

Landslide Disaster Protection Project - 2018

The audit of financial statements of the Landslide Disaster Protection Project for the year ended 31 December 2018 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 Provision of the Loan No SL – P 109 dated 14 March 2013 entered into between the Democratic Socialist Republic of Sri Lanka and the Japan International Cooperation Agency. 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, the Ministry of Ports and Highway, presently the Ministry of Roads and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project is to mitigate landslide disaster targeting for 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. As per the Loan Agreement, the estimated total cost of the Project was US\$ 122.6 million equivalent to Rs. 16,201.2 million and out of that US\$ 97.4 million equivalent to Rs. 12,870.45 million was agreed to be financed by Japan International Cooperation Agency. The balance amount of Rs. 3,331 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 24 March 2017 and scheduled to be completed by 21 March 2019.

1.3 Qualified 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 2018, 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 appeared in 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.

In preparing the financial statements, management is responsible for assessing the Project ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

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

	Accounting Deficiency	Impact	Response of the Management	Auditor's Recommendations
(a)	Retention Money amounting Rs 300,597 payable to 02 contractors as at 31 December 2018 had not been brought to accounts.	Understatement of work in progress and Liabilities	Action will be taken to rectify the error.	Balances payable at the year end need to be taken in to the financial statement.
(b)	The value of assets such as computer equipment, office equipment and electronic equipment procured by the Project through the contractors had not been segregated from the cost of civil works and shown separately.	The values of properties constructed or procured with different lifetimes and purposes of use are not shown separately.	This will be adjusted at the time of the activities of the Project completed.	Assets which having different useful life time need to be presented separately.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Activity	Performance as at 31 December 2018		Impact	Response of the Management	Auditor's Recommendations
	Expected	Achieved			
	Percentage	Percentage			
Construction works of counter measures under the contract package -01.	75.5	47.1	Risks on Landslides vulnerable areas	Extension of time to complete the works had been granted.	Need to take action to accelerate the works to avoid possible risks.

3.2 Contract Administration

	Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a)	The countermeasure activities had been initiated during the year under review at an estimated cost of Rs. 243 million at the locations of Ambepussa which was not	Deviation from the initial scope of works.	Due to urgent nature of the work, the respective works had been carried out.	Need to identify the vulnerable locations on landslide systematically and prioritize the works.

initially identified by the Project.

- (b) The extension of time to complete the countermeasure works under the contract package- 01 had been granted up to 24 October 2019 exceeding the period of the Project scheduled by completed as at 30 March 2019.
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| Additional costs to the Government of Sri Lanka | The extension of time had been granted according to the conditions of contract. | Need to expedite the countermeasure work to complete within the period of the Project. |
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3.3 Matters in Contentious Nature

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
The works estimated at a cost of Rs. 48 million on renovation of an office building for the installation of Landside Countermeasures Instrument Unit of Executive Engineer Office of the Road Development Authority in Kadugannawa had been completed at a cost of Rs. 127.75 million.	Additional costs incurred due to preparation of improper estimates	According to the changes of the designs, there was an increase of cost.	Controls on estimation and implementation of works need to be strengthen.

3.4 System and Controls

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
It was observed that the works completed at Kothmalegama in the Central Province, Imbulpe in the Sabaragamuwa and Lunugala and Walhaputhenna in the Uva Province had been completed and taken over by the Road Development Authority as at 31 December 2018 and there was no mechanism established to review and monitor the possible risks on landslide and maintain the construction works carried out.	Risks on Sustainability of the countermeasure actions taken	The action will be taken by the provincial staff of the Road Development Authority	Need to be strengthen mechanism to review and monitor the effectiveness of the countermeasure actions.