

Landslide Disaster Protection Project of the National Road Network - 2015

The audit of financial statements of the Landslide Disaster Protection Project of the National Road Network for the year ended 31 December 2015 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. This Project is implemented under the Loan Agreement No. SL-P 109 dated 14 March 2013 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Japan International Cooperation Agency (JICA).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then Ministry of Ports, Highways and Shipping, presently the Ministry of Higher Education and Highways is the Executing Agency and the Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to mitigate landslide disaster targeting for Class-A 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 amounted to Japan Yen 9,591 million equivalent to Rs.16,201 million and out of that, Japan Yen 7,619 million equivalent to Rs.12,870 million was agreed to be provided by the Japan International Cooperation Agency. The Project commenced its activities on 05 July 2013 and scheduled to be completed by 31 March 2019.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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 the Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit

evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records, etc. relating to the operations of the Project.
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Loan etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (e) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards.
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether the financial covenants laid down in the Loan Agreement had been complied with.

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 in accordance with Sri Lanka Public Sector Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,

- (c) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement,
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Loan Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiency

A sum of Rs. 7.83 million payable to the Consultants as at 31 December 2015 had not been brought to account.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2015 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized			
	JPY million	Rs. million		during the year under review		as at 31 December 2015	
	JPY million	Rs. million	Rs. million	JPY million	Rs. million	JPY million	Rs. million
JICA	7,619	12,870	350	286.62	349.85	428.90	527.79
GOSL	<u>1,972</u>	<u>3,331</u>	<u>100</u>	<u>38.03</u>	<u>46.42</u>	<u>62.77</u>	<u>76.62</u>
Total	<u>9,591</u>	<u>16,201</u>	<u>450</u>	<u>324.65</u>	<u>396.27</u>	<u>491.67</u>	<u>604.41</u>

The following observations are made in this regard.

- (a) It was observed that an allocation of Rs. 09 million had been made to implement the activities of the Project, out of a Loan obtained by the Road Development Authority from the National Savings Bank. However, details on settlement of the Loan had not been explained for audit.

- (b) According to the Circular No. MPH/HWY/ACC/03/03/01 of 03 July 2013 of the Secretary to the Ministry of Ports and Highways, the annual Budget Estimates should be prepared accurately. However, an allocation amounting to Rs. 100 million had been made in the Budget Estimate for the year under review for contribution of the Government of Sri Lanka and out of that only a sum of Rs. 46.42 million had been utilized as at 31 December 2015.

3.2 Physical Progress

The following observations are made.

- (a) Although detailed designing of mitigation of landslide disaster risks on targeted national roads had been completed by September 2015, the report on detailed designs had been submitted by the Consultant in February 2016, with delay of 05 months. In addition, the bidding process applied for the selection of contractors which scheduled to be completed in September 2016 had shown a progress of 86 per cent only as at 30 September 2016. As explained by the Project Director, the concurrence of the Japan International Cooperation Agency for the restructured bidding packages had been received with delays and as a result, the action could not be taken to select the contractors in timely manner.
- (b) Eventhough the establishment of early warning system at 30 stations in Kandy, Badulla, Nuwara Eliya, Matara, Rathnapura and Kegalle districts scheduled to be completed in November 2015, 62 per cent of works only had been completed as at 31 December 2015. However, the Project had reported that the respective works had been completed in May 2016 with delays of 06 months.

3.3 Issues on Financial Control

A Register of Fixed Assets had not been maintained by the Project in terms of the provisions of the Treasury Circular No. 842 dated 19 December 1978.

3.4 Human Resources Management

According to the information received, there were 34 cadre positions of the Project Monitoring Unit approved by the Department of Management Services and out of that 13 posts had only been filled as at 31 December 2015. The key posts such as a Project Engineer, 02 Geo Technical Engineers and 09 Technical Officers had remained vacant over a year as at 31 December 2015 and it was influenced for the smooth operations of the activities of the Project. Further, a person had been appointed as a Consultant eventhough no such a post was approved by the Department of Management Services. Eventhough salaries and vehicle allowances aggregating Rs. 630,410 had been paid during the year under review, no evidences such as daily attendance records, assignments of works, work done records etc relevant to Project works to prove the contribution of the services of the Consultant to the Project had been furnished for audit.