

Reduction of Land Vulnerability by Mitigation Measures Project - 2019

The audit of the financial statements of the Reduction of Land Vulnerability by Mitigation Measures Project for the first accounting period from 01 July 2019 to 31 December 2019 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 the provisions in the 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 my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019, 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 actual commitment charges for the year 2019, had not been brought to the financial statements.	14,194,451	Agreed with Auditors.	Commitment charges should be brought to the financial statements.
(b)	A capital service charge for the year 2019 had not been brought to the financial statements.	35,163,700	Agreed with Auditors.	Capital service charges should be brought to the financial statements.

2.2 Non-compliance with Rules and Regulations

No	Reference to the Rules and Regulations	Audit Issues	Management Responses	Auditor's Recommendations
(a)	Financial Regulation No.156 (5)	A separate Cash Book had not been clearly maintained.	There was no separate bank account maintained for the project in the year 2019.	Need to adopt with instructions given in the Financial Regulation.
(b)	Financial Regulation No. 756	The Board of Survey reports on fixed assets relevant to 2019 had not been submitted to audit even the date of audit performed on 31 March 2021.	Project failed to carry out Board of Survey in the initial year of operation. We will make necessary arrangements to carry out a Board of Survey in 2021.	Need to adopt with instructions given in the Financial Regulation.
(c)	Chapter VII of the Financial Management Manual of the Project	Eventhough a separate Internal Auditor should be appointed for the PMU who will directly report to the Line Ministry, no appointment had been done even on the date of audit performed on 31 March 2021.	Project Management Unit requested to deploy an internal auditor to the project and MSD denied the request.	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

- Implementation of Mitigation Measures
- Enhancement of Policy, Standards and Institutional Capacity
- Provision of Essential Facilities and
- Equipment and Technical Support and Project Management

No	Component	Audit Issues	Management Responses	Auditor's Recommendations
(a)	Component - 01	Allocation of US\$ 97 million had been allocated under the first component of the Project for field inspections, detailed design, construction and supervision management of 147 priority sites. Out of that	Due to reasons such as Bomb blasts on 21 April 2019 in Sri Lanka, delay in recruitment of project staff, etc. the awarding of contracts were delayed and no funds were required for the year 2019 from the lending agency.	Need to take action to catch -up the delays and ensure to complete the contract works timely to avoid additional cost.

27 sites were selected as a priority basis and civil work of the above had been decided to award under 4 contract packages valued at US\$ 15.22 million in the year 2019. However, any contracts had not been awarded during the year under review.

(b) Component - 02	Under this component, a consultancy contract valued at US\$ 1.5 million had to be advertised in September 2019. However, it had not been advertised during the year under review.	Component - 02 of the Project is to Enhancement of Policy, Standards and Institutional Capacity. Under this component need to gather many institutions such as communities and Government Institutes, Because of imposed of curfew in country due to reason of bomb blast on 21 April 2019 and elections of selection of country president in Sri Lanka this activity was post pond. However within the project period planned to complete the whole activity.	Action should be taken to adhere with targets stipulated in the Project.
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3.2 Unutilized Resources

----- Audit Issues -----	----- Management Responses -----	----- Auditor's Recommendations -----
Eventhough the Asian Infrastructure Investment Bank had been allocated a sum of US\$ 3.10 million equivalent to Rs. 541.80 million in year 2019, no any proceed of Loan had been utilized during the year under review. As a result, the physical and financial progress of the Project had remained in unsatisfactory level.	Due to reasons such as Bomb blasts on 21 April 2019 in Sri Lanka, delay in recruitment of project staff, etc. the awarding of contracts were delayed and no funds were required for the year 2019 from lending agency.	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 24 positions for the required cadre of 45 for the year under review, 35 vacancies (for 20 positions) had not been filled by 31 December 2019.	Some vacancies filled on year 2020 and some post filled by the 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 23 vacancies out of the 35 were for 15 managerial level positions.	Some vacancies filled on year 2020 and some post filled by the employees of NBRO part time appointment.	The staff members are needed to recruit as per circular instructions to continue smooth operation of the Project.

3.4 Matters in Contentious Nature

Audit issue	Response of the Management	Auditor's Recommendation
A sum of Rs. 54.2 million spent by the National Building Research Organization during the year 2018 had been transferred to the year 2019, without obtaining a proper authority of the Line Ministry. In addition to that payment vouchers and details of expenditure related to the above expenses had not been submitted for the audit.	This was transferred from Line Ministry to the NBRO with the proper approval of treasury.	Need to get a proper authority from the Line Ministry.