

Local Development Support Project - 2024

The audit of the financial statements of the Local Development Support Project for the year ended 31 December 2024 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 (IDA). 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, the Ministry of Public Administration, Provincial Councils and Local Government is the Executing 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. The activities of the Project are implemented under 5 components namely, Strengthening Local Government Planning System , Improving Local Services and Economic Infrastructure, Institutional Development, Project Management and Contingent Emergency Response. 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 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 the date of completion of the activities of the Project had been 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 2024, 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 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/Audit Issue	Response of the Management	Auditor’s Recommendation
(a)	Para 2.3.3 (C) of Management	An officer confirmed in the Public Service while	The over payment in the North Central province had not been	Action should be taken to

Service Circular No. 01/2019 of 05 March 2019	serving in his/her substantive post may be released to service in a project on acting basis. However, contrary to provision in the Circular, Commissioner of Local Government in the North Central Province had been appointed as Deputy Director and has paid salaries. However Rs. 443,333 still has to be recovered from the officer.	recovered.	recover salaries paid contrary to the circular instructions.
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(b) Paragraph 06 of the Procurement Manual,	07 items of equipment for children’s parks at the Medirigiriya Pradeshiya Sabha were purchased at a cost of Rs. 1,447,658 without calling for quotations.	The Pradeshiya Sabha has invited quotations from five suppliers under the Shopping Method on 30 March 2023. The procurement of the seven items was carried out without following a proper tendering process.	Comply with the Guidelines in the Procurement Manual.
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3. Physical performance

3.1 Contract administration

Audit Issue	Management Response	Auditor’s Recommendations
(a) Construction of Rural Service and Business Outlets at Elupadichenai.		
(i) According to the conditions of contract section 49 of the Bidding Documents and section 6.4 of SBD-3 ICTAD, if the contractor fails to complete the works within the intended completion date, the contractor is liable to pay liquidated damages at 0.05 per cent per day. In this regard, the procurement entity has failed to claim liquidated damages amounting to Rs.862,921 from the contractor regarding the delayed period of 104 days.	Liquidated damages were not recovered.	Delay damages should be charged as per the contract agreement.

<p>(ii) A sum of Rs.1,748,642 had been additionally incurred by 3 contractors, 14 items of work in the BOQ were raised by up to 121 per cent more than the estimated amount of the BOQ due to the improper supervision on the work done by each contractor.</p>	<p>Measures have now been implemented to prevent such situations from arising in the future.</p>	<p>Contract monitoring activities should be effectively performed.</p>
<p>(b) Fourteen types of equipment and fittings valued at Rs.1,627,346 purchased for the service garage at the Koralaipattu Pradeshiya Sabha had been kept idle in the store room of the council for 7 months until the audit date of 22 January 2024.</p>	<p>The comments had not been received.</p>	<p>Action should be taken to complete the construction.</p>
<p>(c) Formation of Business Stall at Pasikkudah and Kalkudah</p>		
<p>(i) According to sections 26 and 42 of the National Highways Act No. 40 of 2008, construction works should be carried out beyond 15.0m from the center line of the Road Development Authority road. However, a container consisting 4 stalls with a 40 feet length valued at Rs. 4,063,378 was constructed at the Peththalaai area of Kalkudah within 8.60m from the center line of the road without the permission of the Road Development Authority.</p>	<p>The comments had not been received.</p>	<p>Comply with the National Highways Act.</p>
<p>(ii) As per payment bill no. B.8, payment was made for supplying and fixing 16 wall fans (wall fan-12”) for Rs.240,000. It was observed that 15 wall fans were kept in the chairman’s restroom of the council without fixing.</p>	<p>The comments had not been received.</p>	<p>Assets should be used for their intended purposes.</p>