

## **Head - 420 - State Ministry of Provincial Councils and Local Government**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the State Ministry of Provincial Councils and Local Government for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance and cash flow statement for the year then ended 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 of the National Audit Act, No.19 of 2018. The Summary Report containing my comments and observations on the financial statements of the State Ministry of Provincial Councils and Local Government was issued to the Accounting Officer on 08 July 2021 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report was issued to the Accounting Officer on 16 September 2021 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. This report is presented to Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the State Ministry of Provincial Councils and Local Government as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements are further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **1.3 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Financial Statements**

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The Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Section 16(1) of the National Audit Act, No.19 of 2018, the Ministry is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable the preparation of annual and periodic financial statements.

In terms of Sub-section 38(1)(c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Ministry and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out

#### **1.4 Auditor's Responsibility 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 General's summary 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 and its materiality depends on the influence on economic decisions taken by users on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the 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.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, among other matters significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 1.5 Report on Other Legal Requirements

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I express the following matters in terms of Section 6 (1) (d) of the National Audit Act, No. 19 of 2018.

- (a) The financial statements for the previous year have not been submitted as it is a new Expenditure Head launched in the year 2020.
- (b) I have not made any recommendations as this Expenditure Head had not been introduced last year.

## 1.6 Comments on Financial Statements

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### 1.6.1 Non-compliance of Financial Statements with Circular Provisions

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Although, the financial statements should be prepared in terms of Guideline 06 issued by the Department of State Accounts, instances of non-compliance with those provisions appear below.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) According to paragraph 7 (II) of Public Accounts Guideline No. 06, the revenue collected on behalf of other Revenue Accounting Officers should have been shown in the Financial Performance Statement as Other Receipts. According to the detailed Trial Balance of the Ministry, the revenue collected by the Ministry on behalf of other Revenue Accounting Officers under 6 relevant revenue codes was Rs.13,452,010. As the receipts were stated as Rs.163,225,215 in the statement of financial performance, this was overstated by Rs.149,773,204.	Rs.13,452,010 is only the revenue collection applicable to other Revenue Accounting Officers for the period September to December only and the value of other relevant receipts including other Revenue Accounting Officers for the whole year from January to December is Rs.163,225,215. Therefore the relevant note is correct.	Financial statements should be prepared correctly in accordance with the circular instructions.

- (b) Expenditure incurred under other Ministries / Departments Expenditure or other Major Ledger Expenditure should be included in the debit side of the imprest Adjustment Account as per paragraph 7 (vi) (b) of Public Accounts Guidelines. Although the expenditure incurred on other Heads of Expenditure was debited as Rs. 269,998,972,040 in the imprest Adjustment Account which was later submitted by the Ministry, according to the trial balance of the Ministry it was stated as Rs. 96,419,491,147 and therefore the difference was Rs.173,579,480,893. According to the Ministry Trial Balance, the amount stated as Rs.96,419,491,147 includes only expenditure from September to December. With the expenditure from January to August amounting to Rs.173,579,480,893, the total expenditure incurred during the year amount of Rs.269,998,972,040 is correct. -Do-
- (c) As per paragraph 7 (vi) (b) of the above guideline, when there are any discrepancies between the figures mentioned in the Treasury Final Accounts and the figures in the books of the Ministry, those differences should be adjusted from the Imprest Adjustment Account. According to the detailed trial balance and treasury statement of the Ministry, the advance payments and receipts were Rs. 25,868,251 and Rs. 15,332,319 respectively and therefore, the difference was to be credited to the imprest adjustment account, but a sum of Rs.1,737,593,475 was debited and a sum of Rs.1,697,332,558 was credited to the adjustment account submitted. As described above, the accounts are prepared on the basis of total advance payments and receipts for the year 2020 and advance payments and receipts amounting to Rs.25,868,251 and Rs. 15,332,319 respectively relating to advances only made during the first 8 months of the year. -Do-

- (d) As per 7 (vi) (a) of Public Accounts Guidelines 06, the expenditure incurred on behalf of these Ministries under F.R.208 by other Ministries / Departments should be noted on the credit side of the Imprest Adjustment Account. The expenditure was credited as Rs. 27,826,870,233 in the imprest adjustment account submitted by the Ministry. However, according to the trial balance of the Ministry, the expenditure was Rs.96,419,491,147. Accordingly, a sum of Rs.68,592,620,914 had been understated.
- Expenditure incurred by other Ministries / Departments on behalf of this Ministry under F.R.208, should be accounted in the Imprest Adjustment Account as per Government Accounting Guidelines. Accordingly, the expenditure incurred by other Ministries on behalf of this Ministry was Rs. 27,826,870,233. The expenditure of Rs.96,419,491,147 mentioned in the audit report is the expenditure incurred by this Ministry on behalf of other Ministries for the last 04 months of the year.
- Do-
- (e) In terms of Section 7 (vi) (b) above, if there is a discrepancy in the receipts and payments of deposits between the Statement of the Ministry and Treasury Final Accounts, it should be adjusted in the imprest account. According to the trial balance of the Ministry and the final statement of accounts of the Treasury, the differences between the receipts and payments were Rs. 138,108,361 and Rs. 73,815,042 respectively.
- Deposit Account balances are not included in the Imprest Adjustment Account as stated in the Audit Inquiry as they are reconciled with Ministry Books, Cigas Software Copies and Treasury Computer Print outs.
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## 1.6.2 Presentation of Accounts

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### **Audit Observation**

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The Ministry of Home Affairs, Provincial Councils and Local Government which was under Head 155 in the year 2019 has been amended as the State Ministry of Provincial Councils and Local Government under Head 420 with effect from 01 September 2020. Although the State Ministry did not exist last year, based on last year's Heads 155 Ministry figures comparatively stated as expenditure and revenue for the previous year in the financial statements for the year under review,

### **Comments of the Accounting Officer**

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The scopes of the Ministries were amended in accordance with the Extraordinary Gazette Notification No. 2187/27 issued on 09 August 2020 and this Ministry was also established under a new Expenditure Head. As you mentioned, accounts should be prepared under the new Head.

The financial statements are prepared on the basis of the final accounts for the year 2020 issued by the Department of Public Accounts and the contents of the attached tables, in accordance with the instructions in paragraph 3 of Guideline No. 06 issued in accordance with Public Finance Circular No. 02/2020 relating to the submission of final accounts of public institutions.

This comparison is entirely accurate, as although the Expenditure Heads have changed, no expenditure has been incurred in the Expenditure Head 155 of the Annual Estimate which can be clearly divided. Although the fact pointed out by the audit is correct for some Ministries, I also observe that it is not applicable to this Ministry.

### **Recommendation**

Financial statements must be properly prepared.

### 1.6.3 Statement of Financial Performance

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Audit Observation	Comments of the Accounting Officer	Recommendation
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<p>(a) <b><u>Treasury Imprest Received</u></b></p> <p>The imprest balance under Expenditure Head No. 155 as at 31 August 2020 was Rs.403,555,559 and that amount had been transferred to Expenditure Head 420 through Journal entries. This includes the imprest amount of Rs.22,343,734 given to the separated Ministries and therefore Rs.381,211,825 was left for Head 420. The imprest amount received from September to December 2020 was Rs.97,930,292,990 and the total imprest amount received for this head 420 was Rs.98,311,504,814. In the financial performance statement, it was stated as Rs.273,124,512,657 and therefore a sum of Rs.174,813,007,843 was overstated.</p>	<p>From the beginning to the end of the year 2020, the General Treasury has released imprests to this Ministry under Imprest Accounts No. 7002/0/0/0/449/20 and 7003/0/0/0/44/20.</p> <p>According to the explanation given with the audit query, the total imprest receipts of the Ministry during the year including the amount of imprest received under the above imprest account numbers and the amount received from other sources was Rs.273,124,512,657.</p>	<p>Financial statements must be properly prepared.</p>
<p>(b) <b><u>Imprest Balance</u></b></p> <p>Even though, according to the financial performance statement, the imprest balance as at 31 December 2020 was Rs.242,214,173,832, when adjusted correctly as mentioned above the imprest balance as at 31 December 2020 should have been Rs.67,251,392,785</p>	<p>As described above, it is correct to state the annual imprest balance as Rs.242,214,173,832.</p>	<p>Financial statements must be properly prepared.</p>

#### 1.6.4 Statement of Financial Position

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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
----- According to the disposal list submitted for audit, the cost of 176 disposed items was Rs. 3,987,094. However, Rs. 3,852,950 had been taken into accounts as disposed amount of non-financial assets. Accordingly the difference was Rs.134,144.	----- The relevant change was an error in entering the notes into the Cigas computer system, which was later corrected. Accordingly, the correct disposal cost is Rs. 3,852,950 and this figure is accurately stated in the Ministry books..	----- Financial statements must be properly prepared.

#### 1.6.5 Cash Flow Statement

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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
----- According to the detailed trial balance, construction or purchase of physical assets and other investment acquisitions were Rs.1,254,014 but in the cash flow statement it was stated as Rs.2,662,794,451.	----- Expenditure incurred on all capital expenditure objects other than acquisitions under object Nos. 2102, 2103 is recorded as construction or purchase of physical assets and other investment acquisitions.	----- Financial statements must be properly prepared.

#### 1.6.6 Certification of Accounting Officer

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Although, Accounting Officer should certify the following matters in terms of provisions set out in Section 38 of the National Audit Act, No. 19 of 2018, it had not been so done.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) The Chief Accounting Officer and the Accounting Officer should ensure that an effective internal control system is set up and maintained for the financial control of the Ministry and that the effectiveness of that system should be reviewed from time to time and necessary changes should be made to ensure that the systems operate effectively and the	Internal control systems are reviewed through internal auditors and necessary instructions are issued and updated from time to time.	Action should be taken in accordance with the provisions of Section 38 of the National Audit Act No. 19 of 2018.

reviews were to be made in writing and a copy was to be submitted to the Auditor General, but no statement was made to the Auditor that such reviews had been made.

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| <p><b>(b)</b> Although the Chief Accounting Officer and the Accounting Officer were required to ensure that all audit queries were answered within the specified periods as required by the Auditor General, the audit queries were not answered in accordance with paragraph 3.10 of the report.</p> | <p>Not answered.</p> | <p>-Do-</p> |
| <p><b>(c)</b> Although the Chief Accounting Officer should ensure that there is an effective methodology for the proper functioning of the internal audit function, this requirement has not been met as per the observations made in paragraph 4.1 of the report.</p>                                | <p>Not answered.</p> | <p>-Do-</p> |

## 2. Financial Review

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### 2.1 Management of Expenditure

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Following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) Total provision of Rs. 72,000,000 made for 6 capital expenditure subjects under Program Nos. 1 and 2 as Rs.1,900,000 and Rs. 70,100,000 respectively, had been saved as a percentage of hundred percent.	The provision was remained due to the adverse conditions prevailing in the country, the resignation of the State Minister and the non-functioning of the offices and due to the problems in recruiting the Regional Development Assistants and the project staff, the project activities were delayed, due to non-receipt of funds by the Building Department for the construction of the Batticaloa Public Library during the year,	When preparing estimates, management should pay attention to prepare in a non-unrealistic manner.
(b) Out of the allocation of Rs. 29,940,000 made for 05 capital expenditure objects under Program No. 1, a sum of Rs.18,340,272 or 61% as a percentage had been saved.	The balance of the object No. 420-1-1-2102 was left due to the non-functioning of the office of the Hon. State Minister throughout the year. Due to the adverse conditions prevailing in the country the contract awarding issues and the office not functioning properly, these costs have been minimized for Expenditure objects No. 420-1-2-0-2001, 420-1-2-0-2002 and 420-1-2-0-2003. Also, due to the inability of conduct training programs by the Sri Lanka Institute of Local Government and the Ministry, provisions in 2401 and 2201 were saved.	-Do-
(c) Out of the allocation of Rs. 3,240,860,000 provided for 11 capital expenditure items under Program No. 02, a sum of Rs.1,943,180,815 or 60% as a percentage have been saved.	Due to the poor health in the country, the daily routine was disrupted and the road development work could not be carried out as expected.	-Do-

- (d) According to the Treasury records, the total expenditure related to the Expenditure object No. 420-2-3-19-2506 (12) was Rs.504,074,405 in the year 2020. The object code for the year 2019 was 155-2-3-29-2506-12 and the total expenditure mentioned in it was Rs.100,669,665. Expenditure for the year 2019 had overstated by Rs.81,546,770 due to the Transport Relations and Asset Management Project, also known as above object, has added a establishment advance of Rs. 81,546,770 to its expenditure incurred in 2019. Accordingly, although the actual expenditure for the year 2020 was supposed to be Rs. 585,621,175, due to the surcharge of Rs. 81,546,771 of the advance paid last year to the expenditure object, the actual expenditure was understated by Rs.81,546,771 less.
- Mobilization advance paid to contractors in 2019, by the Transport Relations and Asset Management Project was accounted for as an expense for the year. Following the advice received from the audit, the advance payment was transferred to an advance account in the year 2020. Due to the relevant adjustment, the overdebited expenditure in 2019 is eliminated and the total expenditure is correct.
- Financial statements need to be prepared correctly.

## 2.2 Incurring of Liabilities and Commitments

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 The audit observations revealed relating to liabilities and commitments are as follows.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) As per paragraph 02 (a) of Public Accounts Circular No. 255/2017 dated 27 April 2017, obligations must first be identified within the annual budget for payments other than personal emoluments and allowances. As per 02 (b) of the said circular, based on the liabilities so identified, although it should be identified as liabilities the amount to be paid for the goods and services related to those liabilities after	As per the instructions of paragraph <b>4.11</b> of Public Accounts Circular <b>05/2020</b> , the obligations of the Ministry as on <b>31 December 2020</b> were reported through the Cigas Program. Accordingly, these expenses were reported as liabilities as the vouchers for payment under Expenditure No. <b>420-1-2-0-1002</b> had not been submitted to the Accounts Division by <b>31st December 2020</b> and the liabilities were reported through	Circular instructions should be followed.

obtaining them and the value of the Cigas program as mentioned above. work certified in respect of contracts entered into, contrary to that an obligation balance of Rs. 527,452 was stated under the Expenditure object No. 420-1-2-0-1002.

- (b) Ignoring the financial regulation guidelines, exceeding 07 expenditure object savings amount of Rs.119,401,526, it was committed to commitments amount of Rs.257,693,824. Adequate provision was saved by 31 December 2020 for the following Expenditure Subjects, at the end of the year, in order to make more effective use of the remaining provisions, the provisions have been transferred under Financial Regulations 66 for expenditure objects with inadequate provision. Action should be taken as per financial regulation 94(I).

420-2-03-000-1508

420-2-03-000-2202/14

420-2-03-29-2202

Also, the Liabilities Report submitted to the Department of Public Accounts through the Cigas Program as at 31 December 2020 under the following Expenditure Subjects does not include liabilities exceeding the provision limit.

420-2-03-027-2202

420-2-03-024-2202

420-2-03-000-2202/10

420-2-03-020-2504

### 2.3 Deposit Balances

Audit Observation	Comments of the Accounting Officer	Recommendation
According to FR 571 (3), deposits of more than two years should be credited to government revenue but Rs.91,713,104 of 328 deposit account balances had not been credited to government revenue.	Deposits of more than two years mainly include 10 percent retentions deducted from contract bills, and the process takes some time as the relevant requests have to be submitted by the Local Government Commissioners for the release of these funds. However, steps have been taken to credit all lapsed deposits to Government revenue.	Must comply with the provisions of Financial Regulation 571(3).

## 2.4 Non-compliances with Laws, Rules and Regulation

The following are the instances of non-compliance with the provisions of the laws, rules, and regulations observed during the sample audit.

<b>Reference to Laws, Rules and Regulation</b> -----	<b><u>Observation</u></b>  <b>Non-compliances</b> -----	<b>Comments of the Accounting Officer</b> -----	<b>Recommendation</b> -----
(a) Public Administration Circular No.09/2009 dated 16 April 2009 and Internal Circular No. 03/2017/Administratio n dated 20 January 2017 of the Secretary to the Ministry of Provincial Councils and Local Government	(i) Although the Director and Assistant Director of Solid Waste Management unit did not use fingerprint machine or attendance register to confirm their arrival and departure from 22 April to 30 September 2020, they were paid Rs. 1,218,580 as salaries and other allowances.	As the officers have covered their duties during the relevant period, their salaries have been paid.  Steps have been taken to rectify those shortcomings.	Action should be taken as per the circular instructions.
	(ii) The Additional Secretary (Projects) had not used the fingerprint machine to confirm the arrival and departure from 18 October 2018 to 11 December 2020 (Audit Day).	-Do-	-Do-
	(iii) Although the project management unit of the Provincial Road Development Project, which operates under this Ministry, was staffed with 10 staff and 4 personal advisors, the fingerprint machine was not used as per circular instructions to confirm arrival and departure.	-Do-	-Do-
(b) Management Services Circular No. 01/2019 dated 05 March 2019	(i) Although in terms of Section 2.3.3 (C) of the Circular, a Public Service Officer can be employed only in one acting post in a Development Project, Contrary to circular provisions for the	Action have been taken to recover overpaid salaries.	-Do-

Pura Neguma Project, Rural Infrastructure Development Project in Emerging Zones and Regional Development Assistance Project implemented under this Ministry appointed three acting posts of Provincial Project Director, Deputy Provincial Project Director (Roads and Water) and Deputy Director respectively, and a sum of Rs.1,346,109 was paid as salaries and allowances for 02 posts.

(ii) According to paragraph 9.3 of the Circular, although 06 project steering committees are required to be held annually as once in every two months on foreign aid projects, out of the 9 projects implemented under this Ministry, 2 Project Steering Committee meetings were held for 2 projects and only one Project Steering Committee meeting was held for the other projects. Even though it was delayed in holding project steering committees at times due to the prevailing situation, steps have been taken to hold these meetings properly. -Do-

(c) Letter No. DMS/SM/10 dated 04 September 2020 of the Department of Management Services	Contrary to the salaries and allowances approved for the Project Management Unit of the new State Ministry, a salary overpayment of Rs. 1,080,600 had been paid since September 2020 as 50 per cent of the salary of the Additional Secretary working in that division i.e. Rs.56,150 per month and Rs.107,000 per month for the Procurement Specialist and Engineering Consultant (Irrigation) per officer.	The payment of the relevant allowances has been suspended and instructions have been given to recover the excess payments.	Action should be taken with the approval of the Department of Management Services.
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<p>(d) Trade and Investment Policy Circular No. 01/2018 dated 05 February 2018</p>	<p>(i) In granting concessionary car licenses in accordance with Circular No. 1.12, although motor licenses should be issued only to the officers who have fulfilled the required qualifications in accordance with the circular provisions, motor vehicle licenses have been issued to the Project Director of the Provincial Road Development Project and the Project Director of the Local Government Improvement Project, even though they have not completed 9 years of service in government development projects.</p>	<p>It has been confirmed by checking the documents that the Director of the Provincial Road Development Project has completed 9 years of service. the required qualifications to obtain a license in accordance with Circulars 1.1 and 1.12 of circular No.1/2018, have been fulfilled. No comments have been made regarding the Director of the Local Government Improvement Project.</p>	<p>The Director of Trade and Investment Policy Department should be consulted and action should be taken accordingly.</p>
	<p>(ii) Although it was stated in paragraph 9.2 of the Circular that it was the responsibility of every Secretary to issue licenses only to qualified officers, the Secretary had not acted in a responsible manner.</p>	<p>Not answered.</p>	<p>Circular instructions should be followed.</p>
<p>(e) Trade and Investment Policy Circular No. 01/2013 01.02 (iv)</p>	<p>Although the tenure of the officer serving as the Senior Engineer and Compliance Officer for the Local Government Improvement Project has been completed, according to paragraph 01.02 (iv) of this Circular, officers who have been appointed to a qualifying post mentioned in this circular on a contract basis after retirement from the public service have been issued a car license despite being advised not to have a car license on a concessionary basis.</p>	<p>Not answered.</p>	<p>The Director of Trade and Investment Policy Department should be consulted and action should be taken accordingly.</p>

(f)	Procurement Guidelines of 2006 4.2.1	No procurement plan had been prepared for the next 3 years.	Not answered.	Action should be taken in accordance with the provisions of the Procurement Guidelines.
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## 2.5 Improper Transactions

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### Audit Observation

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A sum of Rs. 4,764,389 had been incurred for the Ministry of Upcountry New Village Infrastructure and Community Development, from the allocations of 11 expenditure objects under Head 155.

Although the Ministry of Rural Housing and Construction and Building Materials Industry Promotion was informed to take over the Expenditure incurred under Expenditure Head 155 after commencement of accounts under the new Expenditure Head of from 1 September 2020, it had not been taken over by the Ministry. Accordingly, it was observed that Rs. 4,764,389 which was not authorized to bear expenses under Head 420 was accounted for under that Head.

### Comments of the Accounting Officer

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Relevant transactions are credited to the accounts as instructed by the Treasury.

### Recommendation

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Action must be taken to correct.

## 3. Operational Review

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### 3.1 Planning

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### Audit Observation

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The action plan had not been prepared prior to the implementation of the approved budget estimate as per paragraph 03 of the Public Finance Circular No. 2014/01 dated 17th February 2014 and the activities expected to be implemented during the year were not specified.

### Comments of the Accounting Officer

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An action plan has been prepared in relation to the budget estimate and necessary instructions have been given to identify more specific tasks in the future.

### Recommendation

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Management should focus on making the plans for the years following the review year a success.

### 3.2 Non- performance of Functions

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Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
Progress could not be identified due to the failure to specify the expected functions to be performed in relation to the Development Division and the Local Government Division in the Action Plan.	Noted to give necessary advice to correct any shortcomings	A correct action plan as well as a progress report should be prepared accordingly.

### 3.3 Non-achievement of expected Output Level

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Following observations are made.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
(a) Four of the nine Kawashima composting machines purchased at a cost of Rs. 935.69 million in 2017 had not been utilized by 30 June 2021 due to unfinished building construction.	These constructions were delayed due to practical problems in the implementation of the projects and steps have been taken to make the work more efficient.	Management should pay attention to complete the construction within the contract period.
(b) The machine installed at Addalachchenai Ashraff Nagar has been temporarily shut down and the production of 02 machines installed at Galle and Vadamarachchi has not commenced.	Due to the Covid epidemic, the garbage collection has been temporarily stopped.	Garbage collection and recycling should be done even under epidemic conditions.

### 3.4 Non-achievement of expected Outcome

Following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Although 5 out of the 9 composters purchased in 2017 were used for compost production, it was observed that these machines did not produce the expected production level of 17 tons of compost using 50 tons of garbage per day.	Noted to check.	Action should be taken to achieve the expected returns from the investment.
(b) Although a financial benefit of Rs.80 million per annum was expected from one composting machine, no such financial benefit was achieved.	The primary objective of installing composting machines is to provide a solution to the garbage problem and the financial benefits are a side result.	-Do-
(c) The composting plants at Lankapura, Dambulla and Kurunegala receive 40, 25 and 30 tons of waste respectively and the daily fertilizer production is reported to be between 6-8, 5-6 and 4-5 tons, but not a single machine was able to reach the target capacity.	Not answered.	-Do-
(d) The amount of garbage received daily for the machinery installed at 02 locations of Hambantota - Keliyapura and Kegalle is very low and the quantities were 2-3 tons and 7 tons respectively. Compost production was not done by those two machines.	Insufficient waste for compost production	-Do-
(e) In order to enhance the compost production, the Cabinet had approved the purchase of 12 more machines in addition to the machines already purchased and installed. It is observed that when the installed machinery is underutilized, the purchase of more machinery is likely to become a uneconomic activity.	Not answered.	Action should be taken to obtain the expected benefits from the machines purchased prior to new machines.

### 3.5 Projects abandoned without completing

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) <b><u>Rest House in Sri Pada</u></b>            Although an estimate of Rs. 54.59 million was prepared for the proposed rest house to be constructed at the Sri Padasthana Sacred Area in 2019, the estimate was later increased to Rs.182.99 million due to non-payment of attention on difficulties in moving goods at the time of preparation of the estimate. This work was not even included in the action plan for 2020 and no progress was reported.</p>	<p>The project is currently on hold due to non-allocation of funds by the annual estimate.</p>	<p>Should include in the action plan and include accurate information in the progress report.</p>
<p>(b) <b><u>Rest House associated with Madhu Church</u></b>            The progress report stated that the contractor had been selected but had not entered into an agreement and was not implemented due to insufficient funding.</p>	<p>Correct</p>	<p>Development work needs to be done efficiently.</p>
<p>(c) <b><u>Koneshwaram Rest House</u></b>            This was not included in the action plan for 2020 and no progress was reported</p>	<p>The project is currently on hold due to non-allocation of funds.</p>	<p>Should include in the action plan and record the correct information.</p>
<p>(d) It was observed that Rs. 68 million had been paid to the Land Reclamation and Development Corporation of Sri Lanka in 2013 as an advance for the construction of the Beliatta Urban Facilities Center but no construction has been carried out.</p>	<p>Although the project has not been completed due to non-receipt of funds after 2014 due to the political change that took place in 2014, the Buildings Department has not certified the bill of Rs. 1.1 million for the work done by the Corporation. The balance amount of Rs. 66.8 million is yet to be recovered. It has also been</p>	<p>Action should be taken to recover the amount due.</p>

decided to setoff Rs.25.95 million obtained on lease basis from the Corporation for the warehouse required for the Rural Bridges Project.

### 3.6 Delays in the Execution of Projects

Following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) <b><u>Anuradhapura Facility Center</u></b> Although the physical progress report stated that the progress was 100 percent, the audit did not confirm that the work had been completed.</p>	<p>The work on the main contract has been completed and the work has only been delayed due to the inability to purchase the water motor required for the tube well in the prevailing circumstances.</p>	<p>Accurate information must be provided.</p>
<p>(b) <b><u>Batticaloa Library</u></b> It was decided by the Cabinet Memorandum No. 18/2053/805/064 dated 19 September 2018 to provide Rs. 169.97 Million For the completion of the remaining work on the Public Library Building. The Department of Buildings had been appointed for the construction of this project and the cost estimate submitted by that department was Rs. 345 million. Out of the allocation of Rs. 100 million under the Ministry of Home Affairs and Provincial Councils and Local Government in 2019, Rs. 50 million had been provided and Rs. 148,017 had been spent from that allocation. Although Rs. 10 million has been allocated and released to the Department of Buildings for the year 2020, it is stated that the contract has been awarded as per the 2020 Physical Progress Report, but no progress has been made in the construction of the building in the year 2020.</p>	<p>At present the relevant project has been awarded and is being implemented.</p>	<p>Development work needs to be done efficiently.</p>

### 3.7 Foreign Funded Projects

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Following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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<p>(a) <b><u>General Education Modernization Project (GEM)</u></b></p> <p>It had been allocated Rs. 3 million for the State Ministry of Provincial Councils and Local Government and Rs. 400 million for the 9 provinces to implement the General Education Modernization Project funded by the World Bank loan, and the total expenditure for the year was Rs. 310.92 million according to the Treasury notes. But no financial statements for the project or any information related to the project were submitted to the audit.</p>	<p>The final account for the year 2020 pertaining to this project has been submitted for audit.</p>	<p>A complete set of financial statements for the year under review and project information should be submitted for audit.</p>
<p>(b) <b><u>Local Development Support Project (LDSP)</u></b></p> <p>i. Although Rs. 650.70 million had been allocated for this project from the Annual Estimate for the year 2020, the second financial year of the project, it was observed that only a meager financial progress of 9.30% was achieved during the year due to the expenditure of only Rs. 60.54 million for the year.</p> <p>ii. The Project Management Unit has not yet been established with a full time Project Director and the Project Director of this project is the Director (Planning) of this Ministry who is also the Acting Director of the Local Loan and Development Fund. In addition, the same staff who were appointed on an acting basis for the initial work of the project were also attached to the activities of the Project Management Unit.</p>	<p>The project could not make any progress during the year as the relevant imprests could not be released during the year..</p> <p>Recruitments have been made with the approval of the Department of Management Services.</p>	<p>Steps should be taken to achieve the desired level of performance to complete the project within the expected time.</p> <p>Appropriate staff should be appointed to maintain the performance level of the project.</p>

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| <p><b>iii.</b> A sum of Rs.4.93 million had been spent on the preparation of participatory development programs at the local government level in the North, North Central, Eastern and Uva Provinces. Although the first place project should have been selected for development according to the priority of the Local Government Participatory Development Plan, the road development projects had been implemented as per the instructions of the Project Management Office.</p> | <p>The relevant plan is prepared for the needs of the entire local government body and the sub-projects mentioned in it can be completed with the use of any funds. Accordingly, it does not apply that its first project should be completed by this project</p> | <p>Action must be taken to achieve the desired objectives.</p>                               |
| <p><b>iv.</b> It was observed that Rs. 6.47 million had been paid as non-performing expenses due to non-completion of the work to be done by the four consultants appointed for the initial work of the project.</p>  | <p>A committee has been appointed to look into the matter further and further decisions will be taken accordingly.</p>  | <p>Necessary steps should be taken to ensure that the expenditure is not non-performing.</p> |

**(c) Urban Project Preparatory Facility of the proposed Urban Development Project (UPPF)**

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| <p>i. Without following the instructions of the Director General of the External Resources Department and without adequate study, the project was completed at a loss of Rs.169.06 Mn which was the value added amount of project management costs, as well as for design, planning and planning.</p>                        | <p>According to the instructions given to complete the project, its work has been completed properly. Detailed answers in this regard have already been submitted to the Audit.</p> | <p>The loss should be identified and action should be taken properly.</p> |
| <p>ii. In terms of the provisions of the Circular No. 01/2019 and 05 March 2019 of the Department of Management Services regarding the payment of salaries to the Project Director, Rs.960,000 had been overpaid for 16 months as Rs. 60,000 more per month, without establishing in the salary scale to be established.</p> | <p>Relevant salaries have been paid considering the value of the project.</p>   | <p>Taking formal action regarding irregular payments</p>                  |

iii. Contrary to the provisions of Circulars No. 01/2019 and 05 March 2019 of the Department of Management Services, the Financial Analyst of the Pura Neguma Project had been appointed as the Accountant of this project on an acting basis and paid a salary of Rs.720,000. This officer has been appointed on an acting basis for the initial work of the project. **-Do-**

(d) **Local Government Enhancement Sector Project (Pura Neguma)-Additional Financing (LGESP-AF)**

(i) This project is expected to be completed on **31 December 2019** as per the loan agreement No. **3431-SRI (SF)** signed by the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank on **02 November 2016**. Due to inability of to award construction contracts within the first 18 months as per Project Management code and the awarded contract to complete the work on time in accordance with those agreements, the project period has been extended to 31 December 2021. However, it was observed that very little financial progress was being shown due to the financial utilization of the project by **31 December 2020**, was U.S. \$ 33.67 million or 56.11 percent out of the total loan amount of US \$ 60 million and the depreciation of the rupee against the US dollar was cited as a reason for the slowdown in financial progress. Although there was an opportunity during the project period itself to identify new projects based on the rising value of the rupee and to make optimal project progress, it was observed that action was being taken to extend the project period to 31 March 2023 without taking action accordingly. It was also observed that due to the extension of days, the government would have to incur an additional expenditure of Rs. **2,640**

Local Government Project work should be expedited to be completed within the stipulated time.

Enhancement Sector Project (Pura Neguma)-Additional Financing (LGESP-AF)

The civil contracts executed under this project were also delayed due to various unavoidable reasons such as the Kovid epidemic, delays by contractors and insufficient funding and as a result, the tenure of the consulting firms has to be extended as well as the duration of the project.

million as Rs.80 million per month on project operating expenses including maintenance of consulting firms and project staff.

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| <p>(ii) The e-Pura Neguma software, a computer software solution for low-income Pradeshiya Sabhas, has been installed in 137 selected Pradeshiya Sabhas in 07 provinces under the Asian Development Bank's Local Government Enhancement (Sector) Project, with the objective of assisting the day to day activities of the Pradeshiya Sabhas efficiently, simplifying the procedures and making the Pradeshiya Sabhas more friendly to the citizens. It was observed in an audit of the Central and North Western Provinces that 16 out of the 41 Pradeshiya Sabhas were not using the software and that the software was not able to reap the expected benefits from all four functions designed for the modules introduced in any of the local bodies in which it was implemented.</p> | <p>Lack of interest of the officers of the relevant Pradeshiya Sabha, internal and external transfers, use of other software, non-training of untrained officers by the trained staff, non-supervision of the Local Government Division of the Ministry by the Local Government Department</p> | <p>As these are projects using foreign loans, necessary steps should be taken to achieve the desired objectives.</p> |
| <p>(iii) The water supply projects and access roads which were constructed at a cost of Rs. 332.19 million under the Pura Neguma project and handed over to 12 Pradeshiya Sabhas remained idled for 30 to 57 months and a crematorium constructed at a cost of Rs. 16.49 million and handed over to the Hettipola Pradeshiya Sabha has been inactive for more than 36 months.</p>  | <p>Provincial heads have been instructed to look into the matter and take further action.</p>  | <p>Responsible parties must be pressured to reap the desired economic and social benefits.</p>                       |
| <p>(iv) 12 multi-purpose buildings constructed at a cost of Rs. 513.73 million, a library constructed at a cost of Rs. 18.90 million and 03 weekly fairs constructed at a cost of Rs. 105.06 million were underutilized due to various reasons.</p>  | <p>Bids have been called for Rattota Weekly Fair to rentout the sepereted shops and Tissamaharama Fish Market has been rented out to a fruits wholesaler. Further discussions are</p>  | <p>-Do-</p>  |

being held with the provincial authorities regarding the Walallawita multipurpose building and the relevant officials have been instructed regarding other buildings.

(v) Sixteen sub-projects, including the bus stand, multi-purpose buildings and drinking water projects completed under this project and handed over to the Pradeshiya Sabhas failed to achieve the expected benefits.

Relevant officials have been instructed to take the necessary steps to achieve the desired benefits and to monitor the situation on a regular basis.

Action must be taken to achieve the desired benefits.

(vi) Pura Neguma was awarded a contract worth Rs. 102 million in the second phase to rectify the shortcomings of three water projects in the Uda Palatha, Ududumbara and Wilgamuwa Pradeshiya Sabha areas which were constructed at a cost of Rs. 282.36 million in the first phase of the project.

Not answered.

If the government has incurred a loss due to deficiencies in the original design related constructions, action should be taken against the relevant parties and action should be taken to recover the loss.

(e) **Rural Infrastructure Development Project in Emerging Zones Project (RIDEP)**

According to the loan agreement signed by the Government of Sri Lanka and the Japan International Cooperation Agency on 17 July 2017, a loan of 12,957 million Japanese yen was to be provided under this project for the development of infrastructure facilities such as drinking water, irrigation and rural roads in four provinces. According to the Project Management Code, all the constructions were to be completed by September 2021 and all the work on the project was to be completed. According to the project Manual, 418 sub-projects were to be completed, but only 355 sub-projects were selected for implementation, out of which 232 sub-projects did not make any

As previously pointed out at length to the audit, the recruitment of consultants for this project took place in September 2019 and due to delays in other works of the project accordingly, the expected progress could not be achieved within the stipulated time. However, steps are being taken to prevent such delays through regular monitoring.

Action must be taken to achieve the desired level of performance.

progress. Two consulting firms have been appointed to oversee the design and construction of the project and have failed to make the expected progress from those firms. According to the Project Management Code, the amount to be utilized by the end of the year 2020 was 8,697 million Japanese Yen, but with an utilization of 643.33 million Japanese Yen, only 7.39 percent progress has been made and the project is at a very low level of activity.

(f) **Nothorn Road Connectivity Project – Additional Financing (NRCP-AF)**

Although the Provincial Road component of the aforesaid project implemented under this Ministry was fully completed by 30 June 2020, the project had not been completed by absorbing all the overhead expenditure incurred so far on the road cost on an appropriate basis.

Relevant officials have been instructed to follow the proper procedure. Completion of projects should be expedited.

(g) **Provincial Road Development Project (PRDP)**

i. Following the revision and restructuring of the loan agreement No. 5788-LK signed by the Government of Sri Lanka with the World Bank International Development Agency on 29 September 2017, under the provincial road component of the project, a loan of US \$ 109 million was to be provided for the construction and development of regional roads in nine provinces. According to the Project Management Task Force, all these constructions were to be completed by March 2023. According to the project schedule, 67 roads covering 307 km under Phase 1 were to be completed in 18 packages by the end of 2019, but only 8 of them had been awarded. The remaining 10 packages were offered during the year under review. However, 06 packages failed to make any progress during the year.

After the restructuring of the Provincial Road component, US \$ 109 million was received and it is expected to be completed by March 2023. Although 18 road packages were planned under Phase 1 and another 27 packages under Phase 2, they had to be limited to 27 complete packages at contract price. The procurement of the 27 is scheduled to be completed by December 2020 and newspaper advertisements have been published. Due to high contract prices and non-bidding for some packages, re-bidding was required. Accordingly, the

procurement process has commenced as scheduled.

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| ii. In order to award contracts costing Rs. <b>7,769.86</b> million during the year under review, it is necessary to identify the routes to be developed and prepare detailed project reports, but no progress was observed during the year.   | Not answered.   | Actions to be taken to achieve adequate performance. |
| iii. Although the amount to be utilized by the end of the year <b>2020</b> according to the annual estimates for the years <b>2019</b> and <b>2020</b> is Rs. <b>1,831.63</b> million, the total amount utilized was Rs. 635.47 million or 34.69 percent and it was observed that the financial progress was weak. | Although it was planned to spend nearly Rs. 4,500 million for the period 2019-2020, the expenditure had to be controlled due to the Covid epidemic situation and insufficient provisions made by Vote-on-account. Accordingly, although it was planned to spend Rs. <b>1800</b> Million by the end of <b>2020</b> , only Rs. <b>958</b> million provision was made. Accordingly, the entire provision has been spent as contract payments of Rs. 637 million and the balance as advance payments. | <b>-Do-</b>  |
| iv. Fifteen individual consultants were recruited on time basis for the project through a non-transparent procurement process and there was no proper internal control system in place to get adequate service from them.  | This project is a project received by this Ministry from the Ministry of Road Development and there was no consulting firm or pre-planned project framework like other projects. No consultant has been hired to design the project as per the audit report. Consultants have been recruited to oversee the construction and have also worked on the design in their intervention. Accordingly, in addition to the work expected from them, a service has been obtained.                          | <b>-Do-</b>  |

(h) **Greater Colombo Wastewater Management Project – Loan agreement No. 2557/2558**

i. The project was scheduled to begin on 04 April 2010 and end on 30 June 2015 but the project completion date has been extended to 31 December 2021 by 78 months on 04 occasions. Processes are progressively slow due to deficiencies in contract management, deficiencies cost allocation for project components, feasibility studies deficiencies, environmental assessment deficiencies, land acquisition issues, and resettlement processes that have existed since the inception of the project.

ii. The amount paid for the consultancy service fee as at 31 December 2020 was Rs. **1,066,143,753**. As the amount allocated for consultancy activities under the loan agreement was Rs. **935,870,000**, an overpayment of Rs. **130,273,753** had been made as at 31 December 2020.

iii. There were only 02 policy support group meetings held in the year 2020 but a sum of Rs. 5,096,000 had been paid as Rs. 60,000 per month for 7 officers and Rs. 38,730,786 had been paid from the commencement of the project up to 31 December 2020. By 31 December 2020, 66 months had elapsed since the project was due to be completed and Policy support groups were not observed to have made an effective contribution to the project's performance.

The project completion date had to be extended for various reasons, and this was mainly due to delays in awarding contracts and delays in the work being carried out by the contractors.

This was due to delays in awarding contracts and the appreciation of the dollar against the rupee.

These officers have been informed that in addition to their regular duties they will be working on the project.

Action must be taken immediately to complete the project.

Efforts should be made to minimize such costs through proper project planning, management and proper supervision.

Policy support groups should actively contribute to the achievement of project objectives and be able to monitor their performance.

(i) **Greater Colombo Wastewater Management Project – Loan agreement No 3030**

The contract process for the survey, quality control and preparation of a database of 108 km of wastewater treatment using CCTV technology for sewerage was started in 2016 but the contract had not been awarded till 31st December 2020.

Agree, that the award of the contract has been delayed for various reasons.

Action should be taken to complete the project activities through prompt action.

(j) **Greater Colombo Wastewater Management Project – Loan agreement 3348/3349**

i. The contract agreement for the construction of Kirulapone Sewerage Network and two pumping stations was signed on 04 May 2017 and the contract was to be completed on 04 May 2020. One plot of land required for this construction was handed over to the contractor on 08 June 2020 after a delay of 03 years. Also, the contractor had made a claim of Rs. 257,171,849 to cover the delay due to lack of work space.

It has taken a considerable time to hand over the land and there is a delay in completing the contract. The claim made by the contractor for the time delay has not yet been paid.

The project management unit should adopt a proper regulatory and monitoring system to avoid contract delays and additional costs.

ii. The contract for the construction of the Wellawatte Wastewater Treatment Plant was awarded in the second quarter of 2017 and was scheduled to be completed by 04 February 2021, but the contract was awarded on 18 December 2020 after a delay of about 3 ½ years.

It was delayed due to Bid paperwork issues and Covid status.

Steps should be taken to award contracts without delay and to reap the benefits of the project to the public within the stipulated time frame.

iii. The contract to provide sewerage facilities to the Kirula-Narahenpita area should have been completed by 2018, but the contract had not been completed even by 31 December 2020.

The contract was delayed due to difficulty in finding land.

Action should be taken to complete the project activities within the project period by taking immediate action.

(k) **Rural Bridge Project**

i. There is no proper system for selecting sites for constructing bridges using loans given by private banks of the

The methodology for selecting sites for new bridges was once again

The explanation needs to be put into action.

United Kingdom, the Netherlands and other countries as export development loans and although there was a project staff, there was not enough contribution to this project, which is being implemented as a large-scale integrated contract (Turn Key) project.

studied. The study revealed that the methodology includes criteria to be used to identify effective sites for the construction of new bridges and a feasibility study program to be used to select effective sites based on them.

This methodology allows to identify the locations where bridges are to be built, with direct economic or direct social benefits. Accordingly, I confirm that there are no shortcomings in that methodology.

- ii. According to the agreement, no formal mechanism had been put in place to identify the locations where the bridges were to be erected and no action had been taken to determine the locations where the bridges would be to be located after an adequate cost-benefit analysis, taking into account the cost of the bridge and the number of beneficiaries and potential developments in the future. Also, although it was installed with the expectation of more than 100 years of existence, no standard control work had been done on the concrete construction of the bridge.

In accordance with the criteria and feasibility studies for the selection of new bridge sites as mentioned in (i) above, site viability is studied through a joint site inspection as a first step. The members of the joint team for this purpose are the Provincial Project Engineer, the Engineer of the Contracting Agency, a Community Leader or the site nominating party. Based on the observations obtained there, the site is basically determined as suitable / unsuitable for the construction of a new bridge.

A quality inspection process should be followed on concrete constructions.

If the recommendation is made by the Joint Team, the second step is to submit it to the relevant District Coordinating Committee by the Chief Secretary of the

Province and if the location is approved, it will be forwarded to this Ministry with the approval of the Chief Secretary of the Province.

Once received by the Ministry, the next step is to ascertain whether there are any bridges with suitable specifications for those locations. The bridge sites so confirmed are also subject to the approval of this Ministry, which is the maximum and final step in selecting the bridge sites. Bridge sites approved by this Ministry will be awarded to the Contracting Company.

- iii. Sample tests have shown that large bridges are constructed where there is no need for a steel bridge, with no return on investment, and where culverts are to be constructed.

The streams that flow throughout the year are located only in the wet zone areas of the island. The canals in other areas are active only during the monsoon season, and people in those areas have to suffer a lot due to the lack of bridges in those areas to cross them during those times. Therefore, action has been taken to construct bridges under this project through canals located in the intermediate zones or arid zones of the island where water does not flow throughout the year.

Should study the economic and social benefits relative to the amount invested and select locations based on need.

Furthermore, although a bridge may need to be built, in some places small culverts or small bridges

may have been built instead of a bridge for various reasons. Under this project, measures have been taken to remove inadequate culverts or small bridges in the areas where a large bridge is to be constructed and to construct bridges of the required length instead.

### 3.8 Procurement

#### Audit Observation

#### Comments of the Accounting Officer

#### Recommendation

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| <p>(a) It was decided by the Procurement Board of the Ministry to publish the advertisement on the contract for the provision of computer software for asset management on the Asian Development Bank website and to delegate the power to obtain the approval of the Asian Development Bank for this contract to the Project Director and to award the contract on the basis of Quality and Cost (CQS). No local bidder had submitted bids due to non-publication of procurement advertisement in national newspapers as per Section 8.10 of the Government Procurement Guidelines and paragraph 2.8 of the Procurement Code of the Asian Development Bank.</p> | <p>This advisory body was appointed under the Asian Development Bank Procurement Rules. As this is a foreign aid project, the procurement process of the lending institution should be followed. Accordingly, it has never deviated from the process.</p>    | <p>Procurement should be done in accordance with the provisions of the Government Procurement Guidelines as well as the procurement instructions of the Asian Development Bank.</p> |
| <p>(b) The Procurement Board, which met on 14 November 2018, decided to award the contract to an Australian company for US \$ 179,983.50 (Rs. 32.30 million). When introducing computer software (IT solution) to an organization it is essential to develop, install, train as well as assist and maintain the software, but this contract does not consider support and maintenance services..</p>   | <p>Under this contract, they are assigned to design, install and training the software. Maintenance is not included in the contract considering the time and extra cost. But after the implementation, they have agreed to help if there is any problem.</p> | <p>Action should be taken to maximize the return on investment.</p>   |

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| (c) | It was observed that it is problematic to select a consulting firm on the basis of quality and cost for the development, installation and training of software.  | According to the Asian Development Bank Procurement Code, the CQS methodology is best suited for such tasks. Further, the Ministry did not request the Asian Development Bank to adopt this methodology and the Asian Development Bank advised to follow this.   | Responses to the audit must be accompanied by specific evidence.   |
| (d) | The Secretary to the Ministry has signed an agreement with the Information and Communication Technology Agency to obtain support and maintenance services for the year 2018 for the computer system which has been in operation in Local Government Institutions since 2012 and while Phase II of that system included an asset management program, in 07 Pradeshiya Sabhas a contractor was appointed as a consulting firm to carry out such a project. | The subject of asset management is not covered as per the agreement prepared for the local government system.  | Information should be studied and acted upon properly.             |
| (e) | While the Pura Neguma project, which was launched in 2011, is scheduled to be completed in June 2020, a pilot project was implemented in 2019, which should have been implemented at the inception of the project.   | The Ministry has been working with the Information and Communication Technology Agency and the Advisory Company appointed by the Asian Development Bank on this subject since 2012 but has not been able to create a successful software for asset management. But other areas such as rates, accounts, etc. are now covered by computer software. During the project period, the Ministry will be able to install this software for other Pradeshiya Sabhas after | It should be clear what actions are needed to avoid wasting money. |

completing this asset management software in 07 Pradeshiya Sabhas as a pilot project. This is also the role of the Ministry as all the work done on the projects is finalized and they are implemented within the scope of the Ministry.

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| (f) | Although a committee consisting of Additional Secretary (Provincial Councils and Local Government), Chief Financial Officer, Legal Officer, Project Director has been appointed to decide whether to continue the installation of this software and to submit the Committee Report before 16 December 2020, the committee had not yet made that decision as of 31 August 2021.   | Not answered..  | Information should be studied and acted upon properly.  |
| (g) | A private company was paid Rs. 9.6 million in 2018 for the support and maintenance services of the "e-Local Government" computer system by making a procurement decision without a formal procurement process ignoring the provisions of Financial Regulations 137 (1), (2), (3), (4) and 138, and By the beginning of 2019, the "e-Local Government" computer system, which had become inactive, did not provide support and maintenance services.  | Relevant payments have been made taking into consideration the Cabinet decision regarding this procurement, the recommendations given by the Information and Communication Technology Agency and other matters. | Acting properly in approving and certifying expenditure,  |
| (h) | The Cabinet Memorandum submitted on 08 March 2018 states that the e-Local Government system implemented in 30 Local Government Institutions is in operation and accordingly, it was stated that "We propose to obtain support and maintenance services for the e-Local Government System for the years 2017 and 2018 from M/S hsenid Business Solution Pvt. Ltd. under direct contract system." This Cabinet Memorandum was approved by the Cabinet Paper No. १०७/18/0512/744/ 003-1 dated 27 March 2018 and Cabinet decision dated 24 April 2018. | Not answered.   | Identifying shortcomings and responsible persons through a formal investigation and taking further action is appropriate. |

However, the Cabinet Memorandum provided incorrect information to the Cabinet as follows:

- Mentioning that this system was in operational in 30 Local Government Institutions by March 08, 2018.
- Issuance of building construction license under the first phase and all regular revenue collection activities are carried out.
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- That it is planned to introduce this information system in 50 more local government bodies in June 2018.

### 3.9 Assets Management

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Following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) Seven vehicles belonging to the Ministry reserved for the Hon. Minister and his personal staff had been taken to the Ministry of Defense without due process and no action had been taken to hand over or take back these vehicles.	Former State Minister for Provincial Councils and Local Government Hon. Sarath Weerasekara assumed duties as the Cabinet Minister of the Ministry of Public Security on <b>29</b> October <b>2020</b> and At that time, eight vehicles belonging to this Ministry had been deployed to him and his staff. The vehicle bearing number <b>KR 8778</b> and the <b>V8</b> jeep were handed over to this Ministry on 25 March <b>2020</b> . The Secretary to the Ministry of Public Security has been informed on several occasions by letters to hand over the remaining <b>07</b> vehicles to this Ministry. The matter has also been reported to the Comptroller General	Withdrawal or transfer must be made.

However, as the Ministry does not have sufficient vehicles to provide to the Hon. State Minister and staff of this Ministry, it is not possible to hand over the above vehicles to the Ministry of Public Security and the relevant officials have been instructed to keep a close watch on the taking back of such vehicles.

(b) **Obtaining Vehicles on Lease**

**Basis**

Approval had been given from the letter No.BD/GPS/155/08/03 dated 13 March 2019 of the Director General of the National Budget Department for the purchase of 10 cabs under the Financial Leasing Facility of the Bank of Ceylon for the Rural Infrastructure Development Project (RIDEP) in the Emerging Zones, and although it was instructed to pay the lease interest under object no. 1406 and the capital installment under object no. 2108, no provision had been made for the relevant subject matter. Capital Provisions and Lease Interest Premiums for the year under review were Rs.15,493,129 and Rs.9,890,231 respectively and the money was used by the project to finance the operational expenditure of the Emerging Regional Rural Infrastructure Development Project.

allocations have been made by the 2021 Annual Estimate to account for the interest and capital installment for the purchase of 10 cabs under the Leasing Scheme for the Rural Infrastructure Development Project in Emerging Zones Under Expenditure code of 420-2-03-012-1406 and 420-2-03-012-2108, respectively.

Lease interest and capital installments should be properly accounted for.

### 3.10 Losses and Damages

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Following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) A progress report by the Solid Waste Management Division has revealed that out of 09 Kawashima machines purchased at a cost of Rs. 935.69 million in 2017, fire damage had caused to the machine to be installed at the Kattankudy Urban Council. The machine has been installed in the building constructed for this machine and the relevant mechanical, electrical and electronic parts have been removed from the original place and stored in a scrap material storage. According to the Government Analyst's report dated 24 July 2020 and the observation report of the Director of the Government National Solid Waste and Management Center dated 09 June 2020, non-perishable waste near the storage complex is also regularly set on fire and the fire has spread to the storage complex. Although the Director of the National Solid Waste and Management Center had estimated the damage to the machine at Rs. 30 million and recommended that it be recovered from the Urban Council, no formal action had been taken to determine the liability and recover the loss.	The burnt parts of the Kawashima machines to be installed in the Kantankudi Urban Council have now been imported from Japan and steps have been taken to repair it. Further work on the damage is underway.	A formal investigation should be conducted to identify those responsible and take action to recover the loss.
(b) Vehicle No. WP PF-7336 was involved in an accident on 31st August 2020 and was allowed to be taken to the Ministry of Defense without further action.	The vehicle bearing number WP PF-7336 was involved in an accident on 31 August 2020, but the vehicle was not in a state of disrepair as a result. The vehicle was being used by the Media Secretary to the former Minister of State and has been taken to the new Ministry. The officer in charge of the vehicle has been	Further action should be taken in accordance with the financial regulations regarding vehicle accidents.

instructed to show the above vehicle to a garage and take necessary action to obtain the estimate, but due to the prevailing situation it has not been possible to take action in that regard within that period. However, the relevant officials were instructed to take further action in this regard.

**4. Good Governance**  
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**4.1 Internal Audit**  
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Following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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Twelve foreign aid projects are being implemented under this Ministry and although the project offices and staff were maintained separately for these projects, an adequate internal audit of those projects had not been carried out.	Not answered.	Internal audits should be done.

**4.2 Audit and Management Committee**  
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Following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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Although the project directors of the foreign loan utilized development projects under this Ministry acted as the accounting officers for the project, apart from two of the 12 projects, no audit management committees were held for the other 10 projects.	Not answered.	Audit Management Committees should be held.

## 5. Human Resource Management

Following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
<p>(a) According to the Public Administration Circulars No. 25/2014 and 12 November 2014, 31 Secondary Level Management Service Officers and 29 Primary Level Officers were recruited by the Ministry. The Department of Management Services had been informed to obtain approval for the recruitment of those officers and the approval of that department had not been received so far. Out of the 31 Management Service Officers, 13 are working on projects and the remaining 18 are working in the Ministry.</p>	<p>The Department of Management Services has been informed from time to time to include these officers who have been recruited under <b>25/2014</b> to the approved staff of the Ministry and the last reminder for that has been sent on <b>26 January 2021</b>.</p>	<p>Relevant officers should be included in the staff cadre and the cadre limits should be amended.</p>
<p>(b) The salaries of 09 out of the 13 Management Service Officers working on the projects will be paid by the Ministry and reimbursed by the project. The salaries of two officers are paid by the relevant project. The salaries of the other two management service officers working on the projects are paid by the Ministry and the total amount of salaries paid during the year under review is Rs.945,867.</p>	<p>Since these two officers are attached to projects on the basis of service requirement, salaries are paid by this Ministry.</p>	<p>Expenditure should be accounted for under those projects.</p>
<p>(c) The officer who was recruited as Management Assistant for the Rural Infrastructure Development Project in the Emerging Zones on 06 August 2018 has been working as the Personal Assistant to the Additional Secretary (Projects) from the date of appointment to date. The project had paid the officer a total sum of Rs. 1,554,046 as Rs.766,711 for the years 2018 and 2019 and Rs. 787,335 for the year 2020.</p>	<p>The official has been obtained from the Ministry for the release of another officer who worked on JICA projects for the Rural Infrastructure Development Project in Emerging Zones.</p>	<p>The officer recruited for the project should be released to that project.</p>

- (d) During the inspection of the assignment of duties to six officers of the Project Operations Division of the Ministry, it was observed that the duty lists had not been updated in line with the changing duties from time to time. Properly updated duty lists have been issued for the officers working in the Project Operations Division and copies have been submitted to the Audit. Duties should be duly assigned in writing.