

Reduction of Landslide Vulnerability by Mitigation Measures Project -2024

The audit of the financial statement of the Reduction of Land Vulnerability by Mitigation Measures Project for the year ended 31 December 2024 was carried out under my direction in pursuance of provision 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 Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, the Ministry of Defence - Disaster Management Division 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\$ 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 balance amount US\$ 21.30 million equivalent to Rs. 3,868.08 million is expected to be financed by the Government of Sri Lanka. The project had commenced its activities on 01 July 2019 and scheduled to be completed by 30 June 2023. However, the period of the Project completion had been extended up to 31 December 2025.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.1 of this report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2024, statement of project expenditure 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 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 Program'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. million	Response of the Management	Auditor's Recommendations
(a)	As per Section 57 of SLPSAS 07, each part of items of property, plant and equipment	121.88	Project Management unit is using only Few Computers and Furniture's for the day-to-day	Need to comply with the SLPSAS.

with a cost that is a significant in relation to the total cost of the items shall be depreciated separately. However, assets at a cost of Rs. 121.88 million used by Project had not been depreciated. As result, other investment for project activities had been understated

Operation of PMU Team. Others are handed over to Project Implementation agency of NBRO. They have Recorded/Identified that items as their property plant and Equipment and carryout depreciation process.

(b)	As per the Section 43(a) of Sri Lanka Public Sector Accounting Standard 05, assets and liabilities for each statement of financial position should be translated at the closing foreign exchange rate of the date of the statement of financial position. However, the Parity adjustments amounting to Rs. 2,211.91 million relating to the foreign loan of the project had not been accounted for the year under review as per above requirement.	2,211.91	According to the Circular of State Accounts Department No 03/2024 Dated 28 February 2024 Project reversed to comply with State Accounts Department Circular.	Need to comply with the SLPSAS.
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2.2 Non -Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non-Compliance	Response of the Management	Auditor's Recommendations
(a)	Section 9.3 of circular No 01/2019 dated 15.03.2019 of Department of Management Service	As per circular, Steering Committee of the Project should be meet at least once in two months. However, the committee had met for the year 2024 one time only.	Due to unavoidable circumstances, the RLVMMMP has been able to conduct five meetings during 2020 to 2024.	Circular instruction should be followed.
(b)	Financial Regulation 135(5)	The functions related to financial control should be delegated among	No comments	Financial Regulations should be followed.

officers, the payment voucher related to the acting allowance paid for acting in the position of Project Director had been approved by himself, contrary to the Financial Regulations.

3. Physical and Financial Performance

3.1 Physical and Financial progress of the activities of the Project

Audit Issue	Management Response	Auditor's Recommendations
Out of the total estimated amount of US\$ 101.3 million equivalent to Rs. 18,396.08 million made by the Lending Agency and GOSL funds was US\$ 29.63 million equivalent to Rs. 8,486.93 million only 29.63 percent of the allocation had been utilized as at 31 December 2024. As per the progress report of the Project, the overall physical and financial progress of the Project as at 31 December 2024 was 58.32 per cent and 55.35 per cent respectively. Accordingly, it was questionable for the audit whether the loan could be utilized after a lapse of 05 years and 07 months from the commencement date of the activities of the Project and completed by the closing date specified in the loan agreement.	<p>Project had requested time extension up to 30th June 2027 and Minster had granted approval and waiting for Cabinet Approval. The project had planned to carry out all tasks / All construction activities within the extended approved time period.</p> <p>However, the newly proposed 08 No's of Contracts of Civil Package 10 under repurposed USD 12 M is scheduled to be awarded in June 2025 and completed by June 2026 where the defect liability period will end on June 2027 based on the 02 nd EOT.</p>	Objectives of the Project should be achieved within stipulated period and the full loan amount should be used intended purpose of the Project.

3.2. Contract Administration

Audit Issue	Management Response	Auditor's Recommendations
(a) The Project Implementation Unit had not taken any steps to finalize the maintenance manual for the sustainability of the completed	The PMU is currently incorporating the AIIB comments and revising the maintenance manual.	Maintenance manual should be finalized for the sustainability of the completed construction sites.

construction sites after they were handed over to the institutions 13 sites valued Rs. 1,308.77 million and it had been mentioned in the AIIB mission report during the visited time from 10 March 2025 to 14 March 2025.

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| <p>(b) The Project Implementation Unit had not signed a Memorandum of Understanding with Sri Lanka Railways for post- construction maintenance work and coordinate for smooth mobilization of material to sites for Package 8 and it had been mentioned in the AIIB mission report during the visited</p> | <p>The PMU has prepared a draft Memorandum of Understanding (MoU) related to the post-construction maintenance works under Package 08. The draft MoU was submitted to Sri Lanka Railways for review and comments on 04.03.2025. Accordingly, we have received the consent from Sri Lanka Railways to signing of MoU.</p> | <p>Memorandum of Understanding should be signed.</p> |
| <p>(c) Procurement for Essential Facilities and Laboratory Equipment Items as mentioned Project Implementation Manual has not been completed up to 31 January 2025</p> | <p>The observation of the delay in awarding the Contracts is calculated by considering the difference between the date of Tender opening and the date of Contract awarding.</p> | <p>Purpose of the Project should be achieved within the stipulated period.</p> |

3.3 Observations made on site visits

Audit Issue	Management Response	Auditor's Recommendations
(a) It was observed that during the examination of 5D Package should have 14 Key Staff, only 05 had been assigned by the contractor. However, after the commencement work, contractor had not been assigned qualified staff as mentioned in contract agreement. Further, approval had not been granted for the initial drawings of Lot No.38 - Atanwala site and site Nos. 30 and 38. It was observed that delay in obtaining approvals for the plans may delay the completion of the project.	The requirements for key staff were clearly outlined in the signed contract document. As such, appropriate actions will be taken in accordance with the provisions of the signed contract.	Activities of the Project should be completed within stipulated period.

(b) During the field inspection, it was observed that, 30 trainloads of raw materials were to be brought to complete the construction of No. 135 at the Watawala site, but due to the fact that the trains were not available on the requested dates and only 24 trainloads were received, the construction work could not be completed within the stipulated time.	The Department of Railways was unable to supply the trains as per the schedule certified by the engineer. This led to delays in executing the planned construction activities.	PMU should be closely monitored project executing without delaying planned construction activities.
(c) Further, it was observed that, the surface of the drainage ditch constructed at the Watawala site had not been prepared as a smooth surface to prevent the water from flowing rapidly and washing away the mortar and stones from emerging.	The contractor was promptly instructed to undertake rectification measures, and all repairs to the affected sections have now been completed.	PMU should be closely monitored project executing without delaying planned construction activities.
(d) In field inspection, conduct at the near the tunnel no 33 it was observed that, due to delays in obtaining permission to enter the forest and to remove trees in the work sites bordering the reserved forests belonging to the Department of Forest Conservation the construction could not be started on time and was delayed.	<p>The District Office informed us of the requirement to compensate for the tree removal by replanting 40 eucalyptus trees, along with the corresponding cost estimate.</p> <p>The PMU agreed to the replantation and formally requested the implementation of a Reforestation Program. This process is currently ongoing.</p>	PMU should be closely monitored project executing without delaying planned construction activities.

3.4. Other Observations

Audit Issue	Management Response	Auditor's Recommendations
(a) It was revealed that Project had not utilized funds under the loan even after lapse of 05 year and 7 months from the date of signing the Loan Agreement. Therefore, commitment charges and interest amounting to US\$ 2,801,831 had been charged up to 31 December 2024 by the Lending Agency against the disbursed and	<p>Project captured interest and commitment fee from the Report of External Resource Department. And Excess amount of USD 1,831.83 is Incorrect Recording. Project had Report this to ERD on 18-03-2025.</p> <p>Project had informed about these differences to the ERD for the reversal of Additional Entered Amount.</p>	Action should be taken to utilize the loan funds effectively for desired project objectives.

undisbursed loan balance.
However, approved amount by
Lending Agency (AIIB) was only
US\$ 2,800,000 and excess amount
US\$ 1,831.83 had paid by the
Project.