

## **Rural Infrastructure Development Project in Emerging Regions - 2024**

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The audit of financial statements of the Rural Infrastructure Development Project in Emerging Regions for the year ended 31 December 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 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 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 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.3,474 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, expect for the effects of the matters described in the paragraph 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 2024, 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**

My opinion is qualified based on the matters described in the paragraph 2.1 of this report.

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 qualified 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 Accounting Deficiencies**

<b>Audit Issue</b>	<b>Amount Rs.</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
As per the paragraph 39(a) of Sri Lanka Accounting Standard 21, parity adjustment amounting to Rs. 178,086,652 relating to the foreign loan of the project had not been accounted in the financial statements as at 31 December 2024.	178,086,652	The Project's financial statements have been prepared in line with Treasury instructions.	Sri Lanka Accounting Standard should be Followed.

**3. Financial & Physical performance**  
**3.1 Financial Performance**

<b>Audit Issue</b>	<b>Management Response</b>	<b>Auditor's Recommendations</b>
<p>(a) <b>Utilization of Foreign Funds</b>            According to the project implementation schedule, total amount of Japan Yen million 12,957 equivalents Sri Lankan Rs. 17,185 million had to spend for the project activities as at the end of the project period of 30<sup>th</sup> April 2024. However only Rs.5,746 million had been spent as at 31 December 2024. Cumulative financial progress of foreign funds as at 31 December 2024 was 33 percent.</p>	<p>According to the project implementation schedule, the total amount of Japan Yen 12,957 million, equivalent to Sri Lankan Rupees 17,148 million was scheduled to be spent on project activities by the end of the project period.</p>	<p>Action should be taken to achieve targets according to the project revised work plan.</p>
<p>(b) <b>Utilization of GOSL Funds</b>            According to the project implementation schedule total amount of Sri Lankan Rs. 3,474 million had to spend for the project activities as at the end of the project period of 30<sup>th</sup> April 2024. However Rs. 1,311 million had been spent as at 31 December 2024. Cumulative financial progress of</p>	<p>The delay in project progress is due to the factors of the COVID-19, Economic crises, Loan suspensions and staff reductions have led to low utilization of GoSL funds.</p>	<p>Action should be taken to achieve targets according to the project revised work plan.</p>

GOSL funds as at 31 December 2024 was 38 percent.

### 3.2 Physical Performance

#### 3.2.1. Performance of Sub Projects

Audit Issue	Management Response	Auditor's Recommendations
(a) 16-58 percent progress has been achieved in 9 Water supply sub projects as at 31 December 2024.	JICA has released its fund suspension and the project in working on resumption of partially completed sub-projects. All sub projects will be completed as per revised work plan.	Work should be completed as per the revised work plan
(b) 01-71 percent progress has been achieved in 30 Rural road sub projects as at 31 December 2024.		
(c) 0-80 percent progress has been achieved in 12 Agricultural water sub projects as at 31 December 2024.		

#### 3.2.2 Constructions which had not complete

Audit Issue	Management Response	Auditor's Recommendations
(a) As per BOQ - B(III) 3.6 cement concrete pavement of Karainagar south west road, (1.61 km ) had been concreted only 1041M length therefore purpose of this road had not been achieved. As per BOQ - B(III) 3.2 Sholder construction's concreted area of road had not been filled by gravel and that observed road may damaged in future. As per BOQ - B(III) 5 -Culvert and other structure, This culvert had not been constructed therefore rainwater is stagnated in that area and public face the trouble. As per BOQ - B(III) 5.5 - Hume	A total 03 Roads included in this package and contractually the contract is in suspension up to now. The process is ongoing to restart Project. But the contractor not willing to complete the balance work. Action to be taken as per the condition of contract. The notified shortfalls considered in revised work Plan.	Constructions should be completed to convenient to the beneficiaries.

pipe laying and guard stone fixing, 60 no of Protective stones are not engraved and it lead to accident

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| (b) | The constructions of Supplying and Laying of UPVC D1 pipes, fitting and specials for Rural water supply systems had been completed and handed over to the National Water Supply and Drainage Board on 26.01.2023. Even though the objective of this project was supplying water connections to 800 houses, only 207 houses in the villages of Thalikulam, and Sohalapululiyankulam had been provided. | This Project had been completed and handed over to National water supply Drainage Board. Additional requirements will be considered based on fund availability of the project. | Construction should be Completed as planned. |
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### 3.2.3 Observations made on site visits

	Audit Issue	Management Response	Auditor's Recommendations
(a)	Provision of Rs. 117,002,435 had been allocated for the development of the Welhinna-Kirigalpotta Road even though a length of 4.3Km of the road had been developed under this project, only a basic asphalt mixture has been applied by laying ABC of 1.7Km in length. The concrete stones thereof had come off and created pits and become dilapidated in an unusable condition. Moreover, from the beginning of the road up to the point of 2.6Km, an area of 184.8m <sup>2</sup> (46.2x4) had not been developed.	The lapses identify by the Audit will be rectified when the resumption of the project.	Action should be taken to complete the construction as planned
(b)	The relevant project awarded to a contractor on 03 August 2020 at a value of Rs. 130,023,190 for develop the Ampara 5 <sup>th</sup> post	Work has been completed and handover to the employer. In the scope of this contract, bridge construction is not	Action should be taken to complete the construction.

Paskiwula Oya Road in the included  
Monaragala District. However a  
bridge had not been constructed  
across the Paskiwula Oya. As a  
result the people as well as  
vehicles had faced problems  
when their travelling.