

Rural Infrastructure Development Project in Emerging Regions - 2019

The audit of financial statements of the Rural Infrastructure Development Project in Emerging Regions for the year ended 31 December 2019 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. SL-P116 SRI (SF) dated 07 July 2017 entered into between the Democratic Socialist Republic of Sri Lanka and the Japan International Cooperation Agency.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, the Ministry of Provincial Councils and Local Government presently Ministry of Internal and Home Affairs and Provincial Councils and Local Government is the Executing Agency and Provincial Councils of 04 Provinces are the Implementing Agencies of the Project. The objectives of the Project is to raise living standards and to develop livelihoods of people through improvement of basic infrastructure. As per the Loan Agreement, the estimated total cost of the Project was Japan Yen 15,410 million equivalent to Rs.20,622 million and out of that Japan Yen 12,957 million equivalent to Rs.17,185 million was agreed to be financed by Japan International Cooperation Agency. The Project had commenced its activities on 07 July 2017 and scheduled to be completed by 30 September 2021.

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 2019, financial performance 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 section of Auditor's Responsibilities for the Audit of the Financial Statements appeared in 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 skepticism throughout the audit. I also:

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

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

2. Comments on Financial Statements

2.1 Non-Compliance with Laws, Rules and Regulations

| No | Reference to the Laws, Rules and Regulations | Non-Compliances/Audit Issues | Impacts | Responses of the Management | Auditor's Recommendations |
|------|--|---|---|---|---|
| (a). | Para 9.3 of the Management Service Circular No 1/2019 of 05 March 2019 | The Meeting of the Project Steering Committee is required to be held once in 02 months. However, only 02 meetings had been held during the year under review. | The mechanism on monitoring of the activities of the Project had not been implemented properly. | No Comments. | The meetings of the Project Steering Committee are required to be held regularly. |
| (b). | Financial Regulations 756 and 757 of Democratic Socialist Republic of Sri Lanka. | An Annual Board of Survey had not been carried out for the year under review. | The Fixed Assets shown in the Financial statements had not been verified. | Physical Verification will be complete as soon as possible. | Annual Board of Survey required to be done at end of the year. |

3 Physical Performance

3.1 Physical progress of the activities of the Project

| Audit Issue ----- | Impact ----- | Response of the Management ----- | Auditor's Recommendations ----- |
|--|---|--|---|
| <p>As per attachment 16 of the Project Memorandum, the works under 224 sub projects for construction and rehabilitation of rural roads, 121 sub projects for construction and rehabilitation of irrigation systems and 67 sub projects for improvement of water supply schemes in Northern, North Central, Eastern and Uva Provinces were scheduled to be completed during the period of the Project. However, the respective works had not been commenced even as at 31 December 2019, due to delays in appointment of the Consultants.</p> | <p>(a) Delays in completion (b) Over running of cost estimates (c) Expected benefits not received by the intended parties</p> | <p>Activities of the project had been planned to complete before 30 September 2023 under three stages.</p> | <p>Work plan should be recognized to expedite the work.</p> |

3.2 Contract Administration

| Audit Issue | Impact | Response of the Management | Auditor's Recommendations |
|---|---|--|--|
| ----- | ----- | ----- | ----- |
| <p>(a) Two Consultants had been appointed with delays on 27 March 2019 and 15 July 2019. However, the report on detailed design on 412 sub projects had not been submitted even as at 30 June 2020, eventhough it is required to be submitted within 34 weeks as per the consultancy service agreements. Further, agreed team of staff for the consultancy works had not been assigned up to 30 June 2020. In addition, according to Japan International Cooperation Agency procurement Guidelines for consultant, after paying the mobilization advance, works required to be commenced within 14 days. However, consultancy works for 85 rural roads and 50 irrigation sub projects in Northern Province had not been commenced as at 31 December 2019.</p> | <p>(a) Delays in completion</p> <p>(b) Over running of cost estimates</p> <p>(c) Expected benefits not received by the intended parties</p> | <p>Design work of portable water in Eastern Province was delayed due to approval of Water Board not obtained in time. Design work of Road and Irrigation stage I was completed on 02 March 2020.</p> | <p>The reports need to be submitted on due time to accomplished the work on time and the project is required to make influence to the consultant to expedite consultancy work.</p> |

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| <p>(b) Mobilization advances of Rs. 110.16 million had been determined by including provisional sums and contingencies on the 02 consultancy contracts, contrary to the guidelines stipulated in the paragraph No. 5.4.4 (I) of Procurement Guidelines. As a result, an amount of Rs.11.56 million had been paid additionally to the consultancy firms.</p> | <p>Additional burden to the government.</p> | <p>Mobilization advance has been paid on 6.5 a Special Condition of contractor of guidelines for procurement under Japanese ODA loan the employment of consultant and procurement of goods and services.</p> | <p>Mobilization Advance shall be paid maximum of twenty percent of the contract value excluding any provisional sums and contingencies.</p> |
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3.3 Matters in Contentious Nature

| Audit Issue ----- | Impact ----- | Response of the Management ----- | Auditor's Recommendations ----- |
|--|---|---|---|
| <p>Even though Provision for payment of administration overhead cost is not included in the contract of Consultancy Service Agreement, an amount of Rs.1.09 Million had been paid to a Consultancy Firm as Administration Overhead Cost.</p> | <p>Consultancy expenditure will increase.</p> | <p>Payment should be made in accordance with agreement.</p> | <p>Payment should be made in accordance with the guidelines for procurement under ODA loan.</p> |

3.4 Issues Related to Human Resources Management

| Audit Issue ----- | Impact ----- | Response of the Management ----- | Auditor's Recommendations ----- |
|---|---|--|--|
| Senior Engineer cum Procurement Specialist had not been appointed as per the letter no DMS/D/7777/RIDEP dated 08 September 2017 of the Department of Management Services. | Delays in implementing of the project activities. | The officers selected for this position had not been reported. Therefore, the function of this vacant post is carried out by the Project Director and Deputy Project Director without delay. | There should be an officer responsible for procurement management in Project Management Unit and Project Implementation Units. |

3.5 Systems and Controls

| Audit Issue ----- | Impact ----- | Response of the Management ----- | Auditor's Recommendations ----- |
|---|---|--|--|
| As per the Project Memorandum, Internal Auditor was responsible for procurement audit of Project Management Unit and Project Implementation Units. However Internal Auditor had not been done procurement Auditing during preceding year. | Weakness of the Internal Control Systems will not be disclosed. | Internal Auditor had been informed at the annual performance evaluation. | Internal Auditor should be done procurement audit as per Project Memorandum. |