

Rural Infrastructure Development Project – 2022

The audit of financial statements of the Rural Infrastructure Development Project in Emerging Regions for the year ended 31 December 2022 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 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

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the project as at 31 December 2022, 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. Physical Performance

2.1 Physical progress of the activities of the Project

2.1.1 Performance of Designing and Supervision Consultants

Audit Issue	Response of the Management	Auditor's Recommendation
(a) JICA had stopped funding in April 2022 and by then consultancy report of 11 drinking water sub-projects and 77 out of 95 rural roads and irrigation projects had not been completed, therefore the consulting firm had not achieved the expected performance.	The documents related to all the sub-projects for drinking water projects had been given completely by the consultancy firm before 30.04.2021. The estimates for 51 out of the 80 sub-projects that should be given in the final phase of rural roads and irrigation sub-projects have already been given by 30.04.2022, and the estimates for remaining 27 sub-projects had been given by 22 September 2022. The creation of plans in AutoCAD was delayed due to power outage in the provincial offices.	Action should be taken to expedite consultancy work and project work.
(b) 39 of 73 sub-projects agreed by the consultant company for Potable water sub projects had been dropped. Accordingly, both the amount to be paid to the said company and the time provided to submit detailed project reports including, detail design, feasibility study and procurement documents should be reduced. However it was not confirmed to the audit that the consultant company had agreed to such a program to reduce cost and man months.	Even though the number of projects selected for drinking water projects is 34, the number of subscribers to be provided with drinking water connections is 120846 according to the original project plan. That number has decreased to 89204 subscribers. It is a decrease of 26.18% from the original plan. There were several rounds of negotiations from January 2022 in order to deploy the staff according to a new plan for that reduced amount of work, and finally both parties agreed to implement the agreed plan from 01 March 2022. The working days of the staff have been reduced with effect from 15 August 2022 taking into account the situation caused by the temporary suspension of financial assistance by JICA.	The amount payable to the consultancy firm should be decreased in proportion to the number of abandoned sub-projects.

- (c) Due to the temporary suspension of JICA funds among 62 subcontracts that failed to achieve the expected physical progress by December 31, 2022, the progress of 24 subcontracts was between 1 per cent-68 per cent due to slow construction, and the progress of 38 subcontracts was between 0 per cent-95 per cent.
- JICA has temporarily suspended funds/ Construction continue in Slow Progress
- It should have been completed as per the work plan

2.2 Matters in Contentious Nature

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	According to the Appendix A which describes the scope of work included in the agreement signed between the secretary and Rural road & irrigation consultant, it was mentioned in activity 3 "Based on PPS reviewed by Task 1.2 and employer's requirements, 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 Rs.31.4 million had been agreed to pay for setting out, Cross section survey and Drawings and as at 31 st December 2021, Rs.19.6 million had been paid to the contractors for the said work. 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 and correct reply should be provided to the audit.
(b)	Contracts had been awarded in May 2022 for 04 rural road project packages even after learning in April 2022 that JICA had stopped giving loans. An amount of Rs.37 million had been paid as Placement Advance for 03 newly Rural Roads and Irrigation Contract Packages newly offered, While it was possible to pay for the civil works in progress and give priority to complete the work in a situation where funding had been stopped.	No placement advance had been paid for these contract packages and only letters of acceptance had been sent.	Action should be taken to make payments and complete the ongoing civil works and correct reply should be provided to the audit.

2.3 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 action should be taken to terminate her appointment.

2.4 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendation
A detailed action plan had not been prepared to include the expected financial and physical targets for the sub-projects mentioned in Annex 16 of the Project Memorandum of the Rural Infrastructure Development Project in the Emerging Zones.	Submitted a copy of the relevant page in the action plan of the ministry.	A detailed action plan should be prepared by the Project, including the expected financial and physical targets for the sub projects as mentioned in the Annex 16 of the project memorandum.