Local Government Enhancement Sector Project (Pura Neguma) - For the period of 01 January to 31 March 2024

The audit of financial statements of the Local Government Enhancement Sector Project (Pura Neguma) for the period of 01 January to 31 March 2024 was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Article 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 (ADB). My comments and observations which I consider should be reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement the Ministry of Public Administration, Provincial Councils and Local Government is the Executing Agency and Provincial Councils of 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.

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 Rs7,670 million was agreed to be financed by Asian Development Bank. 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 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 January 2024.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 March 2024, statement of expenditure and its cash flows for the period 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 section of 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. Physical Performance

2.1 Observations made on site visits

2.1.1 Multipurpose Buildings

	Audit Issue	Management Response	Auditor's Recommendation
(a)	**Haldummulla -** By constructing this building with an expenditure of Rs.12.46 million, it had been planned to provide services to 200 mothers and 150 children per year through the child and maternity clinics and to 1,200 people through the Ayurvedic clinic and the annual return expected therefrom was Rs.710,000. However, the child and maternity clinics had not been held as expected**.**	The multipurpose building of this council is not utilized for the said activities and, the said building is used as an auditorium for different functions and this council generates income from those activities.	Action should be taken to utilize the assets effectively for project objectives.
(b)	**Imbulpe -** Even though this multipurpose building which was constructed by spending a sum of Rs.42.0 million intending to maintain a library, pre-school, health centre, Ayurvedic center and holding child and maternity clinics, had been taken over by the Sabha in year 2016, it had not been utilized for the intended purpose. Subsequently, the said building had been rented out in 2022 without valuing the building and calling tenders and a proper lease agreement and, the Sabha had not taken action to recover the sum of Rs.1.1 million payable up to June 2023 by the lessee	Even though this building has not been utilized for activities mentioned in the original plan of the building, it has been utilized for other purposes.	Action should be taken to utilize the assets effectively for project objectives.
(c)	**Ayagama -** Five stalls in the upper floor and the public toilet system of the bus stand constructed in the Ayagama city by incurring an expenditure of Rs.30.58 million could not be utilized for intended purposes due to being used by the Ayagama Police from May 2017 up	Even though this multipurpose building has not been utilized for activities mentioned in the original plan, it has been utilized for other purposes.	Action should be taken to utilize the assets effectively for project objectives.

	to date. The rental of Rs.5.42 million recoverable from the Ayagama Police Station relating to the year under review had not been recovered even by July 2025.		
(d)	**Ipalogama -** It had been planned to hold a daycare centre, pre-school and a medical clinic in the lower floor and an auditorium in the upper floor of the building constructed with an expenditure of Rs.40.79 million. The section allocated for the daycare centre and one of the 05 rooms allocated for the medical clinic had been provided for private use without charging any fee. The other rooms had remained idle. Only an income of Rs.603,050 had been earned from the auditorium in the upper floor during the period from year 2017 up to 31 July 2025. Accordingly, the Pradeshiya Sabha had failed to achieve the expected income targets from the upper and lower floors.	All the activities have been successfully carried out during the period from year 2017 up to 31.08.2025 Moreover, this building was not constructed with the sole objective of earning money and was constructed for the welfare of the community as well.	Action should be taken to utilize the assets effectively for project objectives.
(e)	**Galenbindunuwewa -** Only an income of Rs.405,750 had been earned during the period from year 2021 up to July 2025 by renting out the auditorium of the multipurpose building which was constructed by spending a sum of Rs.34.8 million, Even though annual income of Rs.54,000 and Rs.240,000 were expected from maintaining a pre-school and a daycare centre respectively, benefits and income expected from the project could not be reaped by the people of the area as the intended purposes were not achieved. Constructions of the upper floor had not been completed.	The auditorium and library are being used at present. No other programmes are conducted in this auditorium for income generation and it is only provided for various institutions for holding meetings and programmes.	Action should be taken to utilize the assets effectively for project objectives.

(f)	**Ambanganga Korale -** This building had been constructed by spending a sum of Rs.44.99 million could not be made use of as it was constructed in a remote village outside the city and had failed to achieve expected results as well. E Nana Piyasa had been established in the upper floor and it had been closed since 06 months. The assembly hall established in the upper floor had remained under-utilized. Children's equipment and accessories worth Rs.652,000 installed in the children's park had remained neglected and under-utilized without being made use of.	This multipurpose building is utilized for the services of the public and it does not remain as an underutilized building.	Action should be taken to utilize the assets effectively for project objectives.
(g)	**Minipe -** Even though it had been planned to construct the library and conference room in the second floor of this multipurpose building which was constructed by spending a sum of Rs.71 million, action had not been taken to complete the works of the said floor and utilize the premises for the intended purpose despite an elapse of 10 years	Even though discussions have been held thereon with Government institutions this floor could not be made use of for an income generating purpose so far.	Action should be taken to utilize the assets effectively for project objectives.
(h)	**Thirappane -** A public library which constructions were completed on 06 June 2016 with an expenditure of Rs.42.51 million, the active number of members of the library had been limited to 60. Even though the rest of the lower floor had been allocated to hold the health clinic, it had remained idle. The auditorium is provided free of charge for children's affairs, religious and public purposes and in providing on rental basis, there was much less demand. As such, the total income received by the	The Sabha has indicated that this building is an essential building utilized for purposes of supplying services which goes beyond sources of income generation.	Action should be taken to utilize the assets effectively for project objectives.

Pradeshiya Sabha for the period from year 2019 up to year 2025 was only Rs.44,800.

2.1.2 Bus Stands

	Audit Issue	Management Response	Auditor's Recommendations
(a)	**Meegahakiwula -** The economic and social feasibility study reports which should be prepared before constructing this bus stand, which was constructed at an expenditure of Rs. 33.51 million were not made available to audit. The bus stand which had been constructed without vesting of lands for the access road had not been made use of for a period of 08 years. Moreover, it was observed that making use of the bus stand remains uncertain due to the unavailability of provision with the Sabha for constructing the access road and the failure in obtaining provision from external parties as well.	The Secretary to the Ministry of Public Administration, Provincial Councils and Local Government has been informed in writing through the Uva Provincial Commissioner of Local Government on 18.09.2025 for allocation of financial provision for the acquisition process. As such, action has been already taken to operate rural road buses from the city until the said development activities are completed.	Action should be taken to utilize the assets effectively for project objectives.
(b)	**Mawathagama -** It was observed that only a sum of Rs.1.28 million of the annual income of Rs.5.70 million expected from the land of the bus stand could be earned presently, except for the stall rentals of this bus stand which had been constructed with the service facility building and public toilet system on an expenditure of Rs.43.79 million**.**	Only the constructions of the ground floor of this bus stand constructed by the Puraneguma Project belonging to the Mawathagama Pradeshiya Sabha have been carried out and, up to now, the income generated from the bus halt.	Action should be taken to utilize the assets effectively for project objectives.

2.1.3 Drinking Water Projects

	Audit Issue	Management Response	Auditor's Recommendations
(a)	**Wilgamuwa Water Scheme** A sum of Rs.57.19 million had been spent for constructing the Hettipola Water Scheme in the Wilgamuwa Pradeshiya Sabha area in year 2015 and a number of 350,400 water connections had been planned to be supplied by this project. However, only 165 water connections could be supplied. As the capacity of water was not available even by May 2025 in the constructed well, action had been taken to pump water from a nearby private well and distribute as a remedy therefor. Despite having constructed a water storage tank in year 2015, a ferrocement water storage tank of 30,000 litres in capacity had been constructed in Amuneyaya area in year 2023 as well. Due to inadequacy of the water source to fill this water storage tank and the expenditure incurred for the storage tank had become uneconomic. Water has been supplied to the consumer without chlorinating and as such, action has not been taken to supply clean water.	Water is obtained for this project from an agro-well and the said water is purified through water filters and released to the water storage tank. Subsequently, the water is pumped to two water tanks and water is supplied to 167 consumers through this project. The catchments of both Eluwana kanda and wilgamuwa projects are dried up during periods of high temperature, the consumers have to be supplied with water directly through water pumps without storing water. However, as a solution to the water problem, a water scheme is being implemented by the National Water Supply and Drainage Board covering the Wilgamuwa authority area.	Immediate actions should be taken to provide planned water connections.
(b)	**Laggala Pallegama Water Project** Even though it had been planned to supply water to 328 families under the Puwakpitiya Water Scheme constructed by spending a sum of Rs. 58.57 million in the Laggala Pallegama Sabha area, action had been taken to supply	The Project supplies water to 142 consumers. Even though an arrangement has been made by the Pradeshiya Sabha to chlorinate the water of this scheme, chlorinating has been temporarily discontinued. Furthermore,	Immediate action should be taken to provide planned water connections.

water to 103 families. It was observed this project had not been selected by carrying out a proper feasibility study.

The room constructed for chlorination of water in this project had not been made use of from that day itself and action had been taken to supply water to the consumer without chlorinating and water samples had not been tested as well.

the Local Government Engineer has already been informed to make recommendations of an Engineer with structural knowledge to take further steps on the sinking of a certain section of this project.