

Local Development Support Project - 2023

The audit of the financial statements of the Local Development Support Project for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of expenditure and cash flow statement for the year then ended and notes to the financial statements, including material accounting policy information 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 in 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.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government is the Execution Agency and Provincial Councils of 04 Provinces are the Implementation Agencies of the Project. The objectives of the project are to Strengthening 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 and Grant Agreements, 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. The balance amount of US\$ 23.65 million equivalent to Rs.4,220.98 million was agreed to be financed by the European Union. The Project had commenced its activities on 30 June 2019 and scheduled to be completed by 30 December 2022. However project period was extended up to 30 September 2024

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 2023, statement of expenditure 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 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 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 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 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 Law, Rules and Regulations	Non-Compliances	Responses of the Management	Auditor's Recommendations
(a)	Para 2.3.3 of the Management Service Circular No. 01/2019 of 05 March 2019	An officer confirmed in the Public Service while serving in his/her substantive post may be released to service in a project on acting basis. However, contrary to provision in Circulars, Commissioner of Local Government in the North Central Province had been appointed as Deputy Director and paid sum of Rs.683,000 as salaries.	The over payment in North Central province had not been recovered. The project director of Puraneguma informed that the commissioner of local government of NCP had not been paid that amount to the project.	Action should be taken to recover salaries paid contrary to circular Instruction.
(b)	Para 9.3 of Management Service Circular No 01/2019 of 05 March 2019	The Meeting of the Project Steering Committees required to be held once in 02 months. However, only 03 meetings had been held, during the year under review.	No comments have been given	The meetings of the Project Steering Committees required to be held regularly.

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

Audit Issue	Response of the Management	Auditor's Recommendations
Even though the expected physical progress of the components of Strengthening Local Government Planning System, Improving Local services & Economic Infrastructure Support and Institutional Development were 80 per cent, 70 per cent and 85 per cent the actual progress was 45 per cent, 66 per cent and 30 per cent respectively.	No comments have been given	Action should be taken to expedite project implementation activities in order to maximize the benefits of all intended parties.

3.2 Idle/ Unutilized/ Underutilized Resources

Audit Issues

Responses of the Management

Auditor's Recommendations

Due to multiple reasons (equipment were not provided, legal disputes, electrical leakage, non-availability of relevant staff, non-supply of electricity, design failure, stalls were not tendered) 23 assets amounting Rs.402.22 million, in North Central, Uva and Eastern provinces were remained idle from 5 months to 12 months as at the reporting date.

No comments have been made

Action should be taken to utilize the assets for intended purposes.

3.3 Matters in Contentious Nature

No Audit Issue

Responses of the Management

Auditor's Recommendations

(a) Non-compliances with the paragraph 5.3 of the Project Operations Manual

There should be at least 50 percent participation of women in the establishment of social audit committees and the approval of the said committee by the general meeting of the relevant local authority according to the second criterion for the release of the 02 basic transfers. Out of the 67 institutions that submitted information to the audit, it was observed that social audit committees have not been established in 04 institutions, women's participation in 27 institutions is less than 50 percent and 47 institutions have not received approval from the general meeting. As it is, the project had released the second basic transfer money to all the institutions where women participation was less than 50 percent.

There are 05 eligible criteria need to be fulfilled before releasing to 2nd Tranche. However, some local authorities are unable to fulfill one criterion except clean audit opinion out of all due to unavoidable circumstance such as COVID 19 pandemic situation in the year 2020 and 2021. In this context, project has released 2nd basic transfers to implement sub project selected by the public as funds are released for fulfill people needs and want. Project has never released 2nd basic transfer to LAs without fulfilling criterion of clean audit opinion for preceding year.

Action should be taken as per the provisions of the project operations manual.

- | | | | |
|-----|---|----------------------------|---|
| (b) | <p>Although Rajanganaya Pradeshiya Sabha had built a shopping mall with 08 shops on a government land at Puttalam Junction at a cost of Rs.47,545,091 under BT 2 and BT3, the ownership of the land was not transferred before the construction of the building. According to the agreement made between the Pradeshiya Sabha and a private party in the year 2005, permission was given to construct shops and run a business on this land according to the standards given by the Pradeshiya Sabha. Nevertheless, the private party has filed a lawsuit in this regard and in the year 2023, an amount of Rs.15,000 (for one plaintiff) was paid from the local council fund for litigation. However, due to the fact that the construction was done without settling the ownership of the land, the constructed shopping mall could not be fully utilized for the intended purposes.</p> | No comments have been made | Action should be taken to settle the ownership of the land. |
| (c) | <p>Mihintale Pradeshiya Sabha, under the PT-1 project, for the provision of street lighting for rural and remote areas, had invited prices from 05 companies for 40 sets of street lights and purchased them on December 23, 2021 from the company that submitted the lowest price of Rs.539,070. By January 19, 2022, the local residents have informed the council that all 03 of the street lights were not working. However Pradeshiya Sabha was unable to replace those bulbs due to non-purchase of the bulbs under a warranty period.</p> | -Do- | TEC and PC should act in professional due care. |
| (d) | <p>The Nochchiagama Pradeshiya Sabha had implemented a water project to provide drinking water to Katupatwewa residents at a cost of Rs.36,904,177. The land on which a well and pumping station was constructed in relation to that project is a land used by private parties with a license granted by the Divisional Secretary and although these constructions were carried out with his consent and the written</p> | -Do- | Prior to starting the projects, the preliminary work such as land acquisition should be done. |

permission of the Nochchiyagama Divisional Secretary, the portion of land used for the project had not been formally handed over to the Pradeshiya Sabha till the audit date.

(e) Empower the Small Level Business Communities through Establish Movable Shops at Lagoon Site Road, Punnakudah Road and Trinco Road.

- Seven containers each 20 feet length -Do- had been purchased and each container had been designed into 2 shops with a size of 10.0'x8.0'x8.0' at an average cost of Rs.2,399,736 and 14 shops had been constructed at a total cost of Rs.16,798,152. They were 40 feet length and were placed in 3 places by connecting 2 containers. However, in this project, a 40 feet length container had been purchased by the Kattankudi Urban Council and 4 shops with a size of 10.0'x8.0'x8.0' had been constructed at a total cost of Rs.2,493,670. However, if instead of 6 containers each 20 feet length, 3 containers each 40 feet length were purchased and shopping complex had been constructed, the Eravur Urban Council could have saved Rs.6,917,406.
- Although a sum of Rs.2,519,723 had -Do- been paid as VAT to the contractor (M/S Aramjee Group) for this contract work, the Inland Revenue Department had not been informed about the VAT paid by the Eravur Urban Council.

The objective of obtaining economic benefits through the procurement process must be assured.

VAT must be received by the Inland Revenue Department

3.4 System and Controls

Audit Issues

Responses of the Managements

Auditor's Recommendations

As per Article (c) of Schedule 02 of Loan Agreement action had not been taken to sign agreements with 04 Provincial Councils.

All the PIU's established under the respective provincial councils. There are implementing project activity according to the Project Operational Manual as well as all the chief secretaries wise headed the provincial National Steering Committee accordingly and also chief secretaries National Steering Committee.

Action should be taken to sign the agreements.