

## **Local Government Enhancement Sector Project (Pura Neguma) - 2020**

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

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According to the Loan Agreement of the Project, then Ministry of Provincial Councils and Local Government, presently State Ministry of Provincial Councils and Local Government Affairs 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 Rs 7,670 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 1,071.47 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 December 2021.

### **1.3 Opinion**

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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**

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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**

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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**

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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'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

Reference to the Laws Rules and Regulations	Non-Compliance	Response of the Management	Auditor's Recommendation
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 03 meetings had been held during the year under review.	No Comments	The meetings of the Project Steering Committee are required to be held as per the Circular Instruction.

## 3. Physical Performance

### 3.1 Physical progress of the activities of the Project

According to the Project Implementation Plans, the Project had supported to 105 Local Authorities in 07 Provinces to enhance their infrastructural requirements and respective development works of 178 Local Authorities had been completed at the end of year 2017. Further, it was scheduled to carry out 29 water supply projects, 35 construction works in 29 Local Authorities under the supplementary loan facilities and out of that 03 water supply projects and 11 infrastructure projects were completed at the end of the previous year. 8 water supply projects and 12 infrastructure Projects were completed during the year under review. In addition, 17 project which were delayed for more than 6 months and the reasons for the delay are as follows.

#### 3.1.1 Delays in completion of the sub projects

The following observations are made.

No.	Act Activity	Date scheduled to be completed	Delay (Months)	Reasons for delays
(a)	Capacity improvement to Nuwarawewa water treatment plant – Anuradhapura PS	24 March 2020	09	Contractor's poor performance.
(b)	Extension of Pipelines to Sewagama Canel 3 area and transmission main extension up to Sewagama water tower – Thamankaduwa PS	24 February 2020	10	-Do-
(c)	Extension of water supply scheme at Nikaweratiya –Ambanpola PS	31 December 2019	12	Covid – 19 critically affected.

(e)	Water supply extension for Dambulla rural area and Kandalama	30 June 2020	06	-Do-
(f)	Construction of water supply extension to Inamaluwa and Kithulhitiyawa	01 May 2020	08	-Do-
(g)	Construction of water supply extension to Sigiriya and Habarana	01 May 2020	08	-Do-
(h)	Construction of water supply extension to Galewela and Thiththawelgolla	30 June 2020	06	-Do-
(i)	Kurusawaththa drinking water supply project -	01 September 2019	16	-Do-
(j)	Construction of PS office building – Narammala PS	24 July 2019	17	-Do-
(k)	Construction of Auditorium Kadirana – Katana PS	26 June 2019	18	Contractor's poor performance.
(l)	Construction of Multipurpose building with market Mahabage – Wattala PS	01 February 2019	11	Severely affected Covid-19 due to it is located near Welisara Navy Camp
(m)	Construction of PS office, Library and Health care centre at Polgolla – Kundasale PS	13 November 2019	12	Re-designed due to land issue.
(o)	Improvement of Kekunadura sub town – Matara PS	07 March 2020	10	Shifting front side building by Pradeshiya Sabha.
(p)	Construction of Crematorium and funeral parlour at Warakapitiya – Weligama PS	01 March 2020	10	Initial delay due to social issues
(q)	Construction of Public Market and Car Park with a Toilet Block at Homagama Town	13 November 2019	13	Contractor's poor performance.
(r)	Construction of Public Market at Wadduwa – Panadura PS	11 March 2020	09	-Do-

(s) Construction of Multipurpose Building at 30 April 2020 08 Initial delay due to social issues  
Nahena – Kelaniya PS

**Response of the Management** Many works will be completed end of the year 2021 and all action had been taken to expedite balance work.

**Auditor's Recommendation** The project is required to make influences to the contractor to complete the civil works promptly assuring the required level of quality.

### 3.1.2 Delays in commencement of the activities of the project

The following observations are made.

	<b>Activities</b>	<b>Local Authorities</b>	<b>Allocation Rs. Million</b>	<b>Date of commencement</b>	<b>Delaying Months</b>	<b>Impacts</b>	<b>Responses of the Management</b>	<b>Auditor's Recommendations</b>
(a)	Improvement of Kalawewa Treatment Plant	Kalawewa	387	15 March 2019	24	(a) Delays in completion (b) Over running of cost estimates (c) Expected benefits not received by the intended parties	No comments	Possible increases of costs of the contracts and unnecessary time extensions need to be avoided.
(b)	Water supply extension for Dambulla rural area and Kandalama	Dambulla/ Kandalama	564	28 February 2019	28	-Do-	-Do-	-Do-
(c)	Construction of Water supply extension to Inamaluwa and Kithulhitiyawa	Inamaluwa /Kithulhitiyawa	491.99	02 January 2019	22	-Do-	No comments	-Do-

(d)	Construction of Water supply extension to Sigiriya and Habarana areas	Sigiriya/ Habarana	415	02 January 2019	21		(a) Delays in completion (b) Over running of cost estimates (c) Expected benefits not received by the intended parties	No comments	Possible increases of costs of the contracts and unnecessary time extensions need to be avoided.
(e)	Supply and laying distribution network in Bathalayaya and Belaganwewa	Bathalayaya	284	17 January 2019	21	-Do-		-Do-	-Do-
(f)	Bathalayaya and Belaganwewa treatment plant	Belaganwewa	506.7	17 January 2019	21	-Do-		Delays in implementation of bid evaluation process.	-Do-
(g)	Mahawila krusswatta Drinking water supply project	Mahavila Naththandiya	33	01 March 2019	23	-Do-		Bid evaluation in progress	-Do-
(h)	Improvement of kekunadura sub town	Kekunadura Matara	85.24	08 March 2019	23	-Do-		Awaiting for cabinet approval	-Do-
(i)	Construction of Crematorium	Warakapitiya Weligama	50	01 March 2019	23	-Do-			-Do-

(j)	Construction of public Market	Wadduwa Panadura	63.42	11 March 2019	23	(a) Delays in completion (b) Over running of cost estimates (c) Expected benefits not received by the intended parties	ADB concurrence awaited	Possible increases of costs of the contracts and unnecessary time extensions need to be avoided.
(k)	Water Supply Scheme	Karuwalagaswewa PS	324.77	06 January 2021	33	-Do-	No comments.	Possible increases of costs of the contracts and unnecessary time extensions need to be avoided.
(l)	Water supply extention to Pahaladiggalla Division	Pahaladiggalla PS GN	124.89	16 November 2020	43	-Do-	No comments.	-Do-



### 3.1.3 Activities of the project not commenced

Although the following sub projects had to be commenced before April 2017, those sub projects had not been commenced up to 30 June 2021.

	<b>Activities</b>	<b>Estimated Value Rs. Million</b>	<b>Impacts</b>	<b>Responses of the Management</b>	<b>Auditor's Recommendations</b>
(a)	Water supply scheme for Thanamalvila and Hambegamuwa distribution system	1,270	Expected benefits not received by the intended parties	Lack of water resource	Sub project should be commenced as soon as possible or work schedules in Project Administration Manual should be revised.
(b)	Water Treatment plant for Thanamalvila and Hambegamuwa scheme	430	-Do-	-Do-	-Do-
(c)	Construction of Borehole pump house chlorinators – Central Province (Three numbers)	60	-Do-	No comments	-Do-
(d)	Intake tank for Thanamalvila and Hambegamuwa scheme	100	-Do-	Lack of water resource	-Do-
(e)	Construction of PS Building at Kotagala	50	-Do-	Drop due to land issue as advised by National Steering Committee	-Do-

(f)	Construction of PS Building at Argarapathana	50	Expected benefits not received by the intended parties	Drop due to land issue as advised by National Steering Committee	Sub project should be commenced as soon as possible or work schedules in Project Administration Manual should be revised
(g)	Passara water supply project	434.71	-Do-	Agreement signed	-Do-

### 3.2 Idle/ Unutilized/ Underutilized Resources

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The following observations are made.

#### I. Front Office System and e-Puraneguma Software

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
Out of 41 Local Government Institutions available in Central Province and North Central Province, 17 Pradeshiya Sabhas have not practiced totally the "Front Office System" implemented by the Project and 16 Pradeshiya Sabhas have purchased new alternative software without implementing above system.	The system relating to the information of local authorities had not been achieved the target. As a result the intended benefit to the people living in area had not been received.	The responsibilities of the implementation of project activities. Project activities are assigned to Provincial Project Directors.	The project is required to make influence to officers to develop the system without delay.

## II. Civil and Water supply projects

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	<b>Audit Issues</b>	<b>Impacts</b>	<b>Responses of the Management</b>	<b>Auditor's Recommendations</b>
(a)	Water Supply system at Wanathawilluwa	No water supply facilities for 4,333 families in the area	As agreed the Pradeshiya Sabha had been taken necessary actions thereon	Intended objectives of the Project should be reached in order to provide facilities to the beneficiaries
(b)	Multy purpose building and the Bus Stand at Redeegama	Intended benefits had not been reached	All construction work under the project were completed and after completion of constructions work agreed by P.S has planned to open for public	-Do-
(c)	Bus stand at Mawathagama	Intended benefits had not been reached to the general public	Bus stand constructed at Mawathagama. not commenced its operations	Action should be taken to utilize the Buildings constructed.
(d)	Water Supply system at Polpithigama	No water supply facilities for 1,700 families in the area	Action had been taken to procure the Water Bowser for Polpithigama Scheme.	Action should be taken to achieve intended objectives.
(e)	Bus stand at Meegahakiula	Intended benefits had not been reached to the general public	Actions are being taken to construct the access road.	Action should be taken to support to the Pradeshiya Sabha to construct access road in order to use the Bus stand.

(f)	Weekly Fair, Multipurpose building, Lavatories, Water Supply System at Badarawela Pradeshiya Sabha	Intended benefits had not been reached to the general public	Building constructions have been completed and handed over to Pradeshiya Sabha and Ministry has directed Pradeshiya Sabha to commence operations without delay. It is responsibility of relevant authorities to use these building for the intended purposes	Action should be taken to provide necessary facilities to use the building and other development works for intended purposes.
(g)	Weekly fair at Rathtota PS	Intended benefits had not been reached to the general public.	Pradeshiya Sabha decided to sub divide stall as per request made by the vendors. The weekly fair will commence operations with the completion of the sub divisions of the stalls	Action should be taken to use the building for intended purposes
(h)	Bus stand at Kirama	Intended benefits had not been reached to the general public	Action had been taken to construct two access roads for the bus stand	Action should be taken to provide necessary facilities to use the Bus stand.
(i)	Crematorium at Wilgamuwa	Intended benefits had not been reached to the general public	Building constructions have been completed and handed over to Pradeshiya Sabha and Ministry has directed Pradeshiya Sabha to commence operations without delay and it is responsibility of relevant authorities to use these building for the intended purpose	Necessity of the construction of Crematorium at Wilgamuwa area should be properly evaluated and funds provided by the Project to be utilized without being wasted.

(j)	Water supply scheme at Wilgamuwa	No water supply facilities for 350 families in the area	Action had been taken to rectify.	Action need to be taken to consult the specialists and rectify the errors.
(k)	Water supply scheme at Diklanda	Intended benefits had not been reached to the general public	Action had been taken to change treatment plant as instructed by the National Water Supply and Drainage Board.	Action should be taken to use the assets for intended purpose.
(l)	Comfort Centre - Ipalogama	Intended benefits had not been reached to the general public	Action will be taken to implement the Project after completion of water supply scheme	Action should be taken to use the assets intended purpose.
(m)	Crematorium at Wellaway	Intended benefits had not been reached to the general public	Action had been taken to educate the people to use the Crematorium.	Action need to be taken to consult the specialists and rectify the errors

### 3.3 Matters in Contentious Nature

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Audit Issues	Responses of the Management	Auditor's Recommendations
(a) <b>Asset Management Software</b>		
<p>A Sub Project was implemented for seven Pradeshiya Sabhas in seven provinces under a contract agreement signed on 15 December 2018 with an Australian private company. The objective of this sub project is to create Assets Management Software as a Pilot Project. It was observed that foreign private company was selected for this contract without procurement practices required by the National Procurement Agency Circular No.08 and dated on 25 January 2006. It was further revealed that there was no provision in the above agreement for support and maintenance system of the above software. Further, no feasibility study was done by studying existing rules and manuals in the Local Government sector in Sri Lanka. As per the work plan in the above agreement, the activities installation and “Develop Training Material and complete staff training” has not been completed as planned as at 31 December 2019.</p>	<p>The activity is processed to mandate of the project and procurement notice published in the website of Asian Development Bank.</p>	<p>The project is required to make influences to contractor to complete the work promptly assuring required quality.</p>
<p>(b) An Engineer had been selected as an Individual Consultant for Technical Audit for one year. Then his period had been extended up to November 2019 and sum of Rs.12.47 million had been paid. According to the agreement signed by Secretary of the Ministry and Technical Audit Consultant, the audit had to be carried out accordance with the terms of reference and on guidelines provided by Ministry of Provincial Councils and Local Government from time to time and had to include specific section on various objectives and tasks as defined under the terms of reference. Although the Technical Audit Consultant should record key issues and recommendations in the final report, the report had not contained any key issues and recommendations.</p>	<p>Technical Audit Consultant assisted the Project Management Unit for under taking procurement of contract.</p>	<p>The project is required to take actions to recover the payment.</p>

