

Eastern Province Rural Road Development Project - 2012

1. Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 3 of this report, I am of opinion that,

- a) the Project had maintained proper accounting records for the year ended 31 December 2012 and the financial statements give a true and fair view of state of affairs of the Project as at 31 December 2012 in accordance with Generally Accepted Accounting Principles,
- b) the funds provided had been utilized for the purposes for which they were provided,
- c) the withdrawals from and replenishments to the Special Yen Account during the year ended 31 December 2012 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2012 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- d) the Statement 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,
- e) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- f) the financial covenants laid down in the Loan Agreement had been complied with

2. Financial Statements

2.1 Financial Performance

According to the financial statements and information made available for audit, the expenditure of the Project for the year under review amounted to Rs.2,298,082,525 and the cumulative expenditure as at 31 December 2012 amounted to Rs. 3,598,046,599. The expenditure for the year under review, expenditure for the preceding years and the cumulative expenditure as at 31 December 2012 are summarized below.

Components	Expenditure for the Year 2012	Expenditure for the first accounting period from 26 March 2010 to 31 December 2011	Cumulative Expenditure as at 31 December 2012
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	Rs.	Rs.	Rs.
Civil works	1,994,709,433	1,096,165,517	3,090,874,950
Equipment	-	8,834,466	8,834,466
Consultancy service	22,947,386	28,940,103	51,887,489
Administration Cost	52,542,712	58,850,850	111,393,562
Tax	207,768,153	98,258,286	306,026,439
Commitment Charges	3,824,825	5,844,324	9,669,149
Interest charges	16,290,016	3,070,528	19,360,544
Total	<u>2,298,082,525</u>	<u>1,299,964,074</u>	<u>3,598,046,599</u>

2.2 Special Yen Account

According to the financial statements and information made available, the operations of the Special Yen Account during the year under review and the balance available in that account as at 31 December 2012 are shown below.

	2012	
	Japanese Yen	Rs.
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Balance as at 01 January 2012	460,868,373	676,047,816
Add : Replenishments	1,204,964,213	1,884,787,614
Foreign Exchange Gain	-----	<u>50,872,648</u>
	1,665,832,586	2,611,708,078
Less : Withdrawals	<u>(1,274,053,475)</u>	<u>(2,031,914,172)</u>
Balance as at 31 December 2012	<u>391,779,111</u>	<u>579,793,906</u>

3. Audit Observations

3.1 Accounting Deficiencies

Following observations are made.

- (a) It was observed that following payables and receivables had been omitted from the financial statements.

Items	Amount
-----	Rs

Retention money payable	31,876,612
Mobilization advances receivable	214,426,927
Payable for civil works as at end of the year 2012	1,202,268

	<u>247,505,807</u>

- (b) Consultancy payment amounting to Rs. 2,261,027 relevant to the year 2011 had been included in the financial statements for the year 2012.

- (c) Payable consultancy payments amounting to Rs. 4,973,820 relevant for the year 2012 had not been included to the financial statements in the year 2012.
- (d) Purchase of furniture and office equipment amounting to Rs.230,930 had been accounted as the administration cost instead of being accounted as assets.

3.2 Non-compliance with Laws, Rules and Regulations

Board of survey which should be conducted at the end of the year under review for the fixed assets amounting to Rs. 9,065,396 had not been conducted in terms of Financial Regulation – 756 of the Government of the Democratic Socialist Republic of Sri Lanka.

4. Financial and Physical Performance

4.1 Utilization of Funds

According to the disbursement schedule total funds amounting to Yen 4,664 million (Rs. 5,834 million) was expected to be utilized within three years and three months from the year 2010 to 2013. As per the allocation, Treasury provision for the year 2012 was Rs. 2,473,750,000 and out of that Rs. 2,298,080,000 or 93 per cent of original disbursement plan had been utilized by the Project. Details of the fund utilization are given below.

Source	Amount agreed to be provided		Budgetary provision for the year 2012	Amount utilized for the year ended 31 December 2012	Cumulative expenditure up to year ended 31 December 2012
	Yen	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
JICA	3,965	4,944	2,144	2038	3,172
GOSL	699	890	330	260	426
	<u>4,664</u>	<u>5,834</u>	<u>2,474</u>	<u>2,298</u>	<u>3,598</u>

Although 83 per cent of construction period was expired, remaining fund for utilization is Rs.2,236 million equivalent to 38 per cent of total loan amount. So it is doubtful whether balance fund could be utilized within remaining project period.

4.2 Physical Performance

Although construction work should have been completed in 31 July 2013, construction works had not been completed up to satisfactory level even as at 30 April 2013. Following observations are made relating to Progress Report of the Project.

- (a) 307 sub projects had been implemented to construct the 333Km roads length in the Eastern Province. However, non of the sub projects had been completed within the specific period of the sub Project. Extended period of time from two months to ten months had been granted for all sub projects and four sub projects had been given second time extension for more than 08 months.

- (b) Two contracts awarded in Batticaloa District had been delayed due to the negligence of the contractors. Although contract period was expired, physical performance of the contract was less than 22 per cent.

5. Systems and Controls

Special attention is needed in respect of the following areas of control.

- a. Accounting
- b. Contract Administration
- c. Fund management
- d. Performance review and monitoring.
- e. Certification of works completed