

Head-155- Ministry of Provincial Council and Local Government

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ministry of Provincial Council and Local Government for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the 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. The summary report containing my comments and observations on the financial statements of the Ministry of Provincial Council and Local Government was issued to the Chief Accounting Officers on 31 May 2019 in terms of Section 11 (1) of the National Audit Act No. 19 of 2019. The Annual Detailed Management Audit Report relevant to the Ministry was issued to the Chief Accounting Officer on 31 May 2019 in terms of Section 11 (2) of the National Audit Act No. 19 of 2018. 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 to be 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 the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Ministry of Provincial Council and Local Government at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Financial Statements

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 provisions in Section 38 of the National Audit Act, No.19 of 2018 and for such internal

control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Ministry 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.

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 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.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 and Regulatory Requirements

I express the following matters in accordance with Section 6 (d) and Section 38 of National Audit Act, No. 19 of 2018.

- (a) Since financial statements for the preceding year were not presented, it could not be stated that the financial statements presented was consistent with the preceding year.
- (b) Since there was no requirement for the Ministry to prepare financial statements for the preceding year, recommendations on the financial statements had not been made.

1.6 Comments on Financial Statements

1.6.1 Non-compliance with Provisions in Circulars

Although financial statements should be prepared in terms of State Finance Circular No.267/2018 dated 21 November 2018, instances of deviating from those requirements are given below.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
----- A sum of Rs.52.61 million collected on behalf of the other Revenue Accounting Officers had been stated as non-tax revenue in the Statement of Financial Performance.	----- Financial Statements should be prepared in accordance with the instructions specified in the circulars.	----- It is accepted that the relevant matter should be corrected.

1.6.2 Accounting Deficiencies

The following observations are made.

(a) Statement of Financial Position

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(I) According to the Financial Statements, the assets acquired during the year amounted to Rs.3.75 million and the assets acquired during the year and other capital expenditure amounted to Rs.12,049.90 million. Accordingly, a difference of Rs.12,046.15 million was observed.	A proper transfer of assets should be carried out in respect of capital expenditure incurred by the Ministry on behalf of the Local Government Authorities.	It is agreed to maintain a register on all the assets in future and correctly transfer the relevant assets.
(II) As compared with the Register of Fixed Assets, the assets worth Rs.612,698 purchased during the year under review had not been included in the Statement of Nonfinancial Assets.	Management's attention should be focused on correctly preparing the financial statements.	Assets have been accounted in the year 2019.

(b) Cash Flow Statement

Audit Observation

Recommendation

Comments of the Chief Accounting Officer

Although the total recurrent expenditure of the year amounted to Rs.922.84 million according to the Statement of Financial Performance, operating expenditure had been stated as Rs.189,094.94 million in the cash flow statement.

Action should be taken to correctly prepare financial statements.

It has been stated under the operating activities due to a mistake.

1.6.3 Non-maintenance of Registers and Books

It was observed during the course of audit test checks that the Ministry had not maintain following certain registers while some other registers had not been properly maintained in an updated manner.

Audit Observation

Recommendation

Comments of the Chief Accounting Officer

(i) Register of Fixed Assets on Computer, Accessories and Software

A Register of Fixed Assets on Computer, Accessories and Software had not been maintained as required by Treasury Circular No. IAI/2002/02 dated 28 November 2002.

A Register of Fixed Assets on Computer, Accessories and Software should be maintained in terms of Circular No. IAI/2002/02 dated 28 November 2002.

Instructions have been given to the relevant officers.

(ii) Audit Query Register

An Audit Query Register had not been maintained in terms of Financial Regulation 452 (1)

In terms of the Financial Regulation 452(1), the Audit Query Register should be maintained in an updated manner.

Instructions have been given to the relevant officers.

(iii) A Register of Official Telephone

A Register of Official Telephone had not been maintained in terms of Financial Regulation 845 (1)

A Register of Official Telephone should be maintained in the form prescribed in Appendix 26 as required by Financial Regulation 845 (1).

Instructions have been given to the relevant officers.

(iv) Security Register

A Security Register containing details of officers and employees who should give security had not been prepared in terms of Financial Regulation 891 (1).

A Security Register containing details of officers who should give security should be maintained in terms of Financial Regulation 891 (1).

Instructions have been given to the relevant officers.

(v) Inventories of Electrical Fittings

An Inventory of Electrical Fittings had not been maintained in terms of Financial Regulation 454(2)

An Inventory of all electrical fittings, apparatus etc, in Government Buildings, should be maintained as required by Financial Regulation 454(2).

Instructions have been given to the relevant officers.

(VI) Record of Liabilities

A Record of Liabilities had not been maintained in terms of Financial Regulation 214.

In terms of Financial Regulation 214, liabilities should be recorded in a Record of Liability in a manner able to constantly examine such liabilities.

Instructions have been given to the relevant officers.

1.6.4 Assurance to be given by the Chief Accounting Officer

In terms of provisions in Section 38 of the National Audit Act No.19 of 2018, the Chief Accounting Officer should assure on the following matter. Nevertheless, action had not been taken accordingly.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
<p>(a) The Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Ministry and carry out periodic review to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out. Further, the review should be carried out in writing and copies of the same shall be made available to the Auditor-General. Nevertheless, statements to the effect that such reviews had been carried out had not been made available to Audit.</p>	<p>Action should be taken in terms of provisions in Section 38 of the National Audit Act, No.19 of 2018.</p>	<p>Action will be taken to make corrections in future.</p>
<p>(b) The Chief Accounting Officer shall ensure the timely preparation and submission of annual and other financial statements and in addition the Chief Accounting Officer shall be required to submit annual reports to Parliament pertaining to the auditee entity. Nevertheless, due to the reasons indicated in Paragraphs 3.6 and 3.7, the above requirements had not been fulfilled.</p>	<p>Action should be taken in terms of provisions in Section 38 of the National Audit Act, No.19 of 2018.</p>	<p>Action will be taken to make corrections in future.</p>

1.6.5 Non-compliance with Laws, Rules and Regulations

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

Observation

Reference to Laws, Rules and Regulations	Non-compliance	Recommendation	Comments of the Chief Accounting Officer
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Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	Although the contract agreement should be signed in triplicate and a copy thereof should be furnished to the Auditor General, action had not been taken accordingly.	Action should be taken in accordance with Financial Regulations.	Officers have been already instructed in this regard.
Financial Regulation 702 (3)			

2. Financial Review

2.1 Expenditure Management

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(a) The total provisions of Rs.154.18 million applicable to 7 Capital Objects had been saved.	Action should be taken to utilize the provisions properly.	Due to various reasons including non-operation of offices of the Government Ministries, provisions had been saved.
(b) Provisions amounting to Rs.1,702 million had been saved relating to 19 Capital Objects and it had ranged from 20 per cent to 98 per cent.	Action should be taken to utilize the provisions properly.	Due to delays occurred in the procurement process and not receiving the imprests, provisions had been saved.

2.2. Incurring Liabilities and Commitments

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(a) Commitments of Rs.1,550.96 million had been incurred in excess of provisions of 05 Objects totalling Rs.618.27 million.	Action should be taken in accordance with Financial Regulations.	It is accepted that the value of liabilities had exceeded the savings of budgetary provisions. The non-receipt of adequate imprests to settle the bills by the end of the year had attributed to the above situation.
(b) Commitments of Rs.19.63 million incurred up on contract agreements had not been included in the Appropriation Account.	Action should be taken in accordance with circular instructions.	Relevant divisions had not furnished prescribed information.

2.3. Deposit Balances

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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Although deposits older than two years should be credited to the Revenue Account in terms of Financial Regulation 571, deposits of Rs.185,356 older than two years had not been credited to the Revenue Account.	Action should be taken in accordance with Financial Regulations.	Steps are being taken.

3. Operating Review

3.1 Vision and Mission

Audit Observation

Vision and Mission had not been prepared so as to include the expected outcome after discharge of the functions to be carried out by the Ministry.

Recommendation

Vision and Mission should be prepared so as to include the expected outcome after discharge of the functions to be carried out by the Ministry.

Comments of the Chief Accounting Officer

Vision and Mission have already been prepared so as to include the expected outcome after discharge of the functions to be carried out by the Ministry.

3.2 Failure to Achieve Expected Level of Output

Audit Observation

Ten sub-projects of the Puraneguma Project and 04 activities of the Rural Infrastructure Development Project in Emerging Regions had not been commenced and progress of 6 activities remained at a minimum level.

Recommendation

Action should be taken to achieve expected progress in accordance with the Action Plan.

Comments of the Chief Accounting Officer

Expected progress has been achieved.

3.3 Failure to Achieve the Expected Outcome

Audit Observation

(I) Fourteen constructions carried out by the Puraneguma Project at a cost of Rs.449.48 million from 2014 to 2016 had remained idle even by 31 December 2018 due to various grounds.

Recommendation

Necessary steps should be taken to achieve the expected outcome.

Comments of the Chief Accounting Officer

Three out of the above constructions are being used at present and necessary arrangements are being made to utilise the other constructions.

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| (II) | Relevant sections of the weekly fair, assembly halls and health clinics included in 3 buildings constructed in Uva, Western and Central Provinces under the Puraneguma Project at a cost of Rs.75.37 million and handed over to the Pradeshiya Sabhas had not been utilized in expected purposes. | Steps should be taken to achieve the intended objectives. | Due to increase in the number of Members, the assembly hall is used as the Chamber of the Sabha and as a result of decrease in the vegetable production at Bandarawela, weekly fair could not be operated. |
| (III) | Nine multipurpose buildings constructed at a cost of Rs.435.04 million under the Puraneguma Project and handed over to 09 Pradeshiya Sabha for Public welfare activities had not been utilized for expected purposes and those had been utilized for the maintenance of offices of the Pradeshiya Sabhas. | Necessary steps should be taken to achieve the expected benefits. | Since space facilities were inadequate owing to increase in the number of Members of the Pradeshiya Sabha, offices have to be maintained in these buildings. |
| (IV) | For the improvement of water supply scheme existed under the activities relevant to the water supply project of the Udapalatha Pradeshiya Sabha of the Central Province, a sum of Rs.208.53 million had been spent by 30 June 2017. Although the contractor had taken steps to hand over the water supply project to the relevant Pradeshiya Sabha by the end of the year 2018, increase in the supply or the number of consumers had not taken place. | Steps should be taken so as to receive benefits. | Although quantitative improvement had not taken place, it has been possible to supply high quality drinking water. |

3.4 Abandonment of Project without Completion

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
----- Six construction projects commenced by the Ministry had been abandoned half way without completing the constructions after incurring Rs.121.8 million thereon.	----- Action should be taken to complete the project and thereby achieve the expected goals.	----- Due to not completing the tests required for the construction, failure to allocate provisions, not releasing the lands and owing to public objections, project had been abandoned.

3.5 Delays in the Implementation of Projects

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
----- According to the Action Plan, construction of sanitary facility centres associated with the sacred lands, construction of a building for the Sri Lanka Institute of Local Government, implementation of 04 programmes under the Local Government Division, construction of buildings for the installation of Kawashima Machines in Uva, Western, Northern and Southern provinces under the Solid Waste Management Division, provision of compactor machines for local government authorities and selection of consultants for 05 sub-projects under the Puraneguma Project and Rural Infrastructure Facility Development Project had been delayed.	----- Projects should be implemented within due period in accordance with the Action Plan.	----- Delays have occurred due to the delay of the procurement process, lack of provisions and the public objections. Nevertheless, those projects will be implemented in this year.

3.6 Annual Performance Report

The incorrect information included in the Annual Performance Report and the Audit Observations thereon are as follows.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
----- In term of State Finance Circular No.402 dated 12 September 2002, the Ministry should table the Performance Report in Parliament within 150 days from the close of financial year. Nevertheless, action had not been taken accordingly.	----- The performance Report should be tabled in Parliament within due period.	----- Action will be taken to table the report in Parliament within due period.

3.7 Foreign Funded Projects

The audit observations revealed on the foreign funded projects are given below.

(I) Projects of which accounts were not presented.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
----- Although annual accounts of the foreign funded projects should be presented in terms of Financial Regulation 626, accounts of the rural bridge project commenced in the year 2014 had not been presented to Audit and a sum of Rs.5,816.67 million had been spent under 4 Objects during the year under review.	----- Accounts should be duly presented.	----- Since accounts books have been properly maintained, accounts can be presented.

(II) Projects which had not achieved an adequate progress.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
----- For the Rural Infrastructure Development Project in Emerging Regions, a sum of Rs.780 million comprising foreign loan of Rs.700 million for the year under review and Rs.80 million as local funds had been allocated under the Japan International Cooperation Agency loan assistance. Due to lack of progress of project activities, foreign loans could not be used. A sum of Rs.58.7 million had been spent as salaries and administrative expenses from the local funds.	----- Foreign projects should be properly implemented.	----- Due to the delays in the procurements and owing to procurement appeals, appointment of consultancy company was delayed. Accordingly, project could not be implemented.

3.8 Assets Management

The following observations are made in this connection.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(a) The ownership of 02 vehicles belonging to the Ministry of Sports and Ministry of Rehabilitation and Prison Reforms had not been transferred.	Action should be taken to transfer the ownership.	Necessary documents have been forwarded to the Commissioner of Motor Traffic.
(b) The Ministry had given 05 vehicles to the Ministry of Social Welfare and Rural Industries and the President's Office.	Action should be taken either to get back those vehicles to the Ministry or to vest in.	It has been informed in writing to vest in the ownership of vehicles.

3.9 Depositing Security by the Government Officers

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
----- Securities had not been obtained from the officers who are responsible for and entrusted with, the receipt or the custody of public money in terms of Financial Regulation 880.	----- Action should be taken in accordance with the Financial Regulations.	----- Necessary activities are being taken.

3.10 Management Weaknesses

The audit observations revealed in this connection are given below.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
----- (a) Nine compost manufacturing machines had been purchased at a cost of Rs.935.69 million under the approval of the Cabinet in order to install at provincial level during the year under review. Deficiencies such as , making purchases without conducting a feasibility study, non-utilisation of the machines purchased in the year 2017, non-installation of machines due to failure in settling lands in North, Uva and Western Provinces, although the sales price of 01 kilogram of compost had been state at Rs.20, actual price was cents 36 and accordingly, not receiving the expected income, the estimated income being incorrect, not taking action to install machines after conducting an adequate study on the waste collected, installation of the machine in a place where there was no	----- Action should be taken to conduct feasibility study before commencement of a new project and expeditious steps should be taken to utilize the purchased assets and to earn expected revenue.	----- Following a study conducted over a year on the functioning of the Kawashima machine granted to this country under the patronage of the Japan International Corporation Agency the above machine was purchased and due to public objections, installation of the machine was delayed. Nevertheless, all the machines can be used. Plans have already been drawn to earn the expected income and the price of compost is expected to be increased in future.

adequate space to construct the building recommended to be built in Kegalle urban area, were observed.

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| <p>(b) Deviating from the formal procurement process and according to the Section 3.1 of the Procurement Guidelines and observations made by the Cabinet Paper No.MF5/ERD/CP/17/60 dated 27 March 2017 of the Ministry of Finance, attention had not been drawn on calling for international competitive bids so as to ensure maximum productivity to the funds.</p> | <p>Action should be taken in accordance with laws, rules and regulations.</p> | <p>Mr. Kenji Kawashima in Japan owns the patent right of this machine awarded to this country under the assistance of the JAICA Institute. Further, as far as knowledge is concerned, no such machines are available in the word to call for competitive bids. As such, there is no possibility to fulfil all the requirements referred to in Guideline 1.2.1 of the Procurement Guidelines. However, relevant purchase has been made in accordance with relevant specifications, laws and rules while ensuring its transparency.</p> |
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3.11 Transactions of Contentious Nature

Audit Observation

A bullet proof Jeep owned by the President's Office had been granted to the use of Minister of Provincial Council and Local Government on 25 October 2010. That vehicle had been referred to its local agent to carry out repairs on 11 June 2014 on the instructions of the former Minister and an estimate of Rs.16.22 million had been presented for replacing the damaged windscreen and the rear windshield. However, a bill amounting to Rs.3.23 million dated 30 September 2015 had been presented for the repair. Nevertheless, payment

Recommendation

A formal inquiry should be conducted on the losses and damages and actions should be taken to hand over the relevant vehicle.

Comments of the Chief Accounting Officer

Although action was taken to handover this vehicle to the President's Office, it has not responded in this connection.

had not been made due to lack of provisions. Although the vehicle was obtained by settling above payment, it was not in a usable condition and there was no need for the use of such vehicle.

4. Audit and Management Committees

Audit Observation

Only 03 Audit and Management Committees had been conducted for the year 2018.

Recommendation

Four meetings should be held at quarterly basis.

Comments of the Chief Accounting Officer

Action should be taken to conduct the prescribed meeting sessions.

5. Human Resource Management

Audit Observation

Action had not been taken to fill 65 vacancies existed relating to various posts of the Ministry.

Recommendation

Action should be taken to fill vacancies.

Comments of the Chief Accounting Officer

Action is being taken in that connection.