

## **Rural Infrastructure Development Project in Emerging Regions - 2021**

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The audit of financial statements of the Rural Infrastructure Development Project in Emerging Regions 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 Para 6(b) of Section 4 in Article III 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. My comments and observations which I consider should be reported to Parliament appear in this report.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

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According to the Loan Agreement of the Project, then Ministry of Provincial Councils and Local Government, presently the Ministry of Public Administration, Home affairs, Provincial Councils & 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 raise living standards and to develop livelihood of people through improvement of basic infrastructure. As per the Loan Agreement, the estimated total cost of the Project was Japan Yen 15,409 million equivalent to Rs.20,622 million and out of the estimated total cost Japan Yen 12,957 million equivalent to Rs.17,185 million was agreed to be financed by Japan International Cooperation Agency. The balance amount of Japan Yen 2,452 million equivalent to Rs.3,437 million financed by Government of Sri Lanka. The Project had commenced its activities on 07 July 2017 and scheduled to be completed by 07 July 2024.

### **1.3 Opinion**

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In my opinion, the accompanying financial statements give a true and fair view of the financial position of the project as at 31 December 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**

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

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

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

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

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

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

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

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

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

## 2. Comments on Financial Statements

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### 2.1 Non- Compliance with Laws, Rules and Regulations

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<b>Reference to the Laws, Rule and Regulation</b>	<b>Non-Compliance</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
Section 3.1 of Public Administration Circular No. 30/2016 of 29 December 2016.	Fuel consumption of 10 vehicles had not been tested up to 31 December 2021 after tested in October 2019.	No comments.	Action should be taken to follow proper control for fuel consumption.

### 3. Physical Performance

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

##### 3.1.1 Performance of Designing and Supervision Consultants

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
(a) As per the agreement signed with Consultancy Firm for portable water, 25 sub projects under Batch- 01 and 14 sub projects under Batch- 02 should have been completed procurement at the end of the October 2020 and April 2021 respectively. However, procurement of 06 sub projects in Batch - 01 and 11 sub projects in Batch -02 had not been completed until 31 December 2021.	The work plan included in the agreement was prepared by the consultant company based only on the basic study. However, based on practical situations initial work plan had been changed. Hence, no delay is reported.	Approved work plan should be submitted to the audit. Action should be taken to expedite consultancy work. System should be adapted to access monthly work done before making payments.
(b) As per the agreement signed with Consultancy Firm for rural roads and irrigation, procurement of all sub projects under Phase- 01 should have been completed before end of July 2020. However, 08 sub projects under Phase - 01 had not been procured until 31December 2022. Hence, it had not been achieved the target.	-Do-	-Do-
(c) Eventhough the procurement of 105 sub projects under Phase 02 - rural roads and irrigation should have been completed at the end of the month of April 2021, only 53 sub projects had been procured as at 31 December 2021. Hence, the progress in Phase 02 was only 50 per cent.	-Do-	-Do-
(d) Eventhough the bid documents of 96 sub projects under Phase 03 - rural roads and irrigation should have been submitted at the end of the August 2021, only 02 sub projects had been submitted as at 31 December 2021. Hence the progress in Phase- 03 was only 2 per cent.	-Do-	-Do-

- (e) Although the progress of both consultant companies were poor, rural road and irrigation consultant company had been paid Rs.754.8 million. Further, Portable water consultant company had been paid Rs.368.8 million or 60 percent of the total project cost, evnethough 46.6 percent of portable water sub projects had cancelled. According to the amended work plan expected physical progress was 50% and the actual progress was 40% as at 31st December 2021. Payment had been done according to the work performed. -Do-

### 3.1.2 Performance of Sub Projects

#### Audit Issue

#### Response of the Management

#### Auditor's Recommendation

As per the Implementation Schedule attached to the Project Memorandum, construction works of 418 sub projects had to be completed under this project. However, 34 construction works for portable water supply projects, 21 rural road sub projects and 14 irrigation water supply projects (total 79) had been dropped as at 31 December 2021, due to many reasons. According to the initial work plan, construction of 109 sub projects in Phase 01 of Rural road and irrigation should have been completed before end of November 2021. However, only 21 sub projects had been completed at the end of December 2021.

Work plan had been changed, due to Covid 19 pandemic situation and other unavoidable circumstance.

Action should be taken to expedite project works.

### 3.2 Matters in Contentious Nature

#### Audit Issue

#### Response of the Management

#### Auditor's Recommendation

- (a) Vacant Key Experts and non-key expert positions designated for both consultant companies of this project had not been filled immediately and it had been taken 34 days to 32 months to fill some vacant positions.

The key specialists attached to the consulting firm have resigned from time to time and even if the replacements are recruited in accordance with the prescribed procedures, it can take 30 to 60 days. With the support of the head office, a system is currently being implemented to maintain the activities without any change in quality.

Necessary measures should be taken to fill the vacant positions as prescribed in the agreement.

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| (b) | The salary adjustments had been incorrectly done and due to the payment of salary increase to all specialists on completion of 09 months of service, an additional payment of Rs. 3.8 million had been made to the consultant company up to September 2021 without considering the condition of 6.2(C) of the agreement entered with the Rural Roads and Irrigation consultant.   | A committee has been appointed to further investigation.   | Overpaid amount should be recovered.  |
| (c) | The consultant shall develop detail design based on site survey including measurement, designing, estimation of quantity and cost, and implementation schedule. However, for 37 contract packages amounting to Rs. 31.4 million had been agreed to pay for setting out, Cross section survey and Drawings and a sum of Rs.19.6 million had been paid to the contractors for the said work as at 31 December 2021. Accordingly, payments were made to two parties for providing the same services. | Consultant had not included the cost of any investigation for the road designs in their financial proposal as such investigation and data collection was proposed to be included in the civil works contract | The agreed work should be done by the consultant and the contractor should not be paid for it |
| (d) | An over payment of Rs. 9.48 million had been made to contractors on insurance expenditure as lump sum expenditure.  | When submission of bids provision insurance was considered a lump sum.   | Action should be taken to recover over payment.   |

### 3.3 Issues Related to Human Resources Management

**Audit Issue**

**Response of the Management**

**Auditor's Recommendation**

An officer appointed as a Management Assistant to project had been attached as a Personal Assistant since date of appointment in 2017 to Additional Secretary (Project) of Ministry. A sum of Rs.1.5 million paid to above mentioned Management Assistant by Project Management Unit.

An officer servicing to ministry with experience with JICA projects had been attached to project behalf of Management Assistant.

Project should take action to terminate the appointment.