

Conflict Affected Region Emergency Project (CARE) - Component A - 2012

2. 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 the 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 opening and closing balances, withdrawals from and replenishments to the Imprest Fund Account for the year under review 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 (CBSL) as at that date,
- (d) 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,
- (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, the expenditure of the Project for the year ended 31 December 2012 amounted to Rs. 2,524,886,115 and the cumulative expenditure as at 31 December 2012 amounted to Rs. 3,405,873,104. A summary of the expenditure for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2012 is given below.

Item of Expenditure	Expenditure for the year ended 31 December		Cumulative Expenditure as at 31 December 2012
	2012 Rs.	2011 Rs.	Rs.
Civil Works	2,291,866,077	512,276,155	2,974,027,072
Equipment	19,982,886	34,601,979	55,555,219
Consultancy	151,476,107	106,966,105	261,124,897
Incremental Operating Cost	37,655,435	34,144,376	74,833,794
Commitment charges	23,905,610	16,426,512	40,332,122
	2,524,886,115	704,415,127	3,405,873,104

2.2 Imprest Fund Account

According to the financial statements and information made available, the operations of the Imprest Fund Account during the year under review and the balance available therein as at 31 December 2012 are given below.

	<u>US\$</u>	<u>Rs.</u>
Balance as at 01 January 2012	2,019,699	230,046,320
Add: Replenishments	4,262,042	557,843,952
Foreign Exchange Gain	-	11,426,422
	6,281,741	799,316,694

Less: Withdrawals	3,419,901	435,402,785
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Balance as at 31 December 2012	2,861,840	363,913,909
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3. Audit Observations.

3.1 Accounting Deficiencies

The Following observations are made.

- a) Difference of Rs. 539,299 had been observed between the receivables shown in the notes to the Financial Statements and receivable shown in the statement of financial position as at 31 December 2012 furnished by the Northern Provincial Project office.

- b) Difference aggregating Rs. 98,664,486 had been observed between financial statements maintained by the Northern Provincial Council (NPC) and the financial statements of the Project. Details are given below

Receipt and payment statements

	Financial statements of the NPC	Financial statements of the Project	Difference
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	Rs.	Rs.	Rs.
Civil works	1,395,361,651	1,297,667,519	97,694,132
Equipment	20,953,240	19,982,886	970,354
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	1,416,314,891	1,317,650,405	98,664,486
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3.2 Planning and Monitoring

The Following observations are made.

- a) A comprehensive action plan, covering all Project activities and the fund allocation with the target of financial and physical terms with fixing responsibilities in monthly, quarterly and by annually covering entire project period should be prepared to ensure the achievement of Project objectives by using allocated funds within the Project period. However such plan had not been prepared and implemented.
- b) An action plan clearly identifying the responsibilities of core - staff with target to be achieved and the budgetary allocation relating to the activities carried out during the period had not been prepared. Therefore the progress of the Project as a whole could not be properly evaluated in order to take corrective measures and to make necessary changes for achieving objectives set for.

3.3 Allowances paid for the Coordinating Staff

A sum of Rs. 1,063,016 had been paid to the Chief Secretary, Secretary to the Ministry of Infrastructure, Deputy Chief Secretary Finance and Deputy Chief Secretary - Planning of the Northern Provincial as coordinating allowance for the years 2011 and 2012. In this regard, the following observations are made.

- (a) Although approval had been obtained from the Governor of Northern Province to make 1/5 of the salary of the officers, the funds from which payment of allowances made was not comes under the purview of the Provincial Council, but under the purview of the Ministry of Ministry of Economic Development and Asian Development Bank. Hence relevant approval for the allowance of Rs. 1,063,016 had not been obtained either from Ministry of Provincial Councils or ADB.

- (b) Although allowances were paid for coordinating the project works, evidence for the coordination of work such as nature and detail of work done, No. of days spent by the officers for the project related activities had not been made available for audit other than attendance to Steering Committee Meetings.
- (c) PAYE Tax had not been deducted from the salaries of the officers who were paid coordinating allowance exceeding over Rs. 50,000 gross salary per month in terms of Chapter XV of the Inland Revenue Act No. 10 of 2006.

3.4 Civil works

Following observations were made at the field inspection carried out at selected samples on the roads in five districts.

- (a) ***10 km Road of Kokavil – Thunukkai***
Only 5 km Road works had been completed without shoulder filling and crawling works only had been completed for other 5 km roads.
- (b) ***Murukandy – AkkerajanKulam Road (10 km)***
Shoulder filling had not been completed.
- (c) ***PerumKulam – Chankaththanai Road***
Shoulder compaction had not been made.
- (d) ***Meenadchi Amman Kovil Road***
Shoulder compaction had not been made properly.
- (e) ***Chavakachcheri Urban Council road***
Shoulder compaction had not been satisfactorily done.

3.5 Non Rendition of Progress Reports

Quarterly and half yearly progress reports had not been prepared and rendered to the Auditor General by the consultant company. The Island wide overall physical and financial progress report of the project as at 31 December 2012 had not been prepared and rendered to audit even though called for.

04 Financial and operating Review

4.1 Utilization of Funds

As per project proposals, a sum of Rs. 9,924.2 million had been allocated for the six categories for the Project period. However a sum of Rs. 3,406 million only had been utilized up to 31 December 2012. Therefore 66% of the funds only had been utilized after closing of 30 months of project period. The details of utilization and unutilized allocation under each category up to 31 December 2012 are given below.

Category	Fund allocation as per loan agreement	Utilized amount up to 31 December 2012	Unutilized amount up to 31 December 2012	Percentage of utilized amount
	Rs. Mn	Rs. Mn	Rs. Mn	
Civil works	8933.6	2974.0	5,959.6	33
Equipment	65.0	55.6	9.40	86
Consultancy	261.3	261.0	0.3	99
Incremental	128.7	74.8	53.9	58
Commitment charges	-	40.4	(40.4)	-
Unallocated	535.6	-	535.6	-
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	9,924.2	3,405.8	6,518.4	34
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4.2 Financial and Physical Performance

According to the financial statements and information made available, the financial and physical performance of the activities under Component ‘A’ of the Project as at 31 December 2012 is summarized below.

	Contract - No -----	Date of Commencement -----	Date of Completion -----	Financial Progress as at 31.12.2012 -----	Physical Progress as at 31.12.2012 -----
				%	%
(i)	CAREP/NPRDD/NCB/LG9	01.11.2012	01.02.2014	8.94	5
(ii)	CAREP/NPRDD/NCB/PL4	25.08.2011	25.01.2013	32.79	30
(iii)	CAREP/NPRDD/NCB/PL6	25.08.2011	25.01.2013	27.49	13
(iv)	CAREP/NPRDD/NCB/PL7	30.09.2011	02.03.2013	71.83	69
(v)	CAREP/NPRDD/NCB/PS2	18.08.2011	18.05.2012	39.80	35
(vi)	CAREP/NPRDD/NCB/PS3	27.09.2011	27.09.2012	64.00	56
(vii)	CAREP/NPRDD/NCB/PS9	20.10.2011	19.10.2012	51.40	50
(viii)	CAREP/NPRDD/NCB/PS10	24.10.2011	23.10.2012	39.00	30

5. Systems and Controls

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

- a) Accounting
- b) Contact Administration
- c) Payments