

Landslide Disaster Protection Project - 2014

The audit of financial statements of the Landslide Disaster Protection Project for the year ended to 31 December 2014 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 Article of the Loan Agreement No.SL-P 109 dated 14 March 2013 entered into between the Government of the Democratic Socialist Republic of Sri Lanka and the Japan International Cooperation Agency.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then Ministry of Ports Highways and Shipping, presently Ministry of Highways and Investment Promotion is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to mitigate landslide disaster targeting for A-Class national roads as basic infrastructure by implementing appropriate countermeasures in highland areas in the Central, Uva and Sabaragamuwa Provinces, thereby contributing to the economic and social development and enhance the security of the road network and safeguard the lives of people including road users and residents.

The scope of the Project comprised with,

- (i) Countermeasures for road disaster management model areas,
- (ii) Countermeasures for high priority areas of national roads for disaster management and other related facilities,
- (iii) Establishment of early warning system,
- (iv) Providing consulting services.

According to the Loan Agreement, the estimated total cost of the Project was Japan Yen 9,841 equivalent to Rs.14,754 million and out of that, Japan Yen 7,619 million equivalent to Rs.11,423 million was agreed to be financed by the Japan International Cooperation Agency. The activities of the Project was commenced on 14 March 2013 and scheduled to be completed by 31 March 2019.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the

preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records, etc. relating to the operations of the Project,
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project,
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Loan, etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement,

- (e) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project,
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards,
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether the financial covenants laid down in the Loan Agreement had been complied with.

1.5 Basis for Qualified Audit Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Sri Lanka Public Sector Accounting Standards.
- (b) the funds provided had been utilized for the purposes for which they were provided.
- (c) the Statements of Expenditure submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement.
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Loan had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) Property, Plant and Equipment transferred from Northern Expressway Project to the Land Slide Disaster Project during the year under review had not been revalued and brought to account.
- (b) The allowance amounting to Rs.157,500 paid for the members of the Tender Board for attending meetings had been shown in the financial statements as the membership fees.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing of funds, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2014 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocations made in the Budget Estimate for the year under review	during the year under review	Funds utilized up to 31 December 2014	
	Japan Yen million	Rs. million			Rs. million	Rs. million
JICA	7,619.00	11,423.00	250.00	177.90	142.28	177.90
GOSL	2,222.00	3,331.00	50.00	19.40	-	30.20
Total	<u>9,841.00</u>	<u>14,754.00</u>	<u>300.00</u>	<u>197.30</u>	<u>142.28</u>	<u>208.10</u>

The following observations are made.

- (a) In addition to the contribution received from Government of Sri Lanka, proceeds of a Loan amounting to Rs. 09 million obtained by the Road Development Authority from a Commercial Bank had been utilized by the Project to implement

the activities of the Project, without the concurrence of the Lending Agency. Further, the responsibility rests with the Project to pay back the Loan had not been explained to audit.

- (b) According to the Circular No. MPH/HWY/ACC/03/03/01 of 03 July 2013 of the Secretary to the Ministry of Ports and Highways, the annual budget estimates should be prepared accurately. However, the allocation amounting to Rs 50 million had been made in the Budget Estimates for the year under review for contribution of the Government of Sri Lanka and only a sum of Rs.19.4 million had been utilized, resulting that an over estimation of Rs.30.6 million.

3.2 Physical Progress

According to the information received, the investigation stages of the landslide protection for the highest priority sections, under 02 main categories had been completed by 95 per cent as at 21 December 2014. Further, the physical progress of establishment of early warning systems had remained at 65 per cent as at 31 December 2014.

3.3 Issues on Financial Controls

The following observations are made.

- (a) It was observed that a person had been appointed for a post of Consultant which was not approved by the Department of Management Services and a sum of Rs.780,000 had been paid during the year under review, as salaries and vehicle allowance. However, evidence such as daily attendance, assignments of works and work done reports etc, had not made available to audit to prove the contribution of the Consultant in respect of achievement of the objectives of the Project.
- (b) A Register of Fixed Assets had not been maintained by the Project in terms of the provisions of the Treasury Circular No.842 dated 19 December 1978