

## **Landslide Disaster Protection Project - 2022**

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The audit of the financial statements of the Landslide Disaster Protection Project for the year ended 31 December 2022 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 14 of the Memorandum 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 then Ministry of Ports and Highways, and Shipping, presently Ministry of Transport and Highways 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 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 activities of the Project are implemented under two components namely Package 01 and Package 02. 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 the 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 commenced its activities on 05 July 2013 and initially scheduled to be completed by 05th July 2020. However, the date of completion of the activities of the Project had been extended by another two years.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2022 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 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 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

<b>Accounting Deficiency / Audit Issue</b>	<b>Amount Rs. Million</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
As per the Section 43(a) of Sri Lanka Public Sector Accounting Standard 05, monetary assets and liabilities of each statement of financial position should be translated at the closing foreign exchange rate at the date of the statement of financial position.	7,522	Amount of actual disbursement as per ERD reports was considered and the Exchange differences were calculated accordingly. As such, the particular amount appears in our	Adhere to the Sri Lanka Public Sector Accounting Standard

However, the parity adjustment of financial statements. Rs.7,522 million related to the loan balance of the project had not been accounted.

## 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
Sub clause 9.3 of the Management circular No 01/2019 dated 15 March 2019,	The steering committee meeting had not been held in the year under review.	The progress review meetings were conducted through zoom as and when necessary.	Need to comply with the Management Circular instruction

## 3. Physical Performance

### 3.1 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
The completion time of construction under Lot "A" and Lot "B" of this project had been delayed more than two years due to a lack of experience and a lack of understanding of safety measures by the local contractors and increasing the landslide countermeasures. Hence, the project had only used Japan Yen million 6,283 out of the total loan amount of Japan Yen million 7,619 within the loan period. Therefore, it was observed that the commitment charge paid for the unused loan balance was uneconomical when the completion of the loan period.	The scope of this project was 16 landslide locations under Lot "A" and Lot "B". In addition to the completion of the 16 landslide locations, additional 07 landslide locations were completed within the time frame saving the loan amount by more than 1000 Million Yen.	Loan should be utilized effectively

### 3.2 Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
Even though, an Early Warning System (EWS) had been established by expending Rs.30 million under this project to identify landslide notification in advance. However, that system had not been used by the Road Development Authority at the end of the year under review. Therefore, the cost incurred for this system had become uneconomical.	According to the Loan Agreement, the PMU of this Project should be established with the NBRO and RDA jointly. So, the Early Warning System is effectively functioning and gets the maximum benefit by the NBRO because it is used by the NBRO according to the Loan Agreement.	Action should be taken to utilize Early Warning System (EWS) for the purpose of the project.