Inclusive Connectivity and Development Project - 2024

The audit of financial statements of the Inclusive Connectivity and Development Project 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 Section 55 of the Project Appraisal Document dated 08 September 2021, entered into between the Democratic Socialist Republic of Sri Lanka and the International Bank for Reconstruction and Development. 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 Agreements, then Ministry of Highways, presently the Ministry of Transport, Highways, Ports and Civil Aviation is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to provide safe, efficient and climate resilient connectivity and strengthen agricultural supply chains to empower Project communities in selected Districts of Sri Lanka. As per the Loan Agreements, the estimated total cost of the Project was to US$ 500 million equivalent to Rs. 101,499.6 million was agreed to be financed by International Bank for Reconstruction and Development. As per the Restructuring Paper No: RES51645 dated 19 April 2023, the loan amount reduced to US$ 175 million equivalent Rs. 54,000 million due to reallocation US$ 325 million for the Contingent Emergency Response Component (CERC). The amount of US$ 0.97 million equivalent to Rs.300 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 03 November 2021 and scheduled to be completed by 31 October 2026.

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 2024 and its cash flows for the year then ended in accordance with Sri Lanka Public Sector 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 the 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 Public Sector 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 the Project's internal control.

- 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

	Accounting Deficiencies	Amount Rs. (million)	Response of the Management	Auditor's Recommendation
(a)	The cost of the completed road length of 268.15 km relating to 12 packages in 05 Districts as at 31 December 2024 was Rs. 10,378.63 million. However, it had not capitalized by the project. As a result, the working progress as at 31 December 2024 had been overstated by the similar amount.	10,378.63	Actions will be taken to capitalize the completed road packages once the SAC payments are completed.	Criteria for capitalization of completed road and proper handing over procedure should be introduced by Chief Accounting Officer.
(b)	As per Sri Lanka Public Sector Accounting Standards-4, the interest charges amounting to US $ 43.20 million equivalents to Rs. 13,783.26 million paid by ERD on foreign loan had not been accounted in the financial statements as at 31 December 2024. As a result, the foreign loan balance and working progress had been understated by similar amount.	13,783.26	Interest charges associated with the loan has not been incurred as a component of the loan agreement, and this may be incurred by Treasury.	Relevant details should be obtained from Treasury and Interest charges should be accounted as per SLPSA No 4.

(c)	As per Sri Lanka Public Sector Accounting Standards-4, the accumulated commitment charges of US $ 1.53 million equivalent to Rs. 498.25 million had not been accounted in the financial statements as at 31 December 2024. As a result, the loan balance and the working progress had been understated by similar amount.	498.25	Commitment charges associated with the loan has not been incurred as a component of the loan agreement and this may be incurred by the Treasury.	Relevant details should be obtained from Treasury and Commitment charges should be accounted as per SLPSA No 4.
(d)	Although the accumulated interest and commitment charges as at 31 December 2024 were Rs. 13,783.26 million and Rs. 498.25 million respectively. However, it had been stated as Rs. 5,990.75 million and Rs. 503.01 million in notes to the financial statements. Hence, the differences between two balances were of Rs. 7,792.51 million and Rs. 4.76 million respectively.	Interest 13,783.26 Commitment charges 498.25	Treasury provided information on interest charges as at 31 December 2023 and commitment charges as at 31 December 2024. Therefore, we have disclosed interest charges only upto 31 December 2023.	Fair presentation should be required as per the SLPSAS No. 1.

2.2 Non-compliance with Laws, Rules and Regulations

	Reference to the Laws, Rules and Regulations	Non-compliances	Responses of the Management	Auditor's Recommendation
(a)	Paragraph 02(iv) of the Public	Arrival and departure times of all public servants in all public institutions should be	In two PIU offices, since there are two Management Assistants are employed in	Certification should be obtained before certifying OT and

	Administration Circular No 9/2009 dated 16 April 2009.	confirmed through the finger scanners. In addition to this, if the time of arrival and departure is used as a basis for payment of allowances made outside regular duty hours such as overtime and holiday pay etc., it should be used finger scanner. However, the overtime and holiday payments had been approved and certified without obtaining confirmations and as a result, a sum of Rs. 5.24 million had been paid as overtime and holiday payments to PIU staff during the year under review without confirming arrivals and departures through the finger scanner, contrary to the above circular.	addition to the field officers, procurement process already been started to install the finger scanner.	holiday payments. Further, Special attention should be paid and written instructions should be issued in the review carried out in accordance with the provisions of Section 38(1)(c) of National Audit Act No.19 of 2018.
(b)	Management Audit circular No DMA/01/2019 dated 12 January 2019	Internal Audit Review Committee should be established and at least 04 meetings should be conducted annually. However, any committee meeting had not been conducted from the inception of the Project.	Necessary actions will be taken to conduct the Audit Committee Meetings in future.	AMC should be conducted as per Circular instructions.

(c)	Section 38(1)(e) of the National Audit Act No.19 of 2018	Although the Chief Accounting Officer and Accounting Officer should ensure that all audit queries be answered within the specific time, it was observed that answers were provided with a delay ranging from 21 days to 34 days regarding two audit queries issued during the year under review.	PMU reply to all Audit quarries and they have been forwarded to audit. However, PMU was advised to reply for all quarries within the stipulated time.	Action should be taken to reply to the audit queries without delay as per Section 38(1)(e) of the National Audit Act.
(d)	Paragraph 9.3 of the Management Services Circular No. 01/2019.	Although the Steering Committee meetings of the Project should be conducted at least once in two months, it was observed that only 02 meetings had been conducted during the year under review.	Project Steering Committee (PSC) meeting is conducted considering the priority of matters and its exigencies. Basically, Project has been functioning smoothly in the year under review. However, there were two PSC meeting held in the fiscal year 2024.	Should comply with the Circular instructions.

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

The estimated length of rural roads to be rehabilitated under the project had been reduced from 3000 km to around 1000 km due to reallocation of funds, and US$ 325 million was allocated to CERC out of the total allocation of US$ $ 500 million. The following observations are made.

(a) Road rehabilitation Screening

Component	Activity	As at 31 December 2024		Delay/Audit Issue	Reasons for delays
		Expected physical performance Km	Performance achieved Km		
Enhancing Safe and Climate Resilient Transport Connectivity	Rehabilitation, improvement and maintenance of rural road	1000	819.30	Although the project had targeted around 1000 km of road rehabilitation during the entire project period, it was observed that the targeted length as at 31 December 2024 was only 819.30 km or 82 per cent. The road rehabilitation contracts also include 03 year performance base maintenance to ensure the preservation of road assets. It was observed that the project couldn't be able to include the balance road length in its target even after a lapse of 03 years out of the project period of 05 years.	Delay in screening of roads.

Response of the Management

As per the action plan preliminary screening of all 1000 km were completed as at 31 December 2024 and contracts awarded for 819.30 km. Contracts for balance length will be targeted to award within first and second quarter of year 2025.

Auditor's Recommendations	Project should prepare proper action plan and budget and responsibilities should be fixed accordingly. Instructions should be issued in the review carried out in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018.

(b) Road rehabilitation and contract awarding

(i) Road Length

Component	Activity	As at 31 December 2024		Delay/Audit Issue	Reasons for delays
		Expected physical performance	Performance achieved		
		Km	Km		
Enhancing Safe and Climate Resilient Transport Connectivity	Contract awarding of rehabilitation, improvement and maintenance of rural roads	819.3	458.43	It was observed that 56 per cent of road length had only been completed out of the targeted as at 31 December 2024. Furter, 210 km of road length had not been awarded even as at the end of the year under review. Therefore, the overall completion of the road rehabilitation works within the project period is problematic in the audit.	Delay in awarding the contracts and abnormal contract delays.

Response of the Management	Due to shortage of funds with fluctuations of Dollar rate, the roads in Baddulla District couldn't be considered for improvement.
Auditor's Recommendati	Project should prepare proper action plan and budget, and responsibilities should be fixed accordingly. Instructions

should be issued in the review carried out in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018.

(ii) Contract Packages

Component	Activity	As at 31 December 2024		Delay/Audit Issue	Reasons for delays
		Expected physical performance	Performance achieved		
		Contract Packages	Contract Packages		
Enhancing Safe and Climate Resilient Transport Connectivity	Contract awarding of rehabilitation, improvement and maintenance of rural roads	16	12	The Project had implemented 47 civil works contracts up to 31 December 2024 and out of it, 16 contracts planned to be completed as at 31 December 2024. Out of it, 12 contracts had been completed as at 31 December 2024 after the lapse of three years from the commencement of the Project. Out of those completed contracts, only 04 contracts had been completed within the original contract period and the remaining 08 contracts had been completed with the delay ranging from 57 days to 314 days from the original completion date. The effect of the increase in Project cost from incremental preliminary	Inefficiency of the contractors.

	costs due to delay in contracts couldn't be ruled out in the audit.

Response of the Management	Due to prevailed economic crisis, shortage of fuel and construction material, COVID pandemic and prevailed bad weather condition, contractors were unable to perform as per their program. However, after evaluating, EOT had been granted to contracts as per the conditions of contracts
Auditor's Recommendations	Project should prepare proper action plan and budget and responsibilities should be fixed accordingly. Instructions should be issued in the review carried out in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018.

(iii) Bridges

Component	Activity	As at 31 December 2024		Delay/Audit Issue	Reasons for delays
		Expected physical performance	Performance achieved		
		Bridges	Bridges		
Enhancing Safe and Climate Resilient Transport Connectivity	Contract awarding of rehabilitation, improvement and maintenance of rural roads	43	0	According to the Mid-Term Review of the donor on June 2024, it was decided to relocate the remaining US$ 7.5 million from the CERC savings to Component 1 for emergency repair of the weak bridges. Under the agreed actions with the donor, the PMU had submitted an Action Plan for completion of the weak	Delay in contract administration

		bridge consists of 43 bridges at an accumulated estimated cost of Rs.4,258 million to the donor. Any physical progress had not been revealed to the audit even after a lapse of 05 ½ months as at 31 December 2024 from the scheduled date.

Response of the Management Bridge identification, technical detail collection, preparation of designs and BOQ's, environmental & social screening report preparation are now in progress for all bridges. Further, the bids are invited for six bridges.

Auditor's Recommendations Project should prepare proper action plan and budget and responsibilities should be fixed accordingly. instructions should be issued in the review carried out in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018.

3.2 Contract Administration

	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Although the contractor should apply for EOT before the end of the original contract period or the early approved EOT date, it was observed that contractors in three contracts that continued during 2024 had requested for EOT with delays ranging from 57 days to 159 days.	The evaluation of these requests was conducted in three stages by the Engineer of the Contract, the Project Management Unit (PMU), and the Variation Review Committee. Each stage was allocated appropriate time for thorough assessment.	The Extension of Time should not be approved without obtaining proper documents to prove the reasons and additional costs should be avoided.

	Audit Issues	Responses of the Management	Auditor's Recommendations
(b)	Although the EOT should be approved before the lapse of the original contract period or the early approved EOT period, it was observed that the approval of the EOT was delayed, ranging from 25 days to 285 days, in 11 contracts that continued during the year under review.	Management Unit (PMU), and the Variation Review Committee. Each stage was allocated appropriate time for thorough assessment.	The Extension of Time should not be approved without obtaining proper documents to prove the reasons and additional costs should be avoided.

3.3 Delays in implementation of activities of the Project

	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	**Improving Institutional and Policy Framework of the Road Sector - (Sub-Component 1.2)** A sum of US$ 5 million had been allocated to the improving intuitional and policy framework of the road sector under Sub-Component 1.2. This Sub-Component aims to support for the formulation of strategy to consolidate and manage rural roads systematically to improve transport connectivity for the rural population, reviewing the institutional set up to identify opportunities for streamlining the structural set-up and mandates of public institutions responsible for managing the road sector including road safety and exploring different mechanisms to improve financing of road constructions and maintenance of rural roads within the governing	All the activities had been finalized, and obtained the necessary approvals. Accordingly, the relevant activities are planned to be awarded within short period and complete within the stipulated timeframe.	Project should prepare proper action plan and budget and responsibilities should be fixed accordingly.

framework had not been implemented even after laps of 03 years from the date of commencement of the activities of the Project and the recruitment of required consultants to update the road sector policies and carry out the road safety activities had been remained at the procurement stage.		
(b) **Road Sector and Community Capacity Enhancement - Sub-Component 1.3**		
According to Section 24 of the Project Appraisal Document and Project Restructuring paper No.RES 51645 dated 09 May 2023, a sum of US $ 8.75 million had been allocated for the Project period for this Sub-component. However, a sum of Rs. 32.35 million only had been utilized as at 31 December 2024 out of Rs. 377.5 million for the activities in the Action Plan under this component such as capacity building of the RDA by incorporating the information technology and allied technologies, institutional strengthening and development of country specific resilient design standards, construction guidelines and best practices for nature-based solution for road infrastructure, capacity building of the RDA in implementation the climate-resilient	The relevant activities are planned to be awarded within short period in the future and completed within the stipulated timeframe.	Project should prepare proper action plan and budget and responsibilities should be fixed accordingly.

	and road-asset management system and institutional strengthening etc. other than the Project management cost and incremental operating cost. It was observed that the activities such as recruitment of individual consultants, purchase of equipment etc. were delayed until the end of the year under review. Therefore, the achievement of targets of the sub-component during the project period is doubtful in the audit.		
(c)	**Implementation of Component 2 : Enhancing Supply Chain and Access to Services for Farmers**		
	As per the Cabinet Approval No.21/1524/319/028 dated 16 August 2021 for Cabinet Memorandum No. CM: 34/2021 dated 16 August 2021, it was recommended to prepare and establish a joint implementation mechanism along with the Ministry of Agriculture to implement the Project. Initially, a sum of US$ 50 million had been allocated to this Component and it was reduced to US$ 15 million from the Restructuring Paper on 09 May 2023. However, this component had not been commenced even as at end of the year under review contrary to the recommendations of the above Cabinet Paper. Therefore, the following activities couldn't be	Delay in finalizing the proposal has affected to the delay in implementation of Component 2. However, as per the information received from MOA a new proposal has been forwarded to Cabinet for Approval. Once finalizing the proposals, MOA will take action to implement these activities within the project period.	Project should prepare proper action plan and budget and responsibilities should be fixed accordingly. Instructions should be issued in the review carried out in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018.

implemented even by the end of the year under review.

- Engaging local communities and local contractors to rehabilitate/reconstruct small-scale rural agriculture collection point/post-harvesting centers.
- Engaging local industry for piloting electric mobility solution for agro-logistics for farming community.

3.4 Underutilized Resources

	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	It was observed that the Project had utilized only Rs, 21,191 million as at 31 December 2024 out of the entire loan of US$ 175 million equivalent to Rs. 54,000 million of the Project. Slow progress of the ongoing contracts and delay in the commencement of component 2 of the Project are mainly affected to that poor utilization of loan funds.	Due to prevailed economic crisis, shortage of fuel and construction material and prevailed bad weather condition, contractors were unable to perform to reach their targets.	Project should prepare proper action plan and budget and responsibilities should be fixed accordingly. Instructions should be issued in the review carried out in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018.
(b)	Although the Government had allocated Rs. 14,504.00 million under foreign loan through vote No. 117-2.4-58, the Project had not prepared a detail budget and approved for utilization the above allocation. As a result 49.91 per cent of the allocation amounting to	Due to prevailed economic crisis, shortage of fuel and construction material and prevailed bad weather condition, contractors were unable to perform to reach their targets.	Project should prepare proper action plan and budget and responsibilities should be fixed accordingly. Instructions should be issued in the review carried out in accordance with the

	Rs.7,239.04 million only had been utilized during the year under review and it was observed that the budget had not been used as an effective management tool.		provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018.
(c)	As per the Special Dollar Account No.73633 (SL-219) of the Project, the donor agency had disbursed a sum of US$ 34.05 million equivalent to Rs. 10,298.85 million as advances during the year under review and a sum of US$ 16.55 million equivalent to RS.4,841.53 million or 47 per cent had been remained without being used at the end of the year.	Due to prevailed economic crisis, shortage of fuel and construction material and prevailed bad weather condition, contractors were unable to perform to reach their targets.	Project should prepare proper action plan and budget and responsibilities should be fixed accordingly. Instructions should be issued in the review carried out in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018.
(d)	According to Section 33 of the Implementation Arrangements and Support Plan of the Project Appraisal Document, the donor agreed to reimburse the eligible expenditure already made by the 100,000 Km Rural Road Development Program during the period of 12 months from the Loan Agreement date. Although the donor provided a US $75 million facility as retroactive financing, only US $10.89 million, equivalent to Rs. 3,949.43 million or 14.52 percent, was reimbursed due to the inability to adhere to the donor requirements.	The donor provided a USD 75 Mn facility under retroactive financing to reimburse the eligible expenditure made under the 100 000 km rural road development program. But, to reimburse funds through this facility, all World Bank Guidelines were required to be full filled. However, the 100 000km program was not implemented in full compliance with these guidelines.	Project should prepare proper action plan and budget and responsibilities should be fixed accordingly. Instructions should be issued in the review carried out in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018.

3.5 Procurement Management

	Audit Issue	Response of the Management	Auditor's Recommendations
(a)	According to the Section 6.2.2 of Government Procurement Guideline, the minimum period of bidding time shall be 21 days for National Competitive Bidding. However, according to the paper advertisement published on 15 December 2023, it had been allowed only 14 days bidding period for procurement of hiring vehicles.	The bidding document for this procurement is not complex, and the allocated 14-day bidding period was sufficient for suppliers to prepare and submit their bids. Furthermore, considering the urgent nature of this procurement for the project, and in accordance with Clause 6.2.2 of the Government Procurement Guidelines, the bidding period may be reduced.	Should comply with the Procurement Guideline. Disciplinary actions should be taken in accordance with Section 29 of Chapter XLVIII Part II of the Establishment Code in respect of responsible officers.
(b)	**Contract of 80.99 km rural roads in Batticaloa District**		
(i)	According to the Paragraph 7.9.2 (m) of the Procurement Manual, the reasonableness of a bid price should be determined during the evaluation. Further, if the bid prices are marginally low, the bidder shall be requested to prove to the satisfaction of the Procurement Entity, how the bidder intends to perform the works as per quoted rates. If the Procurement Entity is of the view that the justification/explanation provided by the bidder is unacceptable, his bid shall be rejected. Although the bid prices were lower by 19.91 per cent	The selected lowest evaluated bids were identified and clarifications were requested from the relevant bidders. These explanations had been reviewed by the TEC and were decided to be acceptable. The contractor requested time extension and within the extended period they agreed to catch up the targets.	Should comply with the Procurement Guideline. Disciplinary actions should be taken in accordance with Section 29 of Chapter XLVIII Part II of the Establishment Code in respect of responsible officers.

	to 30.16 per cent than the engineering estimates, the bids had been accepted by the Project. However, the progress of those contracts was between 26 percent and 56 percent even after the lapse of nine months (75 per cent) of the initial contract period, and therefore, the risk of completion without delay cannot be ruled out in the audit.		
(ii)	According to the evaluation and qualification criteria (Section III) of the bidding procedures (Part-1) of the bidding documents, the history of nonperforming contracts should be evaluated during the bid evaluation process of the procurement. However, the Technical Evaluation Committee and the Ministry Procurement Committee had not evaluated the relevant documents furnished by the other related projects during their bid evaluations. Therefore, contracts were offered to contractors who had failed to perform past contracts satisfactorily.	The bid evaluation was conducted in accordance with the standard procurement document and the TEC and MPC considered the past performance of the bidders accordingly. However, their financial capabilities complied with project requirement even after deducting full litigation amount.	The history of non-performance of the contractors should be evaluated during the bid evaluation process of the procurement and action should be taken to blacklist relevant contractors.

3.6 Matters in Contentious Nature

	Audit Issue	Response of the Management	Auditor's Recommendations
(a)	**Activation of the Contingent Emergency Response Component (CERC) under the Project**		
	According to the letter dated 09	The World Bank approved	Policy decision should be

	May 2022 of the Secretary to the Treasury and the subsequent letter sent by the Country Director of the World Bank dated 18 August 2022, an amount of US $ 325 million had been allocated for the Contingent Emergency Response Component of the Project. The CERC funds had been allocated to minimize the impact of the economic crisis and restore social stability by providing immediate needs and essential items and social protection. However, the approval of the Cabinet of Ministers had not been obtained for the changes of the initially approved scope of the Project.	restructuring paper on 19/04/2023. However, action taken to relocate USD 15.06 Mn (Saving of CERC) to ICDP. At present it is under restructuring process and once finalizing the restructuring process action will be taken to obtain the Cabinet Approval including current changes to the loan.	taken to change the scope of the initial objectives.
(b)	As per the letter No.DMS/7777/ICDP/T -1 dated 19 January 2024 of the Additional Director General of Department of Management Services, salaries of the Project staff should be calculated in accordance with the paragraph 3.2.1 of the Management Services Circular No. 01/2019 after reducing the loan proceeds of the Project from US$ 500 million to US$ 175 million. The restricting paper had been approved on 09 May 2023 and the salaries of the Project staff	Key staffs were recruited to the Project by advertising the project cost as US$ 500 Mn & they were paid as per the salary scale in their appointment letter. After receiving the reply from MSD, the extension for project staff was issued based on the revised loan fund & payment was made accordingly.	Should comply with the Circular instructions and disciplinary actions should be taken in accordance with Section 8 of Chapter XLVII Part II of the Establishment Code in respect of responsible officers.

should be revised accordingly from that date. However, the salaries of the Project Director and three Engineers had been paid based on calculations made on initial rates before the restructuring was approved. Therefore, it was observed that an overpayment of Rs.277,376 had been made by the Project regarding salary payment of staff.

(c) **Selecting Individual Consultants for Project Management Unit**

Although consulting services refer to services provided by a consultant of an intellectual and advisory nature as per the Guidelines for Selection and Employment of Consultants in August 2007 and the Guidelines by World Bank Borrowers in July 2014, the Project recruited 03 Management Assistants under individual consultancy other than the approved cadre and a sum of Rs.13.68 million had been incurred as individual consultancy as at 31 December 2024.

Individual consultancy is referenced under Table 2.2, "Applicable Procurement Method and Types of Review," on page 49, and Table 2.4, "Disbursement Categories," on page 53 of the original Project Appraisal Document and payments for individual consultancy have been made through Incremental Operating Costs.

Officers should not be assigned in excess of the approved cadre.

3.7 Human Resourse Management

Audit Issue	Response of the Management	Auditor's Recommendations
The Project had hired 10 minor staff (Office Aid, Care Taker Watcher, Labour) under the approval of the Secretary to the Ministry, superseding the cadre approved by the Management Services Department on 22 October 2021 and a sum of Rs. 6.02 million had been paid under Incremental Operating Cost category of the donor funds. Further, quotation had been obtained from individuals/firms borne outside the Register of Suppliers contrary to Section 3.4.2 of the Government Procurement Guideline.	This procurement was initiated during the COVID-19 pandemic. The procurement entity took measures to inviting quotations from registered and reputable suppliers in the Central Province who had been providing services to the divisional operations of the RDA.	Officers should not be assigned in excess of the approved cadre.

3.8 System and Control

Audit Issue	Response of the Management	Auditor's Recommendations
A comprehensive Action Plan highlighting financial and physical targets with fixing responsibilities in monthly, quarterly, biannually etc. covering the entire period of the Project had not been prepared and implemented to ensure the achievement of Project objectives using the allocated resources within the scheduled time period.	A comprehensive action plan has been prepared including all the physical and financial targets and available for audit purpose.	Action should be taken to prepare and approve a comprehensive action plan to the Project.