

Reduction of Land Vulnerability by Mitigation Measures Project - 2021

The audit of the financial statements of the Reduction of Land Vulnerability by Mitigation Measures Project for the year ended 31 December 2021 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 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 observation which I consider should be reported to the parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, the State Ministry of National Security and Disaster Management 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\$ 110 million equivalent to Rs. 19,976 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.

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 2021 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 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.

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. Comment of the Financial Statements

2.1 Non-Compliance with Rules and Regulations

| No | Reference to the Rules and Regulations | Non-Compliances | Management Responses | Auditor's Recommendations |
|-----|---|---|---|---|
| (a) | Chapter VII of the Financial Management Manual of the Project | A separate Internal Auditor should be appointed for the PMU who will directly report to the Line Ministry. However, the recruitments had not been done, even at | Project has no carder approval from Management service Department up to the date for the recruitment of | An Internal Auditor for the Project need to be appointed to strengthen the financial controls of the Project. |

the date of audit performed on 03 March 2022. separate Internal Auditor.

- (b) Management Service According to the Circular, Project Failed to Need to adopt with
Circular No. 01/2019 dated Steering Committee conduct Steering instructions given
15 March 2019 Meeting should be Committee Meeting as per in the Circular
conducted at least once in Meeting as per
two months. However, only circular due to
01 Steering Committee various Reasons
Meeting had been
conducted during the year
under review.

3. Physical Performance

3.1 Physical and Financial Progress of the Activities of the Project

The activities of the Project are implemented under 04 components namely

- (a) Implementation of Mitigation Measures
- (b) Enhancement of Policy, Standards and Institutional Capacity
- (c) Provision of Essential Facilities and
- (d) Equipment and Technical Support and Project Management

According to the information received, the updated implementation plan indicates that the Project activities cannot be completed before the closing date of the Project. The following observations are made thereon.

| Component | Audit Issues | Management Responses | Auditor's Recommendations |
|------------------|---|---|---|
| ----- | ----- | ----- | ----- |
| (a) Component-01 | The objectives of the component are to Implement Mitigation Measures, including field investigations, detailed designs, construction and supervision/management of construction activities for all 147 priority sites US\$ 97 million. However the civil works at 27 sites had been packaged under 04 works contract packages valued US\$ 19.5 million and decided to award in the year 2019. However 02 work contracts valued at US\$ 5.2 million had been awarded in the year 2020 other 2 works contracts valued at US\$ 14.3 million had been awarded during the year under review. | One of the main challenges faced in the tendering process was cancellation of tenderers of package 1,2 & 3 by the Ministry Procurement Committee. | Need to take action to catch -up the delays and ensure to complete the contract works timely to avoid additional cost |

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| (ii) | The balance civil works of 120 sites had been packaged under 08 work contracts valued at US\$ 60 million under phase-2 and decided to award in the year 2020. However, any contracts had not been awarded during the year under review. Therefore, the completion of construction works within the period of the Project is in doubt. | A major issue under the stage of designing mitigation measures is the reactivation of critical sites that changed the geomorphology owing to the long delay of the start of construction (due to retendering package 1,2 & 3), which caused repeated design work on Phase I sites. Due to the aforementioned delays, package 04 could not be awarded as scheduled | Need to take action to catch -up the delays and ensure to complete the contract works timely to avoid additional cost |
| (b) | Component – 02 This component refers to Enhancement of Policy, Standards and Institutional Capacity. Under this component, 03 consultancy contracts valued at US\$ 3.0 million had to be advertised in year 2019 and 2020. However, those consultancy contracts had not been advertised even in the year under review. | Agreed with Auditors. Rather than other component, component 2 should be implemented with multiple stakeholders. As a result of COVID 19 and the current economic crisis, gathering all stakeholders and the procurement committees has proven to be a little challenging. | Action should be taken to adhere with targets stipulated in the Project. |

3.2 Contract Administration

| No | Audit Issues | Management Responses | Auditor's Recommendations |
|-----|---|---|---|
| (a) | The Project had awarded 2 contracts of Landslide Mitigation works at Rathnapura and Kaluthra Districts to 2 contracts at a cost of Rs. 860.41 million in November 2020 and agreed to complete in September and November 2021, however due to slow progress of the contractors contract works had not been completed even at 3 March 2022. | Package 01 was taken over by PMU on 20.02.2022 and the first half of retention was also released. Package 1 is due for a final statement at completion (Final Bill) from the Engineer soon. | Need to supervise the activities of the contractor in effective manner. |
| (b) | According to the information received Landslide Mitigation work contracts which were awarded during the year under review at a contract value of Rs.297.1million, Rs.314.15 million, Rs.213.14 million and Rs.303.99 million had been recorded poor progress of 71percent, 11 percent, 15 percent and 30 percent respectively as at 30 April 2022 and it is doubtful the contract works could be completed within the Project period. | In response to material shortages and fuel shortages at the sites, the contractors informed Engineer about their request for EOT for the relevant packages | -Do- |

3.3 Underutilized/ Unutilized Resources

| No | Audit Issues | Management Responses | Auditor's Recommendations |
|-----|---|---|--|
| (a) | The physical and financial progress of the Project had remained in unsatisfactory level. The detailed cost estimate targeted at the end of the preceding year was amounted to US\$ 35.5 million from the Asian Infrastructure Investment Bank and Rs.2,638 million funds from the Government of Sri Lanka. However, out of the total fund utilization as at 31 December 2021 the total expenditure from the Asian Infrastructure Investment Bank funds aggregated to US\$ 3.94 million and the total expenditure of the Government of Sri Lanka funds had been reached up to Rs.436.04 million. | Agreed with Auditors. The physical and financial progress of the project had remained in unsatisfactory level due to various reasons. | Action should be taken to adhere with targets stipulated in the Project. |
| (b) | When comparing the actual utilization with targets as at 31 December 2021, it was observed that the percentages of the total expenditure utilized out of the total targeted amounts were | Agreed with auditors | Action should be taken to adhere with targets stipulated in the Project. |

4.87 per cent from the Asian Infrastructure Investment Bank and 7.3 per cent from the Government of Sri Lanka respectively. The Government of Sri Lanka had to pay a sum of Rs 89.7 million as commitment charges due to slow disbursements.

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| (c) | It was observed in audit that 8 items such as protection iron boxes, 3v lithium batteries, PVC pipes, extensometer, data logger, guide pipe 3m length & 50 mm diameter and rechargerble hand grill procured at a cost of Rs 93 million in year 2020 and 2021 kept in idle at the stores of the NBRO without being utilized for the intended purpose and item such as lithium batteries may be expired after lapse of special life time. | Agreed with Auditors. Project will stream line procedure of Protection of Assets | A sound assets management system needs to be introduced as part of the financial management system. |
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3.4 Issues Related to Human Resources Management

| Audit Issue ----- | Management Response ----- | Auditor's Recommendation ----- |
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| Out of that 46 carder positions approved by the Department of Management Services, the staff of the Project had comprised with 16 officers at the end of the year under review. The key posts such as a Project Engineer, a Landslide Expert, 03 Geo Technical Engineers and 09 Technical Officers had remained vacant nearly for 02 years as at 31 December 2021 and it affected to the smooth operations of the activities of the Project. | Agreed with Auditors. Project will take action to recruit balance staff as soon as possible. | The approved staff members are needed to recruit for smooth operation of the Project. |

3.5 Matters in Contentious Nature

| Audit Issue ----- | Management Response ----- | Auditor's Recommendation ----- |
|--|---|--|
| A sum of US\$ 64,668,75 had not been disbursed by the Lending Agency, due to disagreement of the expenditure reimbursement ratio with the Project. | Agreed with Auditors comments. AIIB agreed to disburse hold amount of USD 64,668.75 after amendment of Loan Agreement | Prompt action should be taken to amend the Loan Agreement. |