

Local Government Enhancement Sector Project (Pura Neguma) - 2018

The audit of financial statements of the Local Government Enhancement Sector Project (Pura Neguma) for the year ended 31 December 2018 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Article IV of the Loan Agreement No. 2790-SRI(SF) dated 21 October 2011 and 3431 –SRI(SF) dated 02 November 2016 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comments and observations which I consider should be reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, the Ministry of Internal and Home Affairs and Provincial Councils and Local Government is the Executing Agency and Provincial Councils of 07 Provinces are the Implementing Agencies of the Project. The objectives of the Project are to achieve improved Local Government Infrastructure Activates of the Project and effective delivery of services through accountable and financially and technically strengthened local authorities. The subsequent loans of the project had been allocated to improve the infrastructure and services delivered by the Local Authorities and National Water Supply and Drainage Board in less-developed areas of 07 Provinces in Sri Lanka which affected by chronic diseases. Therefore, the issues relating to the improvement of water supply systems, infrastructure basic service delivery local government policy reforms and strengthening capacities are expected to be addressed. As per the Loan Agreement, the estimated total cost of the Project was US\$ 68.80 million equivalent to Rs. 8,940 million and out of that US\$ 59 million equivalent to Rs. 7,670 million was agreed to be financed by Asian Development Bank. The Project had commenced its activities on 01 July 2012 and scheduled to be completed by 30 June 2015. However, the date of completion of the activities of the Project had been extended up to 30 June 2017.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.4 Basis for Opinion

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

1.5 Responsibilities of management and those charged with governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principle, and for such internal

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

Those charged with governance are responsible for overseeing the Project's financial reporting process.

1.6 Auditor's Responsibilities for the audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Comments on Financial Statements

2.1 Non-compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non-compliance	Impact	Response of the Management	Auditor's Recommendations
Management Service Circular No 1/2016 of 24 March 2016	The Meeting of the Project Steering Committee is required to be held once in 02 months. However, only 04 meetings had been held during the year under review.	The monitoring activities of the Project may not be carried out effectively.	In 2018, the meetings of the Steering Committee had been held in 04 times only, due to unexpected political situations	The meetings of the Project Steering Committee are required to be held regularly.

3. Physical Performance

3.1 Physical progress of the activities of the Project

According to the Project Implementation Plans, the Project had supported to 105 Local Authorities in 07 Provinces to enhance their infrastructural requirements and respective development works of 178 Local Authorities had been completed at the end of the previous year. Further, it was scheduled to carry out 29 water supply projects, 35 construction works in 29 Local Authorities under the supplementary loan facilities and out of that 04 water supply projects in 04 Local Authorities were completed in during the year under review. The issues relating to the physical progress of such projects are given below.

Activity	Physical performance as at 31 December 2018		Delays in months	Impact	Comments of the Management	Audit Recommendation
	Expected %	Achieved %				
Capacity improvement Nuwarawewa Water Treatment Plant	40	5	21	(a) Over running of cost estimates (b) Expected benefits not received by the intended parties	Delays in awarding contract, due to late concurrence of the Lending Agency.	Need to take action to catch up the delays and ensure to complete the contract works timely to avoid additional costs.
Extension of Water supply system Ibbagamuwa Water supply system	100	85	13		Poor performance of the contractor	-Do -
Buttala - Water Supply scheme	55	30	20			-Do -
Civil construction works						
Bentota - weekly fair	70	20	11		Delay due to the earth fillings by the Pradeshiya Sabha	-Do -
Mahara Pradeshiya Sabha -					Poor performance of the	-Do -

Multipurpose Building	100	70	8	contractor.	
Ja-Ela Pradeshiya Shaba - Multipurpose building at Kandana	75	32	11	-Do-	-Do -
Wattala Pradeshiya Shaba - multipurpose building at Mahabage	80	63	10	-Do-	-Do -
Katana Pradeshiya Shaba - Auditorium /Community Hall at Kadirana	40	22	14	Works delayed in 4 months, due to unexpected soil condition encountered during column foundation.	-Do -

3.2 Observations made on site visits

The following observations are made.

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a) Multipurpose Building at Balapitiya			
The contractor had allowed using interlock blocks with lesser strengths of 30 Neutrons instead of approved strengths of 40 Neutrons. It was observed at the physical verification that the interlock blocks with strength of 30 Neutrons below had been used by the contractor, as per the technical tests carried out.	The intended results will not be achieved due to less durability.	It is observed that the blocks used for the construction are in reasonable strength as per the specifications.	The supervisory staff need to assure that the contractors regularly met with the quality standards.

(b) **The Library Building, Auditorium and vehicle park constructed by the Ambalagoda Pradeshiya Sabha**

The building materials such as door fittings, window glasses and elevator used for test construction were not complied with the specifications.

-Do-

Not properly commented.

-Do-

3.3 Idle and Underutilized Resources

The following observations are made.

	Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a)	Water Supply system at Wanathawilluwa is remained idle, due to lack of water resources.	No water supply facilities for 4,333 families in the area.	The National Water Supply and Drainage Board had not provided water connections as agreed. The relevant officials were informed to take follow-up actions.	The intended objectives of the Project should be reached in order to provide facilities to the beneficiaries.
(b)	The Multi-purpose building and the Bus Stand at Redeegama is not utilized for intended purposes.	Intended benefits had not been reached.	The Pradeshiya Shaba expected to open the both floors simultaneously. However, the upper floor is still under construction. The relevant officials were informed to take follow-up actions.	-Do -.
(c)	The bus stand at Mawathagama had commenced its operations without considering the passenger safety and other facilities.	Intended benefits had not been reached to the general public.	The Project had constructed the ground floor within the given allocation for the bus stand. The Pradeshiya Sabha had agreed to construct the upper floor. The roof of the upper floor to be projected as a shelter for the bus bays. The relevant officials were informed to take follow-up actions.	Action should be taken to utilize the Buildings constructed.

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| (d) | The Water Supply system at Polpitiyagama is remained unutilized, due to lack of water resources bowsers. | No water supply facilities for 1,700 families in the area. | This water scheme was completed in 2017 and there are 350 house connections are remained at high elevation. It is proposed to provide water supply using water bowsers. | Action should be taken to achieve intended objectives in sustainable manner. |
| (e) | The bus stand at Meegahakiula is remained idle due to lack of access road. | Intended benefits had not been reached to the general public. | Meegahakiula bus stand was constructed based on the town plan prepared by the Urban Development Authority and responsibility to construct the access road for the bus stand was not under the purview of the Project and rests with the Road Development Authority. | Action should be taken to support to the Pradeshiya Sabha to construct access road in order to use the bus stand in effective manner. |
| (f) | The weekly fair and multipurpose building of Badarawela Pradeshiya Sabha is remained idle due lack of road access and water supply services | Intended benefits had not been reached to the general public. | After the completion of the constructions it was unable to function the weekly fair due to failure of the agricultural pattern in the area on the issues related to Uma Oya Project. The Provincial Councils will take action to commence the activities. | Action should be taken to provide necessary facilities to use the building and other development works for intended purposes. |
| (g) | The weekly fair at Rathgota Pradeshiya Sabha had not been opened for the use of general public. | Intended benefits had not been reached to the general public. | After handing over the buildings to the Pradeshiya Shaba, action had been taken to make partitions by their own funds. Action will be taken to open the fair soon. | Action should be taken use the building for intended purposes. |
| (h) | The Crematorium at Wilgamuwa is remained under-utilized due to lack of demand. | Intended benefits had not been reached to the general public. | The demand for the use of Crematorium is less due to less population as well as the availability of adequate cemeteries in the area. The Provincial Council has allocated funds to | Necessity of the construction of Crematorium at Wilgamuwa area was not properly evaluated and wasted |

		the Pradeshiya Shaba to improve the bridge across the canal in the surrounding area and after that it is expected more demand for the Crematorium.	funds provided by the Project.	
(i)	The Water Supply Scheme at Wilgamuwa is remained unutilized, due to lack of proper water sources	The water supply facilities for 350 families in the area not provided.	Before commencement of the construction works of the water project, the water quality and quantity tests was carried out and accordingly the capacity of the scheme was decided. However, after the construction, it was observed that the quantity of water supply had been reduced, due to dry weather situation.	Action need to be taken to consult the specialists to rectify the errors.
(j)	The Water Supply Scheme at Diklanda remained idle due to poor water quality.	Intended benefits had not been reached to the general public.	At the design stage it was recommended by the Water Resource Board that the quality of the water is suitable for drinking purposes. However, after construction this situation had been changed.	Action should be taken to use the assets for intended purpose.

3.4 Issues Related to Human Resources Management

The following observations are made.

	Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a)	The Project Director had been appointed on acting basis, contrary to the paragraph 2.2.4 of the Circular No. 1/2016 of the Department of Management Services.	The operation of the activities of the Project will be affected.	The Director of other Project had been appointed under the acting basis, due to urgent need of the Project.	Need to be comply with the circular instruction.

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| (b) | It was observed that persons were appointed as an Assistant Engineer and Assistant Quantity Survey in the sub office in the Southern Province without minimum qualifications required by the paragraph 2.2.9 of the Circular No. 1/2016 of the Department of Management Services. | -Do- | Not properly commented. | The key staff members are need to be recruited as per Circular instructions. |
| (c) | The post of Senior Engineer had been filled with acting basis even though an officer had been selected and recommended on 08 May 2018, after conducting proper recruitment procedures. | -Do- | As there was vacancy in the Senior Engineer position in the Southern Province, the Chief Secretary recommended to appoint the Chief Engineer of the province on part time basis from January 2018. | The selected person should be appointed and responsibility should be transferred. |