obtained.
- Not commented.
- (iii) A proper mechanism had not been formulated for identifying the places that the bridges should be installed as per the agreement and, action had not been taken to select places after carrying out a sufficient Cost Benefit Analysis, considering the cost for a bridge, the number of users of the bridge and the future developments, in deciding the places that the bridges should be installed. Moreover, even though the bridges were installed intending for an existence of more than 100 years, any quality control action whatsoever on the concrete construction of the bridge had not been carried out.
- A process of selecting places by conducting a proper study should be formulated on the steel bridges being at a high cost in their market value.
- The importing of bridges and making of the relevant payment by the Deutsche Bank for that matter had been carried out after identifying a specific place for the construction of the bridges and obtaining the environmental approval relating thereto from the Export Credit Guarantee Department in the United Kingdom. A Pre- feasibility Questionnaire and Feasibility Study Report Formats had been prepared and referred to Provincial Engineers for evaluation.

(iv) Instances were observed at the audit test checks in which large bridges were constructed instead of culverts without a requirement of a steel bridge by which no benefits could be reaped as compared with the monies invested.

A place should be selected in a manner that a maximum economic and social contribution is received from the loans obtained from foreign private banks.

They are the bridges that were constructed under the purview of the Ministry of Economic Development.

**(c) Rural Infrastructure Development Project in Emerging Regions (RIDEP)**

(i) It had been planned to develop 224 rural roads and 121 small-scale and medium-scale tanks by Package 1 and to implement 67 Drinking Water Facilities Development Projects by Package 2 of the Rural Infrastructure Development Project in Emerging Regions implemented under providing assistance amounting to Rs.20,622 million by the Japan International Corporation Agency. However, a performance could not be indicated due to failure in performing functions relating to targets mentioned therein in the year 2019.

The relevant parties should be influenced into the completion of the project within the period prescribed by the Cabinet of Ministers.

Even though a period of 6 months had been given to complete the procurement activities of the Ministry for obtaining consultancy services in planning projects, a period of 42 months had lapsed in completing these activities by the Procurement Committee of the Ministry.

(ii) Even though a Procurement Audit should be carried out by the Internal Auditor as per the Project Memorandum, action had not been taken accordingly.

Action should be taken to identify and to correct the weaknesses in the Internal Control of the Project as per the instructions.

Instructions had been given to the Internal Auditor.

**(d) Primary Healthcare System Strengthening Project (PHSSP)**

(i) Two officers employed in the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government had been appointed on part-time basis

The appointment should be made by the Ministry itself after obtaining the approval for the proper appointment of the staff.

The staff had been recruited for the Units relating to this Ministry by the Secretary to the Ministry of Provincial Councils and Local Government, based on the approved cadre for this Project.

for the Project Management Office, contrary to the instructions in the Management Services Circular No.1/2019 by the Secretary to the respective Ministry, based on the staff approval granted by the Department of Management Services, to the Secretary to the Ministry of Health, Nutrition and Indigenous Medicine, for the Project Management Office.

- (ii) Financial Statements had not been furnished as per Section 64 of the Project Memorandum and instructions necessary to maintain Books of Account by the Double Entry System which enables the preparation of the financial statements for Foreign Funded Projects, had not been provided to the Provincial Councils as per the Financial Regulation 626 and even Books had not been so maintained.
- Books of account should be maintained in terms of the Financial Regulation 626 and the financial statements should be prepared as per the instructions of the Project Memorandum and should be furnished before 28 February of every year.
- Instructions necessary to prepare the financial statements are being given to all Provincial Councils, currently.

**(e) Urban Project Preparatory Facility Project (UPPF)**

- (i) A loan amounting to USD 05 million had been approved by the Asian Development Bank for the preliminary facility for the Urban Projects implemented as a Technical Assistance Project for the execution of the key functions of the development projects that are intended to be implemented under the Secondary Cities Development Project that is intended to be approved in the future. In the payment of salaries to the Director of that project, a sum of Rs.600,000 had been overpaid by June 2020 at the rate of Rs.60,000 per
- Should act in accordance with the instructions of the Circulars and action should be taken to recover the overpayments.
- Instructions have been given to the relevant Officers to further examine relating to the payment of salaries.

month, instead of placing on the salary scale under the provisions of the Circular No. 01/2019 of 05 March 2019 of the Department of Management Services.

- (ii) A sum of Rs.405,000 had been paid to the Financial Analyst of the Pura Naguma Project, by way of appointing him as the Accountant of this project under acting basis contrary to the provisions of the Circular No.01/2019 of 05 March 2019 of the Department of Management Services. Should act in accordance with the instructions of the Circulars and action should be taken to recover the overpayments. This officer has been employed in service as a temporary in carrying out the daily activities of the project. Instructions had been given to the relevant officers to further examine on the payment of salaries.
- (iii) Even though a Placement Advance amounting to Rs.50.11 million had been paid by selecting a Private Consultancy Firm for the activities of this Project, no progress whatsoever had been achieved. The relevant parties should be influenced into the execution of the project activities within the prescribed period. Requirement Assessment Reports of the Development Proposals were prepared to identify the sub- project proposals by the Consultancy Firms in the year 2019.

**(f) Constructions under the Pura Naguma Project (LGESP)**

- (i) The e- Pura Naguma software, a software solution prepared for low- income Pradeshiya Sabhas had been installed in selected 137 Pradeshiya Sabhas under the Local Government Enhancement Sector Project, financed by a loan of the Asian Development Bank, with the objectives of helping efficient execution of the daily activities in Pradeshiya Sabhas, simplifying the procedures and creating a favourable place for the citizens of the Pradeshiya Sabhas. It was observed in the Action necessary for the achievement of the intended objectives should be taken on these being projects that are carried out by utilizing foreign loans. Lack of interest among the officers of the relevant Pradeshiya Sabhas, internal and external transfers, the use of other softwares, not training the untrained officers by using the trained staff. The Local Governance Division of the Ministry not being supervised under the purview of the Department of Local Governance.

audit carried out in the Central and North Western Provinces that this software is not being used in 16 Pradeshiya Sabhas out of the 41 Pradeshiya Sabhas and that it had not been able to reap the intended benefits from all 4 functions planned for the Modules introduced, in any Local Government Institution of which this software is being implemented.

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| (ii)  | The water supply projects, access roads and distribution systems constructed at a cost of Rs. 332.19 million under the Pura Neguma (Local Government Enhancement Sector) project and handed over to 12 Pradeshiya Sabhas remained idle for a duration of 30 months to 57 months and a crematorium built at a cost of Rs. 16.49 million and handed over to the Hettipola Pradeshiya Sabha had been idling for more than 36 months. | The responsible parties must be compelled to accomplish the desired economic and social benefits. | Heads of the Provincial Government have been instructed to look into the matter and take further action.  |
| (iii) | Twelve (12) multi-purpose buildings constructed at a cost of Rs. 513.73 million, a library constructed at a cost of Rs. 18.90 million and 03 weekly fairs constructed at a cost of Rs.105.06 million were underutilized due to various reasons.   | Action should be taken to obtain the expected benefits from the construction.                     | Quotations had been called for renting out Rattota weekly fair by partitioning it in to shops and Tissamaharama Fish Market has been rented out to a fruit wholesale trader. Further discussions are being held with the Local Government Authorities regarding the Walallawita multipurpose building and instructions have been given to the relevant officials regarding other buildings. |
| (iv)  | The expected benefits could not be achieved from 16 sub-projects including the bus stand,   | Action should be taken to achieve the desired benefits.   | Relevant officials have been instructed to take necessary action and to take following  |

multipurpose buildings and drinking water projects which were handed over to the Pradeshiya Sabhas after completion of construction activities under this project.

up activities on a regular basis to accomplish the desired benefits.

- (v) The Pradeshiya Sabha had awarded an additional contract of Rs. 9.3 million to rectify the shortcomings as the sub-project had not been accepted due to the shortcomings in the Upcountry Water Supply Scheme constructed under this project. However, the contractor had not rectified the shortcomings and it had been decided to encash the performance security. However, action had not been taken accordingly.
- Action should be taken in compliance with the Procurement Manual and Contract Agreement.
- The performance security has been extended up to 31 October 2020 and a committee has been appointed to investigate the defects of the contract and to make recommendations.

- (vi) A contract of Rs. 102 million had been awarded at the second phase of the Pura Neguma Project to rectify the defects in 03 water projects in the limits of Udapalatha, Udadumbara and Wilgamuwa Pradeshiya Sabha areas constructed at a cost of Rs. 282.36 million in the first phase of the project.
- If the government has incurred a loss due to defects in constructions related to the initial designs, action should be taken against the relevant officers and the loss should be recovered.
- Not commented.

**(g) The Local Development Support Project (LDSP)**

- (i) An amount of Rs. 268.98 million had been released to the Local Government Authorities on 26 December 2019 for making initial grants, although the sub-projects expected to be implemented in the Provincial Councils have not been selected as per Part D of the Schedule 2 of the Loan Agreement.
- Constructions should be commenced after granting the approval expeditiously for the selected sub-projects.
- Imprest has been released after getting the approval.



- (ii) As per Cabinet Decision bearing No. 17/2708/706/129 of 20 November 2017, a project worth USD 3 million had implemented under the National Planning Project to carry out the Programmatic Project Preparation Facility – World Bank Funded Projects until loan agreements scheduled to be entered in to with the World Bank are signed and USD 500,000 had been allocated for the Programmatic Project Preparation Facility of The Local Development Support Project (LDSP). Accordingly, the approval for staff, for carrying out the Programmatic Project Preparation Facility implemented as per the aforesaid decision of the Cabinet, had been requested by the letter of the Secretary of the Ministry addressing the Director of the Department of Management Services. Although the Department of Management Services had given the approval for the staff, the salary steps had not been approved. According to the instructions stipulated in the Circulars bearing Nos. 01/2016, 01/2016 (I) and 01/2019, project activities worth USD 5 million had to be included in to general duties. However, salaries totalling to Rs.1,637,110 had been paid to 06 officers from 01 September 2018, the date of commencement of the Local Development Support Project (LDSP) up to 30 June 2019. An amount of Rs.1,107,228 out of that amount
- Relevant officers should be notified to recover the salaries paid in violation of the laws, rules and regulations and to act in accordance with the circular instructions.
- The salary scale of Form FR 71 submitted to the Department of Management Services for the approval of the posts has been recommended in a manner that it is applicable to the value of the entire project. Accordingly, salaries have been paid. The expenditure incurred for salaries prior to the commencement of the project has been brought to accounts under the project since it is not allowed to pay using the provision of that Department in accordance with the guidelines of the Department of National Planning.

had been brought to accounts under the Local Development Support Project (LDSP).

### 3.7 Procurement

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
<b>(a) Purchase of compactors</b>		
<p>(i) The relevant procurement advertisement was published in the National Newspapers on 14 August 2017 for the procurement of 100 compactors through the National Bidding Procedure in accordance with the Government Procurement Guidelines and for the distribution of the 100 compactors to Local Government Institutions. It was restricted to the Sri Lankan bidders by stating that "this procurement is open to bidders in Sri Lanka and partnership firms are also allowed to apply" in paragraph 4 of the procurement advertisement. However, bidding documents had been issued to a Chinese person, who had applied with a passport even without having a local agency.</p>	<p>Attention should be paid to the objectives mentioned in the Chapter One of the Government Procurement Guidelines.</p>	<p>Not commented.</p>
<p>(ii) Foreign bidders can submit bids only if it is indicated in the bidders' information sheet as per Section 4.4 of the Instructions given to Bidders in Part one of the Bidding document. However, bidding documents had been submitted to a foreign bidder although foreign bidders had not been included in the bidders' information sheet and the Procurement Committee had not rejected the submission of bids.</p>	<p>Action should be taken in accordance with the instructions of the Government Procurement Guidelines.</p>	<p>Not commented.</p>

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| (iii) | Four (04) bidders out of the 14 bidders, who had submitted bids had submitted appeals to the Appeal Board against the decision taken by the Cabinet Appointed Procurement Committee. Since it was possible to reject the bid as the bid had submitted by a foreign bidder, Appeal Board had accepted the supply contract related to the bid after considering only the matters submitted through the appeal by XZY (Hong Kong) Limited.   | Action should be taken as per the instructions stipulated in the Government Procurement Guidelines.               | Not commented. |
| (iv)  | The Procurement Committee had informed the bidder on the recommendations made by the Technical Evaluation Committee that the bid had been rejected on the non-substantiation of the technical and financial experience and the fact that a foreign company could not submit bids without having a local agent had not been mentioned. Accordingly, the Technical Evaluation Committee as well as the Procurement Board had avoided the fundamental defect of the bidder.                                | Attention should be paid to the objectives mentioned in the Chapter one of the Government Procurement Guidelines. | Not commented. |
| (v)   | It was observed during the audit that the bid, submitted by the foreign company with defects, had not been evaluated by the Technical Evaluation Committee and the Technical Evaluation Committee had not focused its attention on the country of manufacture, technical features, durability, availability of services and spare parts, robustness, consumer safety and reputation earned in relation to vehicles as well as the scrap value of the vehicle, which would determine prices of vehicles. | Attention should be paid to the objectives mentioned in the Chapter one of the Government Procurement Guidelines. | Not commented. |

(b) **Establishment of a Computer Software for Asset Management**

- (i) The Procurement Board of the Ministry had decided to publish the advertisement pertaining to the contract for procuring the computer software for asset management in the website of the Asian Development Bank and to entrust the authority for obtaining the approval of the Asian Development Bank for this contract to the Project Director and to award the contract on Quality and Cost Based Selection. (QCBS). Likely, any local bidder had not been able to submit bids for this contract as the procurement advertisement had not been published in the National Newspapers as per paragraph 8.10 of the Government Procurement Guidelines and paragraph 2.8 of the Procurement Manual of the Asian Development Bank.
- Procurements should be done in accordance with the provisions of the Government Procurement Guidelines as well as the procurement guidelines of the Asian Development Bank.
- The appointment of this consultancy firm had been done under the procurement rules and regulations of the Asian Development Bank. Since this is a foreign funded project, the procurement process of the lending institution should be followed. Accordingly, any action had not been taken extraneous to the process in any time.
- (ii) The Procurement Board, which had met on 14 November 2018, had decided to award the contract to an Australian Company for USD 179,983.50 (Rs. 32.30 million). Even though it is essential to develop, install, train the software as well as to obtain the support and the maintenance service for the software when computer software (IT solution) is introduced to an organization, support and maintenance service of the software had not been taken in to consideration in this contract.
- Action should be taken to maximize the returns of the amount that has been invested.
- In accordance with this contract, they have been assigned the task of designing, installing and training of the software. Maintenance has not been included in to the contract considering the time and extra cost to be incurred. However, they have agreed to provide assistance in case there is any issue subsequent to the execution of this software.

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| (iii) | It was observed that it is not correct to select a consultancy firm on Quality and Cost Based Selection for the development, installation and training of the software.   | In replying the audit, answers must be provided with specific evidence.                            | According to the Procurements Manual of the Asian Development Bank (ADB), the QCBS methodology is best suited for such tasks. Further, the Ministry had not requested the ADB to adopt this methodology and the ADB had instructed to adopt the methodology.  |
| (iv)  | Provision of support and maintenance services for the computer system that has been implemented in the Local Authorities since the year 2012 - An agreement for 2018 was signed by the Secretary to the Ministry. While the subject of Asset Management had been included in the programme in Phase II of the system, action was taken to appoint a contractor as a consulting firm to implement such a project in seven Pradeshiya Sabhas. | Information should be studied and action should be taken systematically.                           | The subject of asset management is not covered as per the agreement prepared for the local government system.   |
| (v)   | A pilot project, which should have been implemented at the inception of the Pura Neguma Project, had been implemented in the year 2019, at the time that the Pura Neguma Project, which had been commenced in the year 2011 and had been scheduled to be completed in June 2020.  | The action required to be taken for not being a fruitless expenditure should be clearly indicated. | Although the Ministry had functioned with ICTA Institution and a consulting firm appointed by the Asian Development Bank in relation to this subject since 2012, it was not possible to design successful software for asset management. However, other areas such as assessment taxes and accounts have already been covered by the computer software. Subsequent to installing this software for asset management in 07 Pradeshiya Sabhas as a pilot project during the |

period of the project, the Ministry will be able to install this software for the other Pradeshiya Sabhas. This is also included in the role of the Ministry as all the activities carried out by projects are implemented within the scope of the Ministry once such activities are finalized.

(c) An agreement pertaining to a contract valued at Rs.2,656 million had been entered into with a construction company in respect of the construction of a new auditorium for the Galle District Secretariat in 720 days. The matters on its procurement were observed as follows.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
<p>(i) A Soil Test Report had been obtained in the year 2018 by paying a sum of Rs. 1,178,386 to the National Building Research Organization. Nevertheless, the deteriorating condition of land, pilling work of cost estimate in the procurement stage, concrete work and land widening activities had not been included therein. As such, the provisional sum of Rs.150 million allocated for land was not adequate, thus an additional sum of Rs.498 million had been allocated.</p>	<p>Action should be taken as per the Procurement Guidelines.</p>	<p>The construction site has been filled with soil and stones removed in the construction of Southern Express Way. As such, the preliminary soil test was conducted by selecting several places only for the submission of bids by bidders regarding the condition of soil in issuing bid documents. Since the preliminary soil test was not adequate to have an understanding of the actual and reliable condition of the land subsequent to the handover of worksite to the contractor, he had informed that another soil test should be conducted. Accordingly, the entire land has been subjected to a soil test. It had been ascertained that there were so many differences more than the condition identified earlier. Since this construction was a Design and Build and being a reclaimed land, it has been ascertained that the provisional sum allocated earlier was not</p>

sufficient. Consequently, estimates have to be prepared for the requirement of an additional provision of Rs.498 million.

- (ii) Even though the estimated cost at the commencement of contract amounted to Rs.1700 million, the contract had been awarded at Rs.2,658.9 million. It was an increase of 56 per cent. Due to changes made from time to time to the scope initially agreed and the increase in cost, it was observed that the initial procurement activities had not been carried out successfully.
- Action should be taken as per the Procurement Guidelines.
- The main reason for the changes made to the initial scope has been the instability of soil. The provisional sum allocated for the foundation was not sufficient subsequent to the soil test carried out later. Since the said contract was carried out on the Design and Build method, the common practice was to shift the full responsibility of planning a foundation to the contractor by entrusting him the task of carrying out a detailed soil test. In case the Ministry has carried out such a detailed soil test, the Government would have the full responsibility of data of the said test.
- Pilling work has to be carried out due to the instability of land irrespective of the institution to which the contract was awarded while the provisional sum allocated earlier was not sufficient to meet the expenditure incurred therefor. Thus, the said amount has been increased by Rs.498 million on approval of the Cabinet of Ministers. Nevertheless, the contractor will be paid according to the work done but not the total amount approved.
- (iii) Procurement activities had been carried out under the National Competitive Bidding and initially, 45 days had been granted as the bidding period. Nevertheless, the said period had been extended from time to time, thus an additional
- Action should be taken as per the Procurement Guidelines.
- According to reference 5.3.2 of the Government Procurement Manual, "Advertisement of procurement may be expensive. However, it is expected that economy achieved with wider competition will clear off such expenses". Further, publication of such advertisement

expenditure of Rs.224,250 had to be incurred to publish newspaper advertisements in two instances.

is the basis for eliciting maximum competition with fair opportunities.

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| (iv) | According to Section 6.3.3 of the Government Procurement Guidelines, Responsibility of opening of Bids is vested with the Procurement Committee. The Procurement Committee may delegate such authority to a "Bid Opening Committee" which shall comprise of a minimum of two members approved by the Procurement Committee. Nevertheless, the committee had been appointed solely on the approval of Secretary of the Ministry. | Action should be taken as per the Procurement Guidelines. | The said Bid Opening Committee had been appointed on the prior approval of the Secretary of the Ministry, being a member of the Procurement Committee. |
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### 3.8 Asset Management

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<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comment of the Chief Accounting Officer</b>
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Ten cabs had been obtained on finance lease basis for the Rural Infrastructure Development Project in Emerging Regions, thus a cab and a motor vehicle provided by the Ministry for the use of project, had remained idle. However, no action had also been taken to get it back to the Ministry.	Necessary action should be taken to get back the motor vehicles remaining idle.	Not commented.

### 3.9 Transactions in the Nature of Financial Irregularities

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<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comment of the Chief Accounting Officer</b>
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A sum of Rs.9.6 million had been paid to a private company in respect of the support and maintenance services of "7	It is appropriate to take necessary action on the negligence arisen in	The relevant payments had been made by taking into consideration the cabinet



on the decision of procurements without following a formal procurement procedure and disregarding provisions in Financial Regulations 137 (1),(2),(3),(4) and 138. However, support and maintenance services had not been provided for the “e-Local Government” computer system which was inoperative even by the commencement of the year 2019.

approving and certifying the expenditures.

decision, recommendations made by the Information Communication Technology Agency and other matters on the said procurement.

### 3.10 Losses and Damages

The following observations are made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
(a) Information on 22 accidents of which the inquiries have been commenced in the year 2017, 06 accidents occurred in the year 2018 and 10 accidents occurred in the year 2019, had not been stated in the statement of write-offs and waivers in terms of Financial Regulation 109 under Note II of financial statements.	Action should be taken in terms of Financial Regulations.	I agree with the observations. Since the action taken on accidents which occurred in the years 2016 and 2017 had been concluded in the year 2018, such accidents were not included in the year 2019. When preparing the financial statements for the year 2020, instructions have been given to relevant officers to rectify the information stated by mistake in the statement of write-offs of the year 2019.
(b) The assessed value of loss incurred due to 8 accidents had not been considered while the difference between the amount spent on repairs and the amount recovered, had been identified as the loss. A difference amounting to Rs. 1,934,099 was observed between the assessed value and the amount spent on repairs.	Action should be taken in terms of Financial Regulations.	In case of an accident, the damage caused only to the exterior of motor vehicle can be assessed accurately by examining the exterior. When repairing such damages, the expenditure incurred on repairs and the assessed value is similar in most instances. Since it is not possible to assess the value of damage caused to interior if any, there were significant decreases in the expenditure incurred on repairs as compared to the original estimate.

### 3.11 Uneconomic Transactions

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Audit Observation	Recommendation	Comment of the Chief Accounting Officer
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<p>A cabinet paper had been submitted with a proposal for obtaining a loan of USD 5 million from the Asian Development Bank to obtain the technical assistance from Secondary Cities Development Project. Even though a newspaper advertisement had been published in all three languages on 10 March 2019 at a cost of Rs.690,000 for calling applications for recruitments to the posts of this project, only a Project Director had been recruited from the applications called as per the said advertisement. Thus, the sum of Rs.690,000 spent on the publication of newspaper advertisement had been a fruitless expenditure.</p>	<p>It should be looked into whether any loss was sustained by the Government and action should be taken in the future accordingly.</p>	<p>Not commented.</p>

### 3.12 Management Weaknesses

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The following observations are made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
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<p>(a) There are 15 foreign funded projects implemented under the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government with the financing of World Bank, Asian Development Bank, Japan International Cooperation Agency and utilizing the loans obtained from foreign private banks as well. Internal Auditors had been recruited only for 02 projects out of the said projects. Even though approval had been</p>	<p>Internal audit of projects should be reorganized as per the instructions of the Director General of the Department of Management Audit.</p>	<p>Not commented.</p>

granted for 2 posts of Internal Auditor to carry out internal audit in the projects implemented under the Ministry, action had not been taken to make recruitment for one post therein. As such, it was observed that an adequate internal audit on foreign funded projects, was not being carried out. Further, no action had been taken to carry out internal audit on foreign funded projects as per the instructions in the letter No. DMA/IA/2017/Project Audit Circular dated 26 October 2018 addressed to the Secretary of the Ministry of Provincial Councils, Local Government and Sports by the Director General of the Department of Management Audit.

- (b) According to Paragraph 09 of the Management Services Circular No.01/2019 of 05 March 2019, six meetings of National Operating Committee should be conducted per year as once per two months in respect of foreign funded projects. Nevertheless, only 02 meetings had been conducted for each project. Approval for project work plans, budget of project and action plans had not been granted at the meetings of National Operating Committee and according to the information made available to Audit, decisions had not been taken subsequent to discussions on projects. Reporting to these meetings of National Operating Committee had not been done by the Project Director himself.
- The National Operating Committee should function as per the circular instructions.
- Not commented.

#### 4. Human Resource Management

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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comment of the Chief Accounting Officer</b>
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(a) The staff for Project Division under this Ministry had been approved by the letter No. ඩීඑම්එස්/සී /17/වෙඑම iv dated 26 February 2014 issued by the Director General of the Department of Management Services. Even though it was stated that the allowance for staff should be cancelled once these projects were completed, action had not been taken accordingly.	Action should be taken as per the instructions given by the Department of Management Services.	Public officers as well as the officers recruited on contract basis have been attached to the Project Division and in case of the completion of activities of Project Division, public officers will be transferred out and service of the officers recruited on contract basis will be terminated in three years.
(b) It was observed in audit that the Procurement Specialist and the Consultant Engineer (Irrigation) who were recruited to and employed in the Project Division functioned under this Ministry, had not made any contribution to expedite the projects or to settle the issues during the year under review.	The staff should be revised and recruitments should be made only for essential duties.	Authority will be granted for each project to carry out a technical audit with effect from 01 January 2020 in order to seek the maximum service of all officers employed under this Division in the future in addition to their normal duties.
(c) The Consultant Engineer (Roads) who was recruited on contract basis on 09 May 2019 and attached to the Project Division had subsequently been attached to the Galle District Secretariat from 24 July 2019 and a salary of Rs.1,260,000 had been paid. Nevertheless, he had not performed any duty pertaining to the Project Division.	An investigation should be conducted on the salaries paid.	He was attached to the District Secretariat on a request made by the Hon. Prime Minister and salaries were paid on the certification of District Secretary.