

Local Government Enhancement Sector Project (Pura Neguma) – 2023

The audit of the financial statements of the Local Government Enhancement Sector Project (Pura Neguma) 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. 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 (ADB).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then Ministry of Provincial Councils and Local Government, presently Ministry of Public Administration, Home affairs, Provincial Councils and Local Government is the Executing Agency and Provincial Councils of 07 Provinces are the Implementation 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 objective of the subsequent loans of the project is 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 2790 SRI (SF), the estimated total cost of the Project was US\$ 68.8 million equivalent to Rs.8,940 million and out of that US\$ 59 million equivalent to Rs7,670 million was agreed to be financed by Asian Development Bank. The balance of the estimated cost US\$ 9.8 million equivalent to Rs.1,339.33 million contributed by Government of Sri Lanka. As per the subsequent loan agreement No.3431 SRI (SF) additional loan of US\$ 60 million equivalent to Rs.8,700 million was obtained in the year 2017 to scale up well performance of the original project. The estimated total project cost is US\$ 67.8 million equivalent to Rs.9,771.47 million with US\$ 7.8 million equivalent to Rs.1,071.47 million contribution of Government of Sri Lanka. 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 31 January 2024.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the 2.1 section of my report, 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 Qualified Opinion

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

Accounting Deficiencies	Responses of the Management	Auditor's Recommendation
Advance bond of Rs.27 million related to CKD – 10D package in Central Province had been en-cashed and Rs.27 million related to uncompleted work had been credited to the civil works account. Accordingly civil work amount had been understated by that amount.	CKD 10-D Contractor's advance bond in Central province has been en-cashed and the amount has been deducted from the value of civil works. The amount Rs.26,646,116 has been remitted to the ministry.	Financial statements should be correctly prepared.

2.2 Non-Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non-Compliance	Response of the Management	Auditor's Recommendation
(a)	Paragraph 9.3 of Management Service Circular No 1/2019 of 15 March 2019.	The Meetings of the Project Steering Committee required to be held once in 02 months. However, only 04 meetings had been held during the year under review.	No Comments	The meetings of the Project Steering Committee required to be held as per the Circular Instruction.
(b)	Department of Management Audit Circular No 01/2019 of 12 January 2019	The Meeting of the Audit and Management Committees required to be held four in the year. However, two meetings had been held during the year under review.	No Comments	The meetings of the Audit and Management Committees required to be held regularly.

3. Physical Performance

3.1 Idle/ Unutilized/ Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
(a) Asset Management Software	It is true that during the operation, the software should be continuously updated, and data to be regularly entered into the system. Given the extensive data to be collected from the field, such as information related to roads, street lights, and bridges, consistent updates are essential for maintaining accurate and up-to-date records. Those are the continuous responsibilities of the Councils.	A continuous process such as training of officers should be carried out to make improvements during the project schedule and thereafter to solve the technical problems.
(b) Water supply projects	The sub projects are presently using for the intended purposes or at least for any other useful purposes at the moment except one sub project. It is agreed that some are underutilized. All the provincial councils were strongly advised to use the assets properly without idling.	All the assets should be used for the Intended objectives of the Project and provide facilities to the intended beneficiaries

3.2 Systems and Controls

Audit Issue	Management Response	Auditor's Recommendations
Internal Audit Division of the executing ministry had been expanded to cover the project internal audit. However sufficient internal audit had not been done within the year.	Due to the reduction of cadre positions, there is no internal audit division under the project. The Ministry Internal Audit Branch is managing this project and every effect will be taken to improve audit investigation further.	Internal audit should be functioned properly