

Report of the Auditor General on the Financial Statements of the Provincial Road Improvement Project (Central & Sabaragamuwa Provinces) for the year ended 31 December 2010.

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 5 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2010 and the financial statements give a true and fair view of the state of affairs of the project's as at 31 December 2010 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 2010 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2010 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka 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 presented and information made available, the expenditure of the Projects for the year ended 31 December 2010 amounted to Rs.666,150,626. A summary of the expenditure for the year under review, the expenditure for the preceding year and the cumulative expenditure as at 31 December 2010 is given below.

Item of Expenditure	Expenditure for the year ended 31 December		Cumulative expenditure as at 31 December 2010
	2010	2009	
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	Rs.	Rs.	Rs.
Civil Works	471,942,942	1,744,692,978	6,614,695,346
Machinery and Equipment	-	-	117,493,799
Motor Vehicles	-	-	48,257,308
Project Administrative Cost	21,825,709	45,270,989	226,609,246
Loan Interest	150,796,159	117,894,439	382,137,104
Service Charges for Special (Yen) Account	-	-	269,010
Consultancy charges	21,585,816	163,266,164	1,040,816,130
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	666,150,626	2,071,124,570	8,430,277,943
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2.2 Special Yen Account

	<u>JPY</u>	<u>Rs.</u>
Balance as at 01 January 2010	169,299,041	210,150,900
<u>Add:</u> Replenishments	230,710,795	288,824,982
Foreign Exchange Gain	-	16,030,220
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	400,009,836	515,006,102
<u>Less:</u> Withdrawals	302,095,513	381,734,917
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	97,914,323	133,271,185
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Balance as at 31 December 2010	97,914,323	133,271,185
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3. Audit Observations

Following observations are made.

- (a) Although assets to the value of Rs.167,694,384 had been shown in the balance sheet as at 31 December 2010, detailed schedules and the verification report of those assets as at 31 December 2010 were not made available to audit. Further it was observed that assets belonging to this project (P76) valued at Rs.46,807,029 had been taken over by another Project (P96).
- (b) Although rehabilitation of 600 Kms of road length and 72 bridges in 85 roads in 3 stages had been included in the Project Memorandum, according to Project completion report, 303 Km of road length and 94 bridges in 41 roads under 2 stages had been completed.

Following observations are made in this regard.

- (i) Variation orders for the justification of change of scope of the project activities are not made available for audit.
 - (ii) It was observed that 297 Km of road length in 44 roads include in the original estimate had not been attended. However, No. of rehabilitation of bridges had been increased from 72 to 94. Justifiable reasons for these changes were not made available to audit.
- (c) A Motor vehicle procured for the project out of the Project funds at a cost of Rs.3,416,000 had been released to the Sabaragamuwa Provincial Council on 19 July 2007. However It was not handed over back to the Project even up to August 2011.
- (d) Contract Administration
- (i) The Contract valued at Rs. 208.2 million awarded under Package No. SIKG2-A, had been cancelled by the letter no.PPD/SG/S1KG2A, dated 03 March 2008 of the Provincial Project Director, Sabaragamuwa Province due to poor progress. Even though a request had been made for the encashment of Rs. 33.4 million from the performance and advance payment bond of the construction guarantee fund, no favorable response had been received even after legal action initiated through the Department of Attorney general. No Progress had been reported to audit up to 23 September 2011 in this regard.
 - (ii) A Contract valued at Rs. 253.6 million implemented under package no. S1RP2, had been cancelled with effect from 03 July 2008 due to poor performance. Even though the bank had been requested to pay a sum of Rs.52.9 million from the performance and advance payment bond, the bank had not paid any attention. However the Project had initiated legal action through the Department of attorney General. But no progress was reported to Audit up to 23 September 2011.

- (iii) Legal action had been initiated through an Arbitrator by demanding a sum of Rs.300.1 million by the contractor as the contract valued at Rs. 264.8 million under the package No.S1RP1 had been cancelled on 09 May 2007 due to poor performance and for the loss of Rs.82.8 million made by the Project. The case is pending even as at 23 September 2011.

- (iv) The contract valued at Rs. 276.1 million under the Road Package No. C1KD1 awarded to a private contractor had been cancelled by the project on 05 June 2007 due to non performance of the contract and a sum of Rs.69 million had been recovered after encashment of the bank guarantee and the performance bond. However, the contractor had filed the case claiming a sum of Rs. 211.5 million as losses sustained by him in Dispute Adjudication Board. The project also had claimed a sum of Rs.108 million from the contractor as compensation. The matter is still pending even as at 23 September 2011.