

Reduction of Landslide Vulnerability by Mitigation Measures Project -2023

The audit of financial statements of the Reduction of Landslide Vulnerability by Mitigation Measures Project for the year ended 31 December 2023 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 11 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 Parliament appear in this report

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then Ministry of Public Administration and Disaster Management presently Ministry of Defense is the Executing Agency and 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 regulation associated with landslide management. As per the Loan Agreement the estimated total cost of the Project was US\$ 101.3 million equivalent to Rs.18,396.08 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. However, the date of completion of the activities of the Project had been extended up to 31 December 2025.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2023, financial performance and its cash flows for the year then ended in accordance with 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 Responsibilities of management and those charged with governance for the Financial Statements

Management is responsible for the preparation of financial statement 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 scepticism 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 Deficiency	Amount Rs.	Response of the Management	Auditor’s Recommendations
(a)	According to paragraph 88 of Sri Lanka Public Sector Accounting Standard No.01, “Presentation of Financial Statements” intangible assets should be separately shown on the face of the statement of financial position. However, the computer software had been included in the Property Plant and Equipment without showing separately.	2,921,702	The computer software cost will be shown separately from 2024 onwards as per the paragraph 88 of Sri Lanka Public Sector Accounting Standard No. 01 “Presentation of Financial Statements”	Intangible assets should be separately shown on the face of the statement of financial position.

- (b) Toner purchase expenses of Rs.339,440, 339,440 which should be included in printing and stationery, were included in the office equipment repair expense account. This will be corrected in the year 2024 Expenses must be properly identified, and accounted for

2.2. Non Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
Procurement Manual of the Project - Section 118	Advance payment for any contract shall be paid on the submission of and acceptable advance payment guarantee. However, the Project had paid a sum of Rs.34,449,639 during the month of December 2023 as prepayment without obtaining any guarantee .	At the end of the year after the settlement of all due payments under the GOSL Component, there were savings of Rs.34,449,639.65 These funds are paid to the contractors to set off the future bills which the work has already been completed, under the GOSL Component and as of today outstanding balance of the prepayment account is Rs.15,038,370.27 Further still we have not received Domestic funds for the Civil Works out of Allocation of Year 2024 except salaries. Therefore, savings amount of Rs.34,449,639.65 of year 2023 is very useful to cover some expenditure related to year 2024.	Advance payment for any contract shall be paid on the submission of and acceptable advance payment guarantee.

3. Physical Performance

3.1 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
The payment for 53 bills an amounts of Rs.164,670,815 submitted by the contractors from March to August 2023 had been delayed until October 2023. As a results, a delay charge of Rs.2,036,306 had to be paid to a contractor during the year under review.	Receiving of Domestic funds for the Project activities was delayed due to Lack of Domestic funds during the economic crises that prevailed in Sri Lanka. Therefore, portion of 16% of invoice value payments got delayed. As a result, Rs.2,036,306 delay charges were paid to the contractors as per the condition of the contract agreement based on the request of the contractors.	Payment should be done without delay.

3.2 Observations made on site visits

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	An amount of Rs.2,824,560 had been paid for horizontal drains at the Galabada work site, by stating in the pip's diameter as 90 mm. Whereas, at the physical inspection it was observed that the diameter of the pips was 77mm. As a results, a significant amount of money had been overpaid to the contractor.	The Diameter of the pipes should be selected according to the design flow required to discharge the groundwater and technical specifications No 702.3 in volume iii of the contract. Since the specifications do not specify which diameter to choose, discussions were held with the planning Division in this regard where it was decided to use the external diameter as the diameter of the pipe. Therefore, it is decided to use the external diameter of the pipes for horizontal drains and 90mm diameter used in estimation and also in the contract. Accordingly, the external diameter of the pipes tested for above was 90mm and the samples were sent to the material engineer of the project and prior approval was obtained before using. Therefore, no significant amount of money had been overpaid to the contractor.	Material which stated in BOQ should be used.
(b)	During filling granite within the mesh of the gabion wall at Durekkanda site, gaps between large stones were to be filled with smaller stones. If another landslide occurs before the gabion wall is formed into	During the construction of the Gabion Embankment at the above site, the Gabion boxes were filled as per the prescribed standards, but after the delivery the stones were removed inside several boxes. We will take steps to correct this in	Project should be attempted to the achieve the Purpose.

a natural mountain, there is a possibility of rock flow through the gap, thus non achieving the purpose of the Project.

consultation with the contractor and it will not affect the stability of the retaining embankment.

- (c) Rocks had washed into some parts of the drain at the Katandola work site and deposited in the drain while weeds had grown.

The above situation has arisen due to the non- maintenance of the lands belonging to this work site in a proper manner. The Project Management Unit has identified the need for timely maintenance of the above locations. Accordingly, action has been taken to reinform the Stakeholders/ concerned parties in this regard.

Maintenance to be properly done.