

Reduction of Land Vulnerability by Mitigation Measures Project -2020

The audit of the financial statements of the Reduction of Land Vulnerability by Mitigation Measures Project for the year ended 31 December 2020 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 II B (3) of the Loan Agreement No. L 0124 A dated 25 April 2019 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Infrastructure Investment Bank. My comments and observations which I consider should be reported to the Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, the State Ministry of National Security and Disaster Management is the Executing Agency and the National Building Research Organization is the Implementing Agency of the Project. The objective of the Project is to reduce risk and damage from landslides through the implementation of physical mitigation measures and enhancement of policy and regulations associated with landslide management. As per the Loan Agreement, the estimated total cost of the Project was US\$ 110 million equivalent to Rs. 19,976 million and out of that US\$ 80 million equivalent to Rs. 14,528 million was agreed to be financed by the Asian Infrastructure Investment Bank. The Project had commenced its activities on 01 July 2019 and scheduled to be completed by 30 June 2023.

1.3 Opinion

In my opinion, except for the effects of the matters described in the table 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 2020, statement of expenditure and its cash flows for the year then ended in accordance with the Sri Lanka Public Sector 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 Responsibility of the Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines as necessary to enable the preparation of financial statements that are free from material misstatements, 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**

No	Accounting Deficiencies	Amount	Management Responses	Auditor's Recommendations
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		Rs.		
(a)	The commitment charges for the year under review had not been brought to the financial statements.	37,019,009	Agreed with Auditors	Commitment charges should be brought to the financial statements.
(b)	Capitalized interest charges	3,616,038	Agreed with auditors	Interest charges

deducted from the loan during the year 2019 had not been brought to the financial statements.

should be brought to the financial statements.

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|-----|---|-----------|-------------|--|
| (c) | The translation fee for the year under review nearly 21 percent of the total consultancy fee had not been separately disclosed in the financial statements. | 1,830,860 | Not replied | Translation fees included in consultancy charges should be separately disclosed in the financial statements. |
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2.2 Non- compliance with Rules and Regulations

No	Reference to the Rules and Regulations	Non- compliances	Management Responses	Auditor's Recommendations
(a)	Financial Regulation- No.756	The verification reports on fixed assets relevant to 2020 had not been submitted during the year under review.	We will make necessary arrangements to carry out a Board of Survey in 2021.	Need to adopt with instructions given in the Financial Regulations.
(b)	Paragraph 2.2 in the Chapter II of the Financial Management Manual of the Project	A fulltime qualified Project Accountant had not been recruited, as per the Financial Management Manual even up to the date of audit performed on 31 March 2021.	Full time Project Accountant was recruited on May 2021.	Need to adopt with instructions given in the Financial Management Manual of the Project.
(c)	Chapter VII of the Financial Management Manual of the Project	Eventhough a separate Internal Auditor required to be appointed for the PMU, recruitment had not been made even on the date of audit performed on 31 March 2021.	Eventhough the position of an internal auditor is indicated in the Financial Manual, MSD did not approve to recruit the same.	Action should be taken to recruit an Internal Auditor.

3. Physical Performance

3.1 Physical and Financial Progress of the Activities of the Project

The activities of the Project are implemented under 04 components namely

- (a) Implementation of Mitigation Measures
- (b) Enhancement of Policy, Standards and Institutional Capacity
- (c) Provision of Essential Facilities and
- (d) Equipment and Technical Support and Project Management

No	Component	Audit Issues	Management Responses	Auditor's Recommendations
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(a)	Component-01	Allocation of US\$ 97 million had been made under the first component of the Project for field inspections, detailed design, construction and supervision management of 147 priority sites and the civil works at 27 sites had been packaged under 04 works contract packages valued at US\$ 15.22 million and decided to award in the year 2019. However, only 02 work contracts valued at US\$ 5.2 million had only been awarded during the year under review.	The procurement of remaining packages has been delayed, due to the effect of Covid 19 pandemic in the year 2020 and Easter Sunday bomb attack on 21 April 2019.	Need to take action to catch-up the delays and ensure to complete the contract works timely to avoid additional cost.
(b)		The balance civil works of 120 sites had been packaged under 08 work contracts valued at US\$ 64.3 million under phase-2 and decided to award in the year 2020. However, no any contract had been awarded during the year under review.	Implementation of project activities and awarding of contracts delayed due to bad weather conditions, Easter Sunday attack and pandemic disease of Covid 19.	Need to take action to catch-up the delays and ensure to complete the contract works timely to avoid additional cost.
(c)	Component-02	Under this component, 03 consultancy contracts valued at US\$ 3.0 million required be advertised in year 2019 and 2020. However, those consultancy contracts had not been advertised even in the year 2020.	Covid 19 pandemic disease spread in Sri Lanka during the year 2020 & 2021 this activity was postponed.	Action should be taken to adhere with targets stipulated in the Project.

3.2 Underutilized Resources

----- Audit Issue -----	Management Response -----	Auditor's Recommendation -----
The detailed target cost estimate at the end of the preceding year was Rs.5,670.80 million and Rs.2,016 million from the proceed of the Asian Infrastructure Investment Bank Loan and Government contribution respectively. However, total fund utilization was Rs.145.47 million from the Asian Infrastructure Investment Bank Loan and Rs.228.84 million from the Government funds representing 2.57 per cent and 11.35 per cent respectively as at 31 December 2020.	Due to the Covid 19 disease spread in Sri Lanka It was very difficult to carry out the targeted works and It affected to do the field works, tendering, evaluation works on time.	Action should be taken to adhere with targets stipulated in the Project.

3.3 Issues Related to Human Resources Management

----- No -----	Audit Issues -----	Management Responses -----	Auditor's Recommendations -----
(a)	Eventhough the approval had been granted to fill 23 positions for the required cadre of 41 for the year under review, 23 vacancies (for 15 positions) had not been filled by 31 December 2020.	Some vacancies filled on year 2020,some post filled by an employees of NBRO part time appointment	The staff members are needed to recruit as per circular instructions to continue smooth operation of the Project.
(b)	It was observed that 15 vacancies out of the 23 were for 11 managerial level positions.	Some vacancies filled on year 2020, some post filled by an employees of NBRO part time appointment.	The staff members are needed to recruit as per circular instructions to continue smooth operation of the Project.