

## **Head - 420 -State Ministry of Provincial Councils and Local Government**

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### **1. Financial Statements**

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#### **1.1 Opinion**

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The audit of the financial statements of the State Ministry of Provincial Councils and Local Government for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 State Ministry of Provincial Councils and Local Government was issued to the Accounting Officer on 01 June 2022 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report was issued to the Accounting Officer on 18 August 2022 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. This report is presented to 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, the financial statements give a true and fair view of the financial position of the State Ministry of Provincial Councils and Local Government as at 31 December 2021, and 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 responsibility for the financial statements is further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **1.3 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Financial Statements**

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The 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 the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per 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 the preparation of annual and periodic financial statements.

In terms of Sub-section 38(1)(c) of the National Audit Act, the 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 Responsibility for the Audit of 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 General'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 and its materiality depends on the influence on economic decisions taken by users on the basis of these financial statements.

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

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.

- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the 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.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the 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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I express the following matters in terms of Section 6 (1) (d) and Section 38 of the National Audit Act, No. 19 of 2018.

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

## 2. Financial Review

### 2.1 Management of Expenditure

Following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) <b>Total provision and expenditure</b>		
(i) 100 per cent of the total provision of Rs.10,600,000 allocated for 03 recurrent expenditure objects under program number 1 and 2 had been remained.	Provisions were remained due to the facts that not to travel abroad due to the Covid epidemic situation in the world in 2021, not to request the uniforms to state ministerial staff and although provision was made under 420-2-3-12-1406-0/12 in the Budget Estimates for payment of interest on leased vehicles under rural infrastructure in emerging regions, incurring expenses by creating an object for administrative and organizational expenses and allocating provision by F.R.66 as per the letter from the Budget Director General No.BD/GPS/155/08/03 and 13 July 2021 etc.	Management should be concerned not to prepare estimates unrealistically.

- (ii) 100 per cent of the total provision of Rs.113,000,000 allocated for 12 capital expenditure objects under program number 1 and 2 had been remained. Provisions were remained due to the facts that imposing traveling restrictions due to the adverse situation in the country, country shutdown, reduced utilization of machinery due to rotation of officers, not conducting organization work in an orderly manner, reduced use of vehicles, major renovations are not being carried out properly due to garage closures etc. - Do -
- (iii) Rs.30,850,278 and Rs.34,068,520 had been remained unutilized in 22 and 5 objects of recurrent and capital expenditure respectively under Program No. 1. It was 37 per cent and 66 per cent. Provisions were remained due to the facts that although allocations were allocated to the Minister of State for the entire year, since he was appointed in March 2021, payment of salary made from that date, Covid pandemic situation, reduced use of machinery due to traveling restrictions, not doing maintenance of buildings due to lack of raw materials, use of vehicles in groups of ministerial office and officials, limited access to internet, domestic traveling restrictions, discontinuing office, reduced in obtaining property loan, the operational activities of the Sri Lanka Institute of Local Government have not been carried out as expected etc. - Do -

(iv) Rs.266,251,558 and Provisions were remained due to the - Do -  
 Rs.3,250,590,966 had been facts that not to present expenditures  
 remained unutilized in 01 as expected due to the adverse  
 and 08 objects of recurrent condition in the country, lack of  
 and capital expenditure building materials, discourages to  
 respectively under Program purchase, delay in recruitment of  
 No. 2. It was 58 per cent and staff, not to implemented projects  
 72 per cent. due to country shutdown, inability to  
 achieve desired performance etc.

(v) Even though provision was The provision was not allocated - Do -  
 made by the Treasury through the annual estimates due to  
 Supplementary for 03 the problematic situations that arose  
 expenditure objects that had in connection with the Public  
 not been estimated, Education Reform Project. Also,  
 Rs.2,785,686,782 out of the provisions were remained due to  
 sum of Rs.3,365,000,000 even though the issues were resolved  
 (including 100 percent of one in March 2021, due to the adverse  
 budget subject) had been conditions caused by the traveling  
 remained unutilized. It was restrictions, the tasks had not been  
 82 per cent of savings. carried out as planned.

**(b) Preparation of estimates**

Large variations were The estimates of the Ministry have Accurate financial  
 observed between the been prepared as fully and accurately statements should be  
 original estimate and the as possible in accordance with the prepared.  
 revised estimate since the provisions of F.R..50. However,  
 Ministry had not been paid there was a savings of provisions for  
 attention to the factors certain expenditure objects due to  
 emphasized by F.R.50 while various reasons and insufficient  
 preparing the cost estimate. provisions for certain expenditure  
 objects so for the purpose of  
 managing the limited provisions  
 properly, the remaining provisions  
 have been transferred to the  
 expenditure objects for which there

is a shortage of provisions in accordance with F.R.66.

**(c) Capital transfers**

According to the classification given under the Standardized Expenditure Objects in Appendix 1 of the Financial Regulation, even though 2202 expenditure heads can be made as capital transfers to non-profit-making government institutions, the development works of local government institutions had been paid under the supervision of the Ministry, and expenditure had been stated under capital transfers. Rs.157,842,515 had been mentioned as capital transfers for library development, shopping center development, road renovation.

Even though the relevant provisions are allocated under capital transfer as above, it is not possible to directly transfer those provisions to the provincial councils or local government bodies. Because, if the provisions were transferred, the institutions would not be able to account for the related expenses. Accordingly, the impress is spent under the supervision of the Ministry.

Actions should be conducted in the manner indicated by the financial regulations.

**(d)** According to Cabinet Decision No. 21/1596/304/134 and dated 28 August 2021, although provisions were allocated under approvals to make expenditure containment more effectively by re-monitoring the expenditures of the Ministries, instead of holding over public

According to Part II of the Cabinet Decision dated 30 August 2021, it has been stated that the actions proposed in the Cabinet Memorandum shall not be applied to the development programs initiated under the new development approach of the Government.

Action should be followed-up the circular instructions and should be supported to treasury financial control.

expenditure for cost control in the current situation of the country, it was decided to temporarily suspend constructions, purchases, building renovations and improvements that have not yet started. But even after issuing that letter, projects worth Rs.1,125 million had been started and these are still as commitments.

## 2.2 Incurring of Liabilities and Commitments

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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) According to the Public Accounts Circular No. 255/2017 dated 27 April 2017, cases were observed where the value to be paid further for duly procured goods and services and for contracts with completed and certified work were recorded as commitments, although they should have been shown as liabilities. A sum of value of such 04 projects was Rs.12,338,519.	While preparing the documents of liabilities and commitments, the relevant vouchers have been checked and only the vouchers which were ready for payment have been identified as liabilities. However, made a note to identify the liabilities and commitments with more care in the future.	Circular instructions should be followed.
(b) The lease value of Rs.65,573,680, which is the further liable to pay for the 10 vehicles taken over from	Actions will be taken to enter the amount in the liability register and to be rectified in the year 2022.	Accurate financial statements should be prepared.



the Emerging Regions Infrastructure Development Project to the Ministry, had not been specified in the register of commitments.

### 2.3 Deposits Balances

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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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According to F.R.571, Deposits of more than 02 years should be credited to the income account, but 136 deposits of more than 2 years, worth Rs.63,126,232 had not been credited to the income account.	Deposits of more than two years mainly include 10 percent retaining money deducted from contract bills, and relevant requests for the release of this money have to be received from the local government commissioners, that process takes some time. However, actions have been taken to credit all those who do not submit the relevant requests, to the public revenue as it has been informed that all overdue deposits will be credited to public revenue.	Actions should be complied with the provisions of 571(3) of the Financial Regulations.

### 2.4 Non-maintenance of Registers and Books

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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) The petty cash book had not been maintained as per the provisions mentioned in Financial Regulations 446.	Advised to maintain in future.	According to the Financial Regulation 446(3), Money received to petty cash impress and the payment made therefrom should be

recorded in the petty cash book.

- (b) Although an official telephone register had been maintained, the register had not been maintained in accordance with the form in Schedule 26 of the Financial Regulations 845(1). Necessary actions have been made to maintain properly. The register should be maintained in accordance with the form in Schedule 26 of the Financial Regulations 845(1).
- (c) Electrical equipment had been maintained as per Financial Regulation 454(2) but had not been updated. Updating is in progress. As mentioned in Financial Regulation 454(2), an up-to-date inventory book of all electrical appliances and equipment in government buildings should be maintained.
- (d) As per guideline 2.11.2 of the Government Procurement Guidelines Code, the Secretary of the Committee should maintain a register of the Technical Committee, but had not been done so. Actions were taken to maintain a register regarding the attendance of all technical and evaluation committees. According to the provisions, the Secretary of the Committee should be maintained a register of the Technical Committee.
- (e) The audit query register had not been updated. Actions were taken to update properly. According to the Financial Regulation 452(1), the audit inquiry register should be updated and maintained.

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| (f) | According to the F.R.1647(e) and F.R.802, the vehicle listing register had not been updated. | The update is done. | An up-to-date vehicle listing register should be maintained in accordance with Financial Regulation 1647(e). |
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**2.5 Certification of Accounting Officer**  
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Accounting Officer should certify the following matters in terms of provisions set out in Section 38 of the National Audit Act, No. 19 of 2018. However, it had not been so done.

<b>Audit Observation</b> -----	<b>Comments of the Accounting Officer</b> -----	<b>Recommendation</b> -----
(a) The Chief Accounting Officer and the Accounting Officer should 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. Such reviews should be carried out in writing, and a copy thereof should be presented to the Auditor General, but no statements had been furnished to the Audit that the reviews had been carried out.\	Internal auditor reviews the existing internal control systems and issues necessary instructions and updates from time to time.	Action should be taken in terms of provisions.

- (b) The Accounting Officer shall ensure that an effective mechanism exists to conduct an internal audit. However, the said requirements had not been fulfilled due to audit observations indicated in paragraphs 4.1 of the report. Answers were not given. - Do -

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

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

Reference to	Non-compliance	Comments of the	Recommendati
Laws, Rules and	Non-compliance	Accounting	Recommendati
Regulations	Non-compliance	Officer	on
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(a) Public Administration Circular No. 26/92(1) dated 03 August 1994	As per the instructions of the circular, all the vehicles other than those reserved for the officials of the ministry should have the state emblem applied, but this had not been done.	They are printed for vehicles which not displaying state emblem. These emblems have been temporarily removed from 09 May 2022 for the protection of government property. Actions will be made to display them again.	Circular instructions should be followed.

- (b) Paragraph 3.1 (b) of Public Administration Circular No. 26/2016 dated 29 December 2016. Fuel combustion tests had not been performed. Due to the prevailing covid epidemic situation and the current fuel crisis, fuel combustion tests has become difficult under practical conditions. However, as soon as the fuel crisis is resolved, the fuel combustion test will be carried out. - Do -
- (c) Sub No. 1.12 of Trade and Investment Policy Circular No. 01/2018 dated 05 February 2018. While granting concessional motor vehicle import permits, even though, the motor vehicle import permits are to be issued only to officers who meet the prescribed qualifications in accordance with the circular provisions, the project director of the provincial road development project and the project director of the local government improvement project had been issued motor vehicle import permits without completing 9 years of service in government development projects. It has been confirmed by checking the documents that the Director of the Provincial Road Development Project has completed 9 years of service. As per 1.1 and 1.12 of circular 1/2018, the necessary qualifications for obtaining a permit have been met. Answers were not given regarding the director of the Local Government Improvement Project. Advice should be sought from the Director of Trade and Investment Policy Department and acted accordingly.

- (d) Paragraph 9.2 of Trade and Investment Policy Circular No. 01/2018 dated 05 February 2018. According to paragraph 9.2 of the circular, it is stated that it is the responsibility of every secretary to issue car import permits only to eligible officers, but according to the above observations, the secretary had not been acted in such a way that the responsibility is fulfilled. Answers were not given. Circular instructions should be followed.
- (e) Paragraph 1.2(iv) of Trade and Investment Policy Circular No. 01/2013 dated 02 August 2013. Even though the project service period of the senior engineer of the local government improvement project and the officer serving as Compliance Officer has been completed, As per paragraph 1.2(iv) of this circular, officers appointed to a qualifying post mentioned in this circular on contract basis after retirement from government service had been given a motor vehicle import permits despite being advised that they are not entitled to concessional motor vehicle import permits. Answers were not given. Advice should be sought from the Director of Trade and Investment Policy Department and acted accordingly.

## 2.7 Irregular Transactions

### (a) Purchasing mobile stalls

The quotations had been received from two firms under the national competitive biddings to purchase of 90 mobile stalls for distribution at the local government level in Polonnaruwa district. It had been decided to buy 90 stalls for Rs.24,945,000 from the private firm that submitted the lowest prices, for the two types of mobile stalls at Rs.295,000 and Rs.260,000 respectively. The following observations were made in this regard.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(i) A cost benefit analysis had not been done prior to the implementation of the project and the beneficiary selection methodology had not been clearly identified and documented.	Answers were not given.	Public expenditure should be managed prudently as per the instructions of the Cabinet.
(ii) It is contrary to the Local Government Guideline 2-2021 and also contrary to Cabinet Decision No. 21/1596/304/134 dated 28 August 2021 to incur expenditure for mobile stalls that not under projects for strengthening local government institutions, expenditure object No. 420-2-3-24-2202. The Secretary had been approved these projects on the basis of his power to approve such projects in urgent and essential requirements. It was	Answers were not given.	Public expenditure should be managed prudently as per the instructions of the Cabinet.

observed that the urgent and essential need of the people of Polonnaruwa district is not to get mobile stalls.

- (iii) The reasons of the selection of only the local government areas of Polonnaruwa district to implement the project had not been submitted to the audit.      Answers were not given.      - Do -

**(b) E-Local Governance**

- (i) It had been paid Rs.9.6 million in the year 2018 to a private firm for the support and maintenance services of e-local governance computer system without considering the provisions of Finance Regulations 137 (1),(2),(3),(4) and 138 and making a procurement decision without a formal procurement process. and when the year 2019 began, the project had been remained inactive. The ministry had also accepted that and the money spent for this had been become useless.
- As a solution to the problems encountered during the implementation of e-LG (1), a project called e-LG (2) is proposed to be implemented together with the Sri Lanka Information and Communication Technology Agency. Formal actions should be taken against negligence in approval and certification of expenditure.



### 3 Operating Review

#### 3.1 Planning

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) According to paragraph 03 of Public Finance Circular No. 2014/01 dated 17 February 2014, the action plan had to be prepared by focusing the implementation of the approved budget estimate, but the expected tasks had not been specified.	Specific tasks and budget estimates related to each department of the Ministry are taken into consideration while preparing the action plan. The instructions mentioned in Circular No. 07/2020 issued on 23.12.2020 have been followed.	The attention of the management should be directed towards the success of the plans of the years after the year under review.
(b) Projects identified by the budget proposals such as the project to install rural e-libraries in Polonnaruwa district and the program to provide mobile stalls to local government bodies had not been included in the action plan and a revised action plan had not been presented.	The concerned officers were informed to take actions to prepare the revised action plan properly.	The policy decisions of the government should be followed.

#### 3.2 Non- performance of Functions

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
The progress of the implemented projects could not be identified due to the fact that the tasks expected to be performed related to the	Noted that the expected tasks related to the development sector to be specified in the action plan.	A proper action plan should be prepared as well as a progress report against it.

development sector had not been specified in the action plan.

### 3.3 Non-achievement of expected Output Level

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
In the year 2017, Rs.935.69 million had been spent to purchase 09 compost machines and Rs.631.23 million had been spent in the previous years to construct buildings to install those machines. Nevertheless, the machine established for the Galle Municipal Council had not been commenced to use until 31 July 2022.	The project has been formally handed over to the Galle Municipal Council on 24.02.2022 and it has been informed to the Municipal Council to start the operational activities of the project promptly. It was observed that the commencement of operations has been delayed due to the fact that the Galle Municipal Council disposes garbage daily to this project site.	The management should be focused on completing the construction within the contracted period.

### 3.4 Non-achievement of expected Outcome

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) Among the compost machines purchased in the year 2017, the amount of waste received daily was less than 10 percent of the expected amount of waste for the machines installed under Kegalle, Hambantota and	The current situation in the country has caused to this and due to the Covid-19 situation, it had been increased of composting biodegradable waste within the houses. If all the conditions are optimal then the desired goals can be achieved.	Formal actions should be taken regarding the parties who submitted incorrect information to the cabinet and made the decision to purchase the machines.

Kantankudi municipal councils and Lankapura, Vadamarachchi and Adalachchena pradeshiya sabhas, therefore, the daily production also decreased by more than 10 percent. Accordingly, it was observed that the project was ineffective compared to the amount invested due to loss of expected benefits.

- (b) Even though it was reported that the compost machine installed in the Dambulla Municipal Council had reached its maximum capacity, the monthly average sales revenue of that machine was Rs.4 lakhs. The expected profit per year from this machine is Rs.80 million, it was ascertained during the audit that the expected financial targets will not be met.
- It is difficult to achieve financial progress of Rs.80 million, due to the uncontrollable factors arising and not being able to obtain the expected fertilizer reserve, but the local authorities had been informed to reach the desired output by formally re-informing the local authorities and regularizing the collection of garbage.
- Do -

### 3.5 Projects abandoned without completing

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Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
It was observed that Rs.68 million had been paid to the Sri Lanka Land Reclamation and Development Corporation in 2013 as an advance for the construction of the Beliatta Urban Facility Center, but no any constructions had been done.	Although the project has not been completed due to non-availability of allocations after 2014 due to the political change in 2014, the bill of Rs.1.1 million related to the works performed by the Corporation had not been certified by the Building Department. The remaining amount of Rs.66.8 million has to be recovered further. It had also been decided to set-off Rs.25.95 million which has been received from the corporation on rent basis for the store required for the rural bridge project.	Formal action should be taken against the responsible officials.

### 3.6 Foreign Aid Projects

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The following observations are made.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
(a) <b>General Education Modernization Project (GEM)</b> A sum of Rs.8,110,000 salaries had been paid to the consultants in the year 2021 contrary to the provisions mentioned in paragraphs 2.5(i), 4.3 and 4.4 of the procurement guidelines code for the employment of consultants, and it was not ascertained during the audit	I would like to inform that there has been no contravention of the provisions of the procurement guidelines code for the employment of consultants. I would like to mention that at the time of need, I received great service from these officers compared to the amount paid.	Unnecessary positions should be abolished and government expenses should be reduced.

that the recruited consultants had performed sufficient service related to the project.

**(b) Local Development Support Project (LDSP)**

(i) Although Rs.2739.9 million had been allocated in the annual estimate for the year 2021, the third accounting year of the project, it has been observed that a very poor financial progress of 26.2 per cent had been achieved during the year, since the expenditure for the year was only Rs.718.01 million. Due to the bad situation in the country and price fluctuations of the imports in the market and due to the non-finalization of the contracts awarded by the contractors in the stipulated time of period, it was not possible to achieve the progress as planned. The project should be completed within the stipulated time.

(ii) It was observed that an amount of Rs.6.47 million paid, had been become an idle expense due to the non-completion of the tasks to be performed by the 4 consultants appointed for the preliminary work of this project. The reports provided by the recruited consultants at the initial stage of the project and the information and reports provided by them at the present time are actively contributing to the work of the project and a special committee related to the relevant consultants has been appointed to evaluate the work done by them. A report has now been submitted to the audit. Actions should be made to recover the money paid without loss to the government.

**(c) Proposed Urban Project Preparatory Facility Project (UPPF)**

(i) The listed secondary town sustainable development project was removed from the list. As a result, the cabinet had decided to restart the urban project facility planning project which was Although the project was terminated based on a policy decision taken by the government, payments were made on time base for the services provided by the consultant company. It was arranged to provide the maximum economic benefit to the Project activities should be carried out in such a way that there is no loss to the government and if there is a loss, it should be recovered

implemented for the government by minimizing the cost from the responsible preliminary work of the by getting the services of the parties. project which had been consultant company at a minimum completed. Due to the cost in such a way that the termination of the project, the government gets the maximum loss of Rs. 169.06 million economic benefit. incurred by the government had not been made into a useful expenditure instead of a loss.

- (ii) During the payment of salary to the Project Director, a sum of Rs.960,000 had been paid by Rs.60,000 per month more for 16 months without being set in the salary scale as per the provisions of Management Services Department's Circular No. 01/2019 and dated 05 March 2019. My letter No. PL/16/06/21 and dated 2022.06.20 has been forwarded to the Treasury Secretary to change the recommendation given by the Department of Management Services dated 07.02.2022. Overpayments should be recovered.
- (iii) Contrary to the provisions of the Management Services Department's Circular No. 01/2019 and dated 05 March 2019, the financial analyst of the Puranguma project had been appointed as the accountant of this project on acting basis and had been paid Rs.720,000 as salary. Thus, no actions had been taken to recover the salaries paid in violating of the rules and regulations. - Do - Actions should be taken to recover incorrect payments.

**(d) Local Government Enhancement Sector Project (Puranagama) – Additional Funds (LGESP-AF)**

According to the loan agreement No. 3431-SRI(SF) signed by the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank on 02 November 2016, this project was scheduled to be completed on 31 December 2019. According to the project Appraisal Document, the project period had been extended until 31 March 2023 due to the inability to award the construction contracts in the first 18 months and complete the work within the stipulated time as per the agreement. Due to the extension of days, it was observed that the government will have to bear an additional expenditure of Rs.3,120 million for the project operation cost, which includes the maintenance of consulting companies and project staff, which is Rs.80 million per month.

Non-availability of necessary financial allocations, impact of covid epidemic and inability to procure construction materials due to import restrictions imposed by the government led to extension of the project period.

According to the circular instructions, the project offices should be closed and the project activities should be completed with the contribution of the officials working in the ministry and provincial councils.

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

According to the loan agreement signed by the Democratic Socialist Republic of Sri Lanka and the Japan International Cooperation Agency on 17 July 2017, a loan amount of Japanese yen 12,957 million was to be provided for the development of infrastructure such as drinking water, irrigation, rural roads, etc. in 4 provinces under this project. According to the project Appraisal Document, all the construction of the sub-projects should be completed by September 2021 and the project activities should be completed. According to the project Appraisal Document, even though, 418 sub-projects were to be completed, only 355 sub-projects had been selected for implementation and out of that, 232 sub-projects had not been made any progress. Two consulting firms had been appointed to supervise the design and construction of the project and the expected progress had been failed to be achieved by those firms. According to the project Appraisal Document, it was observed that the amount to be

According to the project Appraisal Document and loan agreement, the project duration is 07 years. The loan agreement was signed on 07.07.2017 and accordingly the project should be completed after 07 years that is on 07.07.2024.

The 02 consulting firms appointed for the project have started work in July 2019 and September 2019 respectively. Accordingly, after 48 months that is, drinking water projects at July 2023 and road and irrigation construction at September 2023 should be completed.

Actions should be taken to achieve the desired level of performance.



used by the end of 2021 was Japanese yen 12,492 million, but the amount used was Japanese yen 643.33 million, only 7.39 per cent progress had been achieved and thus the project was at a very weak performance level.

**(f) Provincial Road Development Project (PRDP)**

A loan of USD 109 million was to be provided for the construction and development of regional roads in 09 provinces under the provincial road component of the project, after modifying the purpose and restructuring of the loan agreement No. 5788-LK entered into between the Government of Sri Lanka and the International Development Agency of the World Bank on 29 September 2017. According to the project Appraisal Document, all those constructions were to be completed by March 2023. According to the project Appraisal Document, even though the procurement of the road packages under phase ii step ii should be completed by 31 December 2019, but by 31 December 2021, such progress had been failed to be achieved and the progress of the road

The World Bank was not authorized to implement the next packages since there was no significant outstanding of the dollar 70 million allocated for civil works. Accordingly, the total physical progress of those packages had been achieved at 55% (expected targeted progress at 60%) and financial progress at 40%. Actions should be made to maintain the required level of performance of the project within the stipulated period.

packages under phase i was also at a weak level.

**(g) Rural Bridge Project**

- (i) There is no formal methodology for selecting sites for the bridges to be built using the loans given as export development loans from private banks in the United Kingdom, the Netherlands, etc., and although there was a project team, there was not enough contribution regarding this project, which was implemented as an integrated large-scale contract (Turn Key) project.
- A clear methodology is followed in selecting new bridge sites. As the initial step of the method, the site feasibility is studied through an integrated site test based on the criteria for selecting new bridge sites and feasibility studies.
- The explanation from the Management should be implemented.
- (ii) According to the agreement, no formal mechanism had been launched to identify the places where the bridges should be installed and in deciding the places where the bridges should be located, the locations had not been chosen after an adequate cost benefit analysis considering the cost of a bridge and the number of people who will benefit from that bridge and possible future developments. Also, even though it was installed with the expectation of more than 100 years of existence, no any
- Quality certification of concrete used for the physical construction of bridges was carried out in accordance with BS 1881 - 116 standard.
- A quality inspection process should be followed on concrete construction.

quality control works had been done on the concrete construction of the bridge.

- (iii) Also, it was observed during the sample tests that large bridges had been constructed in places where there is no need for a steel bridge, with no return on investment and where culverts are to be constructed, At certain places where a bridge is to be constructed, small culverts or small bridges may be constructed instead of a bridge for various reasons. Under this project, actions have been made to remove inadequate culverts or small bridges constructed in places where a big bridge is to be constructed and replace them with bridges of proper length at such places. Accordingly, flood conditions or unsafe conditions that may occur in those places have been avoided. Locations should be selected on the basis of the study of the economic and social benefits compared to the amount invested.

**(h) Investment Program to Improve Greater Colombo Water and Wastewater Management - Loan Number 3348/3349 – 2021**

- (i) The construction of Wellawatta Wastewater Treatment Plant proposed to be built at a cost of Rs.4,360,779,986 was planned to commence on 21 June 2017 and complete on 14 December 2019, but the work had not been started by 31 December 2021. Agreed with the observation. There is a high risk of failure of the entire wastewater system, due to the failure of the wastewater treatment plant construction, so the problems should be resolved promptly.
- (ii) The project for providing waste water facilities in the Kirula - Narahenpita area was awarded the contract on 23 October 2017 and was planned This time delay is due to the delay in land acquisition and frequent changes in plans. Urgent actions should be taken for expedited termination.

to be completed on 10 April 2020, but the contract had not been awarded by 31 January 2022. It was observed that an amount of Rs.184,170,150 had been paid for resettlement and land acquisition by 31 December 2021.

(iii) Provision of New Gravity Sewers, Force Mains and Construction of pump stations for Kirulapone catchment Area

This project was planned to commence on 18 May 2017 and finish on 14 May 2020, but the date had been extended to 30 July 2022. The financial and physical progress as at 31 December 2021 was 63 and 53 per cent respectively. The contractor had been made a claim of Rs.3,071,262,126 on the additional cost to be borne by the contractor due to the delay in handing over the proposed land for the construction of the pumping station to the contractor. This claim was made for the contract cost amounting to Rs.717,054,675 and this had been referred to arbitration that the Disputes Board could not resolve it.

The delay is due to delay in handing over the land and poor management of the contractor.

Prompt action should be taken to complete the project.

- (iv) In the year 2021, only 1 meeting of the policy support groups had been held and from the year 2010 to 31 December 2021, an amount of Rs.41,236,786 had been paid as allowances for the policy support groups. The audit could not be ascertained whether the policy support groups played an effective role as the entire wastewater project has become a slow-moving project and there is a high risk of not being able to complete the project.
- Allowances are paid as employees of the project.
- It should be actively contributed to the achievement of the objectives of the project and prepare a work plan to evaluate the performance of the officers.

**(i) Investment Program to Improve Greater Colombo Water and Wastewater Management - Loan Number 3030 – 2021**

- (i) According to the loan agreement, even though it was supposed to commence on 03 June 2014 and end on 30 June 2019, the time had been extended to 24 October 2022 due to the fact that the planning works could not be completed within the stipulated time of period.
- Agreed with the observation.
- Actions should be taken to complete the works to achieve the project objectives and expected benefits promptly.
- (ii) Consultancy contracts related to the sub-projects of construction of Madampitiya Wastewater Treatment Plant, project to provide sewerage facilities for 07 unsewered areas, construction project of 5
- These works had to be delayed until foreign loan funds are obtained.
- Do -

existing small pumping stations, baseline sewerage line from Maligawatta Pumping Station to Madampitiya Pumping Station, improvement of sewerage in the Northern Wastewater Catchment Area had been temporarily suspended due to inadequate funds.

- (iii) Even though, the procurement process for the assessment and emergency repair contract of 92.5 km sewer pipes were started in 2016, the contract had been awarded in October 2021. Thus, a period of more than 5 years was spent to select a bidder. The physical progress of the contract was only 1 per cent as at 31 December 2021 and it was observed that there is a high risk of not being able to complete the contract since the loan agreement and consultancy contract expire on 24 October 2022.
- The increase in the time taken for the procurement related to the projects is a fact that cannot be avoided.
- Do -

**(j) Greater Colombo Wastewater Management Project - Loan Agreement No. 2557/2558 - 2021**

- (i) Even though, the water pumping station project was supposed to be commenced on 09 April 2010 and completed on 30 June 2015, the project has been delayed due to unavoidable circumstances. Prompt actions should be taken to complete the project before its deadline.

completion date had been extended on 4 occasions to 31 December 2022. The physical progress of Maligawatta, Borella, Vystwyke and Thimbirigasaya sewage pumping stations as at 31 March 2022 was 76, 64, 71 and 74 per cent respectively. Also, the physical progress of Pumping Mains in Wanathamulla and Vystwyke as at 31 March 2022 was at 61 per cent. Thus, it was observed that there is a high risk of not being able to complete the wastewater pumping station project.

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|------|--|------------------------------|--|
| (ii) | Three experts had been appointed on 09 April 2021 for the arbitration of Maligawatta Pump Station and a total of Rs.1,736,128 had been paid to those three officials by 31 December 2021, But the approval of the Ministry Secretary regarding the appointment of these officials and the payment of allowances to them had not been submitted to the audit. | Agreed with the observation. | Actions should be taken to minimize costs outside the objectives of the project. |
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### 3.7 Assets Management

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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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<p>(a) The vehicles number PF-5910 and PE-8364 had been taken to the Ministry of Skill Development by the former Deputy Minister on 17 October 2018 and no actions had been made to take over or return the said vehicles. The Cab vehicle No. 252 – 6707 had been given to Tangalle Pradeshiya Sabha, but the handing over had not been done so far.</p> <p>The vehicle number KE-4249 had been handed over to the Ministry of Primary Industries and Social Empowerment on 21 June 2018 but had not been returned or handed over. Information regarding the Cab vehicle No KA-0127, motor vehicle No 17-5496 and 02 motorcycles WK-1941 and WK-1936, which were belonging to the ministry, have not been found so far.</p>	<p>PF-5910 and PE-8364 - A letter has been sent to the Ministry of Skill Development to return to this Ministry.</p> <p>KE-4249 - There is no Ministry named Primary Industries and Social Empowerment at present, a letter will be sent as soon as found the ministry that currently has that vehicle.</p> <p>Regarding the vehicle KA-0127, it is still not possible to find specific information and it will be dealt with in the future.</p> <p>252-6507 is a cab that given to Tangalle Pradeshiya Sabha. Pradeshiya Sabha has been informed to take over it.</p> <p>No specific information regarding the two motorcycles bearing numbers WK-1941 and WK-1936 has been received so far and it will be dealt with as soon as the information is received.</p>	<p>Actions should be made to take over or return.</p>



- (b) The Ministry had been used Since the said vehicles have been Actions should be  
02 vehicles belonging to obtained temporarily, actions are made to take over or  
another Ministry contrary to being taken to hand them back to the return the vehicles.  
the provisions of Asset previous ministries.  
Management Circular No.  
02/2017 dated 21 December  
2017.
- (c) Even though, the Ministry of The registration certificates and The takeover of  
Finance had been given documents related to the vehicles those vehicles should  
instructions to complete the acquired under the lease system have be completed  
payment of the lease been brought by the relevant banks promptly.  
installments of 27 vehicles and forwarded to the Department of  
that had been given to this Motor Traffic.  
Ministry and the local  
authorities under the  
financial lease, by November  
2021 and take over the  
ownership, those vehicles  
had not been handed over to  
the Ministry by 31 July 2022.

### 3.8 Losses and Damage

Audit Observation	Comments of the Accounting Officer	Recommendation
In the year 2017, the Kawashima machine, which was to be installed under the Katthankudi Municipal Council, which was purchased at a cost of Rs.104 million, had been damaged by fire, and although damaged spare parts were brought in after paying	Observed that in 2020, only the preliminary report on losses under F.R.104 (3) has been made in relation to the fire on 07.06.2020.	A formal investigation should be conducted to identify those responsible and recover the loss.

Rs.30.62 million, formal investigation had not been carried out as per the provisions of the Financial Regulations.

### 3.9 Management Weaknesses

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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) The construction of an 8-storied building for the Sri Lankan Institute of Local Government at Malalasekara Mawatha, Colombo 7 had been started in 2013 and due to various misconducts including procurement misconducts, after the laying of the pile foundation, the secretary had been informed on 31 August 2020 that there had been misconducts, but no action had been taken in this regard.	A committee has been appointed as per the Cabinet decision, the committee should assess the actual value of the work done by the contractor and the work to be completed, and give recommendations on the payments made and the bills submitted by the contractor. Accordingly, a decision regarding the future activities should take, after submitting the report by the committee.	Action should be taken against misconducts.
(b) According to the procurement decision dated 14 December 2014, the contract amount for the construction of the building consisting of 8 floors was Rs.135.94 million. According to the estimate given by the Central Engineering Consultancy	According to the procurement observation on 14.12.2014, the revised new value of the contract is Rs.98.44 million and the contract includes the construction of the foundation pile for 08 floors and the construction of the structure of 04 floors only. The finishing work of the roof and floors of the building is not included in the contract. However,	Actions should be taken to recover the losses of government from the responsible parties.

Bureau on 16 June 2021, the estimated cost of completing this building with 6 floors was Rs.626.33 million. The necessary legal actions had not been taken to recover the losses incurred by the government from the responsible parties, due to not taking the right procurement decision.

according to the Cabinet decision dated 03.01.2018, further decisions are being taken in this regard.

- (c) It had been decided to surcharge to the pradeshiya sabha without taking formal action against the responsible parties for the misconducts that is the contractor, the consultant company, the officials who approved, recommended and certified the payments that occurred during the construction of Kirama bus station and an elevator to the new building in Welipitiya Divithura pradeshiya sabha under the Puraneguma project.
- The attorney general has been consulted on the legal action that can be taken against the responsible parties in relation to the misconducts that have occurred in the construction of Kirama bus station and an elevator to the new building in Welipitiya Divithura pradeshiya sabha under the Puraneguma project. According to the instructions given by the Attorney General, to take legal action against the relevant contractor and consulting firms and to charge the local council which has taken the initial decisions regarding the construction of the said building and the elevator, the said decisions have been taken as per the instructions received from the Attorney General.
- Actions should be taken against the responsible parties

**(d) Construction of electronic libraries**

- (i) Out of the 50 libraries that were proposed to start construction in September 2021, only 42 are being
- Instructions have already been given to open the completed libraries at the earliest to avoid idleness of the purchased library equipment. The e-

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constructed and the libraries related to the unfinished construction of 08 had been libraries have been made available cancelled. However, the for use.

necessary technical It has been brought to the attention of equipment and office the procurement committee that the furniture for all the 50 construction work of 08 library proposed libraries had been buildings could not be completed as purchased from the Sri Lanka planned and 08 sets of equipment are Commercial Corporation at a remaining. The procurement cost of Rs.16.3 million. It committee was informed to distribute them to other local authorities.

was observed that if there is The related equipment is essential for no progress in building the completion of this project and if construction, the warranty the necessary equipment was not period of technical the necessary equipment was not equipment is exceeded by purchased, according to the current obtaining and keeping office economic situation in the country, it equipment unused. The will take considerable time to Ministry Procurement Board purchase and a lot of money will had decided to hand over have to be spent.

these equipment to other local authorities except the Western Province in order to avoid the appearance of being idleness, and all the officials who decided, approved and recommended the purchase of office equipment and technical equipment before occurring the appropriate requirement, should be responsible.

#### 4. Good Governance

##### 4.1 Internal Audit

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
08 foreign aid projects are being implemented under this ministry and although separate project offices and staff had been maintained for these projects, adequate internal audit had not been done.	So far, two accountants have been recruited under the Chief Internal Auditor for the Internal Audit Division and the division has been strengthened and accordingly the internal audits of related projects have been expanded.	Internal audit of projects should be done as per circular instructions.

#### 5. Human Resource Management

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) Out of 26 executive officers working in this ministry, 8 officers had been working in this ministry for more than 5 years, and the chief financial officer had been working continuously in this ministry for 20 years.	A large ministry with an annual estimate of over Rs.300 billion requires the services of experienced officers. Also, the fact that this ministry is a constantly changing ministry also led to transfers not being regular. However, the transfers of these officers will be dealt with in the future on the basis of annual transfers.	Officers should be transferred from time to time that they do not stay in the same institution for a long time.
(b) The legal division had been consisted of 10 officers including legal officers and 01 office service assistant, and the duty lists of those 05 officers had not been updated	Since the duties of the legal division vary according to the action plan of the year, in some cases it is necessary to employ alternate officers who can perform the relevant duties efficiently.	The staff should be assigned according to the role and the excess staff should be assigned to the necessary places.

by 31 December 2021. One officer had not been formally assigned any duties other than handing over the files through a file register. The legal division was overstuffed rather than requirement of the division.

- (c) The Management Assistant Officer recruited for the Rural Infrastructure Development Project in Emerging Regions on 06 August 2018 had been working as Personal Assistant to the Additional Secretary (Projects) since the date of appointment. The project had paid Rs.787,335 for the year 2018 and 2019 and Rs.787,335 for the year 2020. Rs.592,920 had been paid for the year 2021.
- Another experienced officer has been assigned to serve the project and this officer has been used for the service of the Additional Secretary (projects). Appropriate actions are expected to be taken in this regard.
- The officer hired for the project should be released for that.