

## **Rural Infrastructure Development Project in Emerging Regions - 2023**

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The audit of financial statements of the Rural Infrastructure Development Project in Emerging Regions for the year ended 31 December 2023 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**

According to the Loan Agreement, the Ministry of Public Administration, Provincial Councils & Local Government is the Executing Agency and Provincial Councils of 04 Provinces are the Implementing 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. However, the date of the completion of the activities of the project had been extended up to 22 August, 2028.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the section 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the project as at 31 December 2023, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.4 Basis for Qualified 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 Statement**

### **2.1 Accounting Deficiencies**

<b>Accounting Deficiencies/Non-compliances</b>	<b>Amount Rs</b>	<b>Management Responses</b>	<b>Auditor's Recommendations</b>
Even though the JICA loan interest of Rs. 27,807,432 which had been shown under development expenditure in the statement of financial position as at 31 December 2022 had not been shown in the financial statement as at 31 December 2023. Due to that the assets in the financial statements had been understated by that amount.	27,807,432	By mistakenly interest component of the project of LKR 27,807,432 has not been presented in the year 2023 accounts.	Financial statements should be prepared correctly.

### 3. Financial and Physical Performance

#### 3.1 Financial Performance

Audit Issue	Management Response	Auditor's Recommendations
According to the Project Implementation Schedule attached to the Project Memorandum, total amount of Japan Yen million 12,957 equivalents Sri Lankan Rs.26,034.5 million had to spend for the project activities as at the end of the year under review. However, only Rs.4,709.57 million had been spent as at 31 December 2023. Cumulative Financial Progress of the project is 18.1 percent.	Action can be taken only once the fund suspension is released by JICA.	Action should be taken to expedite Project work and complete the project promptly within the period.

#### 3.2 Physical Performance of Sub Projects

Component	As at 31 December 2023		Delay/ Audit Issue (At the time of the suspension of JICA Funds (April 2022))	Response of the Management	Auditor's Recommendations
	Expected physical performance	Performance achieved			
(a) 9 Water supply sub projects	100	16 -58%	<ul style="list-style-type: none"> <li>• Low progress (delays up to 06 months to the date of completion)</li> <li>• Delays occurred due to the failure to complete the work as per the work plan and</li> </ul>	JICA fund suspension is still continuing. Physical programme remains unchanged.	Work should be completed as per the work plan

				JICA fund suspension was also impact on it.		
(b)	30 Rural road sub projects	100	01-71%	<ul style="list-style-type: none"> <li>• Low progress (delays up to 19 months to the date of completion)</li> <li>• Delays occurred due to the failure to complete the work as per the work plan and JICA fund suspension was also impact on it.</li> </ul>	JICA fund suspension is still continuing. Physical programme remains unchanged.	Work should be completed as per the work plan
(c)	12 Agricultural water sub projects	100	0-80%	<ul style="list-style-type: none"> <li>• Low progress (delays up to 09 months to the date of completion)</li> <li>• Delays occurred due to the failure to complete the work as per the work plan and JICA fund suspension was also impact on it.</li> </ul>	JICA fund suspension is still continuing. Physical programme remains unchanged.	Work should be completed as per the work plan