

Local Development Support Project - 2019

The audit of the financial statements of the Local Development Support Project for the year ended 31 December 2019 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 4.2 of schedule 01 of the Loan Agreement No. 6371-LK dated 14 May 2019 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. My comments and observations which I consider should be reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Financing Agreement, then Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government, presently Ministry of Public Service, Provincial Councils and Local Government is the Executing Agency and Provincial Councils of 04 Provinces are the Implementating Agencies of the Project. The objectives of the Project are to Strengthen Local Government Authorities capabilities to deliver service to communities in a responsive and accountable manner and to support economic infrastructure development participating provinces. As per Loan Agreement, the estimated total cost of the Project was US\$ 100.65 million equivalent to Rs. 17,665.63 million and out of that US\$ 70 million equivalent to Rs. 12,222.41 million was agreed to be financed by International Development Association and an amount of US\$ 23.65 million equivalent to Rs.4,220.98 million was agreed to be financed by the European Union. The balance amount of US\$ 7 million to be financed by Government of Sri Lanka. The project had commenced its activities on 30 June 2019 and scheduled to be completed by 30 December 2022.

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 2019 and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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 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 Sri Lanka Accounting Standards 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

| No | Reference to the Laws Rules and Regulations etc. | Non-Compliances | Impacts | Responses of the Management | Auditor's Recommendations |
|-----|--|---|--|--|--|
| (a) | Management Service Circular No. 1/2019 of 05 March 2019. | The Meeting of the Project Steering Committees required to be held once in 02 months. However, meetings had not been held during the year under review. | The monitoring activities of the Project may not be carried out effectively. | No comments. | The meetings of the Project Steering Committees required to be held regularly. |
| (b) | Sri Lanka Financial Regulation 137 & 138. | Advances of Rs. 5.16 million had been settled without supporting documents of payment. | Increasing the susceptibility to fraud. | Advance had been settled based on expenditure reports. | Action should be taken to attach all supporting documents along with vouchers. |

3. Physical Performance

3.1 Physical progress of the activities of the Project

| Audit Issue | Impact | Response of the Management | Auditor's Recommendations |
|---|---|--|--|
| According to the Project implementation plans, the Project had to support local authorities in 04 provinces to improve local services delivery and economic infrastructures. However, without being obtained approval for sub projects an | (a) Delays in completion (b) Over running of the cost (c) Expected benefits not received by the intended parties. | Sub imprest had been released on perfect approval. | Action should be taken to approve sub projects and required to make influences to local authorities to initiate sub projects by the Project. |

amount of Rs.268.98 million had been paid to 04 provincial councils. However, sub projects had not been initiated up to 15 June 2020.

3.2 Issues related to establishment of Project Management Unit

| Audit Issue | Impact | Response of the Management | Auditor's Recommendations |
|---|---|---|--|
| Project Management Unit had not been established with full time director and complete carder. However, staff appointed on part time bases for project preparatory work had been attached on part time base. | (a) Delays in completion. (b) Over running of the cost estimates. (c) Expected benefits not received by the intended parties. | Appointment was unable to done since Presidential Election and circular issued by Secretary to Ministry of Finance as well. | Action should be taken to establish dedicated Project Management Unit and appoint project staff full time basis as soon as possible. |

3.3 System and Controls

| Audit Issue | Impacts | Responses of the Management | Auditor's Recommendations |
|--|--|--|---|
| (a) As per Article (c) of Schedule 02 of Loan Agreement, action had not been taken to sign agreements with 04 Provincial Councils. | Officers in Provincial Councils will be evaded responsibilities on this project. | After discussion with External Resources Department, Agreements will be sign with Provincial Councils. | Action should be taken to sign the Agreements. |
| (b) The expenditure of Rs.1.7 million incurred to prior to the commencement of the Project had | Increase the cost of the Project | No comments. | Action should be taken to recover the amount of |

been accounted as the Project expenditure.

Rs.1.7 million.

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|--|--|---|--|
| (c) Five accountants had been appointed to Project Management Unit & Project Implementation Units. However, Accounting System for project had not been designed. | Financial statement does not give true and fair view. | Accounting system and Manuals had been prepared. It will be introduced in the future. | Action should be taken to establish Accounting System. |
| (d) Annual Budget and Work Plan for year 2019 had not been completed to obtain approval from Steering Committee. | Project Progress could not be evaluated in timely and lack of focus. | Work plan and budget had been submitted to Steering Committee. | Action should be taken to prepare & get approval for Budget and Action Plan from the Steering Committee. |