

Local Development Support Project - 2020

The audit of financial statements of the Local Development Support Project for the year ended 31 December 2020 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 Loan Agreement of the Project, the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government, presently State Ministry of Provincial Councils and Local Government Affairs 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.

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 2020, 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 Unreconciled Balances

Ledger Account	Value as per Financial Statements Rs. million	Value as per corresponding records Rs. million	Description of the corresponding record	Response of the Management	Auditor's Recommendations
Cash at Bank (No.134 of Local Authority)	47.62	Nil	Bank Confirmation	No comments	Need to reconcile with bank confirmation.

2.2 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 (C) of Management Service Circular No. 01/2019 of 05 March 2019	Contrary to provision in Circulars, Commissioners of Local Government in the North Central and Uva Province had been appointed as Deputy Directors and paid sum of Rs.963,000 as salaries.	The Project Director has been instructed to find whether the Chief Secretary's had acted contrary to provisions in Management Circular No. 01/2019.	Action should be taken to recover salaries paid contrary to Rules and Regulations.
(b)	Para 9.3 of 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, only two meetings had been held during the year under review.	No comments.	The meetings of the Project Steering Committees required to be held regularly.
(c)	Department of Management Audit Circular No. 01/2019 of 12 January 2019	Four Audit and Management Committees meetings required to be held in a year. However, any meetings had not been held during the year under review.	Due to Covid -19 pandemic situation, meetings were not held.	The meetings of the Audit and Management Committees required to be held regularly.

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| (d) | F.R. 626 of Financial Regulations of the Government of Democratic Socialist Republic of Sri Lanka. | Books and records on the double entry basis should be maintained in order to facilitate the preparation of Annual Account. However, those requirements had not been followed by the Provincial Authority. | Advices had been given to Provincial Implementing Units to rectify. | Need to comply with the requirement stipulated in Financial Regulation. |
| (e) | Para 2.9.2 of the Government Procurement Guidelines. | A sum of Rs.117,000 had been paid to Technical Evaluation Committee members without being obtained proper attendance certificate. | No comments. | Need to comply with the requirement stipulated in Government Procurement Guidelines. |

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

No.	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	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 proper approval for sub projects an amount of Rs.283.82 million had been paid to 04 provincial Councils.	Sub imprest has been released on perfect approval.	Action should be taken to approve sub projects and project is required to make influences to local authorities to initiate sub projects.
(b)	According to the Project Finance Agreement, sub-projects should be selected in the order of the priority of the Local Government Participatory Development Plan (LAPDP). However, the Project Management Unit advised to the Provincial Implementation Unit not to select sub-projects according to the above priority list.	No comments.	Sub project should be selected as per guidance in Loan Agreement.
(c)	As per the Project Administration Manual, payment of the Performance Grant should be commenced during the year under review. However, due to the non-introduction of any criteria, Payment of Performance Grant to Local Authorities could not be commenced As a result, allocation of Rs.70 million had not been utilized during the year under review.	No comments	Action should be taken to introduce criteria for performance grant.

3.2 Delays in Commencements of Activities of the Project

 According to the Paragraph 2.12 of the Project Operation Manual, main activities of the Project had not been commenced as at 30 June 2021.

No.	Act	Activity	Date scheduled to be commenced	Delay (Months)	Reasons for delays
(i)		Updating of LAs Procurement Manual and circulation of the same to LAs	By 30 April 2019	20	Weakness of the Project Management Unit.
(ii)		Recruitment of Management Information Systems (MIS) Consultants	By 31 August 2019	16	
(iii)		Establishment and dissemination of information of Grievance Redressal Mechanism in the LA areas	By 31 August 2019	16	
(iv)		Recruitment of Design Consultants for SLILG	By 31 August 2019	16	
(v)		Recruitment of Consultants for Annual Performance Assessments	By 31 August 2019	16	
(vi)		Preparation and approval of detailed designs for investments under Economic Infrastructure (Conceptual and detailed designs for investments in all Provinces)	By 31 December 2019	12	
(vii)		Bidding and contract award for Economic Infrastructure Investments	By 31 March 2020	21	
(viii)		Rollout of MIS based accounting, asset inventory management, Citizen feedback and Grievance Redressal Mechanism	By 30 June 2020	18	

Response of the Management

No comments.

Auditor's Recommendations

Activities should be commenced as soon as possible or revived the activities schedule in Project Administration Manual.

3.3 Uncompleted Consultancy Work

Audit Issue	Response of the Management	Auditor's Recommendation
Eventhough Four consultants were appointed to complete works on Capacity building, Monitoring and evaluation, Economic infrastructure development in Northern and Eastern provinces and Economic infrastructure development in Uva and North Central provinces on or before 10 January 2020 and the part payment of Rs.3.69 million had been made during the year under review, no any actions had been taken by the Project Director to complete above mentioned consultancy work properly.	Uncompleted work had been used.	Action should be taken to recover the payment.

3.4 Management Inefficiencies

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	A sum of Rs.4.93 million had been paid for preparing LAPDPs by the North Central Province, Northern Province and relevant Local Authorities up to 31 December 2020. However, it was observed that expenditure incurred had been treated as an idle expenditure, due to failure to select highest prioritized sub projects to prepare LAPDPs by the relevant Local Authorities.	No comments.	Sub project should be selected as per guidance in Loan Agreement.
(b)	Eventhough appointed four consultants for Procurement Cum Technical, Public Finance Management, facilitator for Local Authority Participatory Development Plan and Environmental and social security had been paid Rs. 6.47 million, this expenditure had been become fruitless, due to non-submission of relevant reports within the stipulated time.	Uncompleted work had been used.	Action should be taken to recover the payment.

3.5 Issues Related to Human Resources Management

Audit Issue	Response of the Management	Auditor's Recommendation
Project Management Unit had not been established with full time Project Director and failed to fill the vacancies in the carder. However, staff appointed for project preparatory work had been attached on part time basis.	Appointment was unable to make 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.

3.6 System and Controls

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	As per the Loan Agreement, action had not been taken to sign agreements with 04 Provincial Councils.	After discussion with External Resources Department, Agreement will be signed with Provincial Councils.	Action should be taken to sign the agreements.
(b)	As per the Loan Agreement, Annual budget & work plan for the year 2020 had not been completed to obtain approval from the Steering Committee.	Work plan and budget had been submitted to steering committee.	Action should be taken to prepare and obtained approval for the Budget and Action Plan from the Steering Committee.
(c)	According to the Letter No. DMS/0049 dated 17 February 2020 of the Director General of the Department of Management Services, payment of Holiday Pay and Overtime to part time project staff had been suspended. However, A sum of Rs.480,995 had been paid to staff in North Central Province.	No Comments.	Need to comply with requirements.