

Local Development Support Project - 2021

The audit of financial statements of the Local Development Support Project for the year ended 31 December 2021 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Article 4.2 of schedule 01 of the Loan Agreement No. 6371-LK dated 14 May 2019 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. My comments and observations which I consider should be reported to Parliament appear in this report

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government is the Execution Agency and Provincial Councils of 04 Provinces are the Implementation Agencies of the Project. The objectives of the project are to Strengthening Local Government Authorities capabilities to deliver service to communities in a responsive and accountable manner and to support economic infrastructure development participating provinces. As per Loan and Grant Agreements, the estimated total cost of the project was US\$ 100.65 million equivalent to Rs. 17,665.63 million and out of that US\$ 70 million equivalent to Rs.12,222.41 million was agreed to be financed by International Development Association. The balance amount of US\$ 23.65 million equivalent to Rs.4,220.98 million was agreed to be financed by the European Union. The Project had commenced its activities on 30 June 2019 and scheduled to be completed by 30 December 2022.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2021, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for Opinion

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

1.5 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

1.6 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Comments on Financial Statements

2.1 Unreconciled Balances

Ledger Account	Value as per Financial Statements Rs. Million	Value as per corresponding records Rs. Million	Description of the corresponding record	Response of the Management	Auditor's Recommendation
Cash at Bank (No.134 of Local Authority)	1,077.35	355.47	Bank Confirmation	The action has been taken to open separate bank account for the Local Authorities and submit balance confirmation in future.	Balance confirmation letters should be submitted to the audit to confirm cash balance.

2.2 Non -Compliance with Laws, Rules and Regulations

No	Reference to the Law, Rules and Regulations	Non-Compliances	Responses of the Management	Auditor's Recommendations
(a)	F.R. 626 of Financial Regulations of the Government of Democratic Socialist Republic of Sri Lanka	Books and records on the double entry basis had not been done in accordance with the Financial Regulations	Instructions have been given to maintain proper books & records on the double entry basis.	Need to comply with the requirement stipulated in Financial Regulations.
(b)	Paragraph 8.10 of Project Operation Manual	According to project Operations Manual Instruction, a separate Local bank account would be maintained to manage project funds at all selected Local Authorities. However, separate Local bank accounts had not been maintained in the selected Local Authorities of Eastern Province and Northern Province.	Instructions have been given to open separate bank accounts for PIU-NP, PIU-EP and transfer the balance amount to new open account.	As per the project Operations Manual Instructions, separate Local bank accounts should be maintained in all selected Local Authorities.
(c)	Para 2.3.3 (C) of Management Service Circular No. 01/2019 of 05 March 2019	An officer confirmed in the Public Service while serving in his/her substantive post may be released to service in a project on acting basis. However, contrary to provision in Circulars, Commissioners of Local	The Project Director has been instructed to find whether the Chief Secretary's had acted contrary to provisions in	Action should be taken in accordance with the Circular

	Government in the North Central and Uva Province had been appointed as Deputy Directors and paid sum of Rs.963,000 as salaries.	Management Circular No. 01/2019	
(d)	Para 9.3of the Management Service Circular No 1/2019 of 05 March 2019	The Meeting of the Project Steering Committees required to be held once in 02 months. However, evidence to confirm whether NSC meetings were held or not had not been submitted to the audit.	No comments have been given The meetings of the Project Steering Committees required to be held regularly.
(e)	Department of Management Audit Circular No 01/2019 of 12 January 2019	The Meeting of the Audit and Management Committees required to be held four meetings in the year. However, only two meetings had been held during the year under review.	No comments have been given The meetings of the Audit and Management Committees required to be held regularly.

3. Physical Performance

3.1 Uncompleted Consultancy Work

Audit Issue

Four consultants were appointed for Completing works on Capacity building, Monitoring and evaluation, Economic Infrastructure Development in Northern and Eastern provinces and Economic Infrastructure Development in Uva and North Central provinces on or before 10 January 2020 and the part payment of Rs.3.69 million had been made during the year under review. However, any benefit had not been derived from the above mentioned consultancy work which had not been completed in due period.

Response of the Management

Uncompleted work had been used.

Auditor's Recommendation

Action should be taken to regularized the matter.

3.2 Management Inefficiencies

Audit Issue

Response of the Management

Auditor's Recommendation

Part payment of Rs. 6.47 million had been made to four individual consultants on Procurement cum Technical, Public Finance Management, and Facilitator for Local Authority Participatory Development Plan and Environmental & Social Safeguard who were appointed to complete project preparatory work before commencing project activities. However, above expenditure had been treated as a fruitless expenditure, due to non-completion of above mentioned consultancy work in due period. Despite that a Procurement decision had been taken on 23 February 2022 to pay balance payment without completing the assignment.

No comments have been given

Action should be taken to regularized the matter.

3.3 System and Controls

No

Audit Issues

Responses of the Management

Auditor's Recommendations

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| (a) | As per the Article (c) of Schedule 02 of Loan Agreement, action had not been taken to sign the agreements with 04 Provincial Councils. | After discussion with External Resources Department Agreement will be signed with Provincial Councils. | Action should be taken to sign the agreements. |
| (b) | Evidence had not been submitted to the audit to confirm whether the annual budget & work plan for year 2021 had been obtained approval from Steering Committee as per Article E of Schedule 02 of Loan Agreement, | Work plan and budget had been submitted to steering committee. | Action should be taken to prepare & get approval for Budget and Action Plan from the Steering Committee. |
| (c) | The expenditure of Rs.1.7 million incurred prior to the commencement of the project had been accounted under the project expenditure. | No comments have been given | Necessary action should be taken to confirm these expenses are related to the project. |