

Reduction of Land Vulnerability by Mitigation Measures Project - 2022

The audit of the financial statements of the Reduction of Land Vulnerability by Mitigation Measures 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 11 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 Ministry of Defense - 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 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 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 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)	Management Services Circular No.01/2019 of 15 March 2019	According to the Circular project operational committee meetings should be held once in two months. However, only one meeting had been held for the year under review.	Project failed to conduct Steering Committee Meeting as per circular due to various reasons.	Need to comply with instructions given in the Circular.
(b)	Loan Agreement No. L 0124 A	US\$ 96,229 had been retained by the Bank as at 31 December 2022 from expenditure incurred from 01 July 2020 to 31 March 2022 for construction of civil works of Section A of the Project under	As stated in the sub categories of project document, 86 percent will be finance from AIIB for the expenditure incurred on construction of	Consent from the bank should be obtained to recover the over payment.

expenditure category I and supervision thereon due to application of 86 percent reimbursement rates instead of 84 percent of the loan agreement.

civil works & PMU paid such percentage to the contractors through AIIB funds from the initiation of the project and AIIB also advised PMU to continue such payment procedure & agreed to release the withhold funds once the loan agreement is revised. PMU is in the process of forwarding the cabinet paper to the parliament as advised by the ERD.

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| (c) | Cabinet Memorandum No. 22/1362/604/028 | Agreement had been signed between GOSL and Bank for the revisions made to the loan agreement on 18 July 2022 before the cabinet approval obtained on 12 September 2022 for allocation of funds to purchase essential drugs and medical supplies for the Ministry of Health. | Decision was taken between the government and AIIB as a solution to the current economic situation of the country. | Cabinet approval should be obtained prior to the revisions to the loan agreement. |
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2.2 Issues related to Human Resources Management

Audit Issue	Management Response	Auditor's Recommendation
An officer had been recruited to the Post of Office Assistant on daily basis without approval of the Department of Management Services and without either a Letter of Recruitment or a Letter of appointment.	An officer had been recruited to the post of Office Assistant on daily basis.	Approval of Department of Management Services should be obtained.