

**Provincial Road Project – Parts A.3 and B.3 (PRP) - 2012**

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**1. Opinion**

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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 withdrawals from and replenishments to the Special (Dollar) Account 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 Financing Agreement, and,
- (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 Financing Agreement had been complied with

**2. Financial Statements**

**2.1. Financial Performance**

According to the Financial Statements presented, the expenditure of, the Project for the year ended 31 December 2012 amounted to Rs. 446,830,717 and the cumulative expenditure as at 31 December 2012 amounted to Rs 679,938,106. A summary of the expenditure of the Project for the year under review and the preceding year and cumulative expenditure as at 31 December 2012 are given below.

<u>Item of Expenditure</u>	<u>Expenditure for the year ended</u>		<u>Cumulative</u>
	<u>31 December</u>		<u>Expenditure as at</u>
			<u>31 December</u>
			<u>2012</u>
	<b>2012</b>	<b>2011</b>	
	Rs	Rs.	Rs.
Civil Works	370,277,508	149,042,019	519,319,527
Plant and Equipment	1,982,186	4,663,020	4,663,020
Consultancy	61,546,564	64,539,192	126,085,756
Incremental and Operating Cost	13,024,459	15,845,344	29,869,803
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	<b>446,830,717</b>	<b>234,089,575</b>	<b>679,938,106</b>
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**2.2 Special (Dollar) Account**

According to the Financial Statements and information made available, the operations of the Special (Dollar) Account during the year ended 31 December 2012 and the balance available in that account as at that date are given below.

	<u>US\$</u>	<u>Amount</u>
		<u>Rs.</u>
Balance as at 01January 2012	3,043,458	346,653,803
Add: Replenishments	3,787,000	483,764,256
Foreign Exchange gain	-	48,900,891
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	6,830,458	<b>879,318,950</b>
Less: Withdrawals	3,433,736	447,389,054
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Balance as at 31 December 2012	<b>3,396,722</b>	<b>431,929,896</b>
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### **3. Audit Observations**

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#### **3.1. Accounting Deficiencies**

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The following observations are made

- a) Balance of Special (Dollar) Account as at 31 December 2012 amounting to Rs. 431,929,896 had been shown under noncurrent liabilities instead of being shown under current liabilities.
- b) Mobilization advances aggregating to Rs. 115.4 Million paid to the contractors including terminated contracts during the year under review had been treated as project expenditure.
- c) The foreign exchange gain had not been separately identified and shown in the Statement of Sources and Uses of Funds for the year under review.

#### **3.2 Lack of Evidence for Audit**

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A sum of Rs. 50,408,094 paid to the Ceylon Electricity Board and Sri Lanka Telecom for relocation of posts had been directly made to the contractors. However the details of payments and work estimate had not been furnished to audit.

#### **3.3 Non Compliances with Laws, Rules and Regulation**

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##### ***Remittance of PAYE Tax***

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PAYE tax from two officers of the Project had not been deducted from their salaries in terms of the Chapter XV of Inland Revenue Act No, 10 of 2006 and remitted to the Commissioner General of Inland Revenue.

### **3.4 Allowances paid to Coordinating Staff**

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Following observations are made.

- a) A sum of Rs. 849,453 had been paid to the Chief Secretary, the Secretary to the Ministry of Infrastructure, Deputy Chief Secretary-Finance and the Director of Provincial Audit, as coordinating allowance for the years 2011 and 2012. In this regard, following observations are made.
- b) The payments had not been approved by the appropriate authority.
- c) Although allowance were paid for coordinating the project works, evidence for the coordination of work such as nature and details of work done, number of days spent by the officers for the project related activities were not made available for audit other than attendance to the steering committee meetings.
- d) PAYE tax in terms of the Chapter XV of Inland Revenue Act No. 10 of 2006 had not been deducted from the allowance as the salaries of the officers who were paid coordinating allowance exceeded Rs. 50,000 per month.

## **4. Financial and Operating Review**

### **4.1 Utilization of Imprest Funds**

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- a) Although a sum of Rs. 830,418,059 had been received as imprest during the year ended 31 December 2012, the expenditure incurred for the year under review was only Rs. 446,830,717. Further, no withdrawal had been made thereon by the Project up to 31 March 2013. Therefore, the balance of the Special Dollar Account as at 31 December 2012 amounting to Rs. 431,929,896 had been idle without being utilized for the activities of the Project.
- b) A provision of Rs. 457,730,000 had been made available in the annual estimate of the GOSL for the year 2012 under Head No.315 Ministry of Local Government and Provincial Councils Programme, 02-Develop activities, Project 021- Special development programme. The net provision and the actual expenditure incurred during the year are given below.

	<b><u>Net provision</u></b> <b><u>Rs.</u></b>	<b><u>Expenditure</u></b> <b><u>Rs.</u></b>	<b><u>Percentage</u></b> <b><u>of utilization</u></b> <b><u>of fund</u></b>
FA	429,730,000	428,501,878	99
RFA	23,000,000	16,071,881	70
GOSL	5,000,000	2,256,958	45
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	<b>457,730,000</b>	<b>446,830,717</b>	
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**4.2 Contract Administration.**  
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**4.2.1 (a) Termination of two package No.s PRP/NP/03 and PRP/NP/05 of Road projects**  
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(1) The above contracts were terminated during the year under review due to non performance of the following tasks.

- Deficiency in accomplishment of required target
- Unauthorised and unapproved stock piling material at site.
- Non establishment of site Laboratory.
- Required Key personal not fully mobilized at site.
- Non completion of design / drawing.
- Non submission of related documents for material supplies.
- Failure to provide documentary evidence for utilization of mobilization advances for project related activities.

(11) Over all progress of roads of the above contracts at the time of termination were as follows.

<b><u>Roads</u></b>	<b><u>Percentage of</u></b> <b><u>Target</u></b>	<b><u>Percentage of</u></b> <b><u>Achievement</u></b>
C 15	92.29	1.48
C17	68.98	0.48
C14	18.72	0.16

(111) It was observed in audit that the termination of road contract works was arisen due to inadequate supervision of the consultant and lack of close monitoring process.

#### **4.2.2 Supervision over Contract Works.**

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A sum of Rs. 61,546,563 had been paid for supervision consultant up to 31 December 2012. In this regard the following observations are made.

- i) Contracts were poorly managed by the supervising consultant as a result, two packages for the length of 26.4 km road works were terminated during the year under review. Progress of the remaining two packages of 29.3 km were far below the target.
- ii) Capacity of the consultant staff was inadequate and as a result, team leader was replaced due to ineffective contract administration, communication and design making.
- iii) Monitoring of contract works was inadequate.
- iv) Variations orders, extension of time, revised designs and approval of routine works were substantially delayed.
- v) Lack of professional commitment on the part of consultant and his staff.

#### **4.2.3 Relocation of Electricity Posts**

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Payments amounting to Rs. 39.2 million made for relocation of posts of the Ceylon Electricity Board (CEB) were made during the year 2012, but relocation works were not fully completed at the end of the year 2012. Details are given below.

<b><u>Contract No.</u></b>	<b><u>Section</u></b>	<b><u>Date of approval of CEB Estimate</u></b>	<b><u>Payment Made</u></b>	<b><u>Progress as at 31.12.2012</u></b>
NP 01	C006	23.04.2012	20.07.2012	Nil
	C007	14.06.2012	20.09.2012	71%
	C012	14.06.2012	31.07.2012	29%
NP 02	143-16A	02.06.2012	06.08.2012	40%

**4.2.4 Major Excess Quantities**

Major excess quantities were observed over the revised quantities due to improper estimates prepared. Details are given below.

<b><u>Description</u></b>	<b><u>Contract No.IRP/NP/01</u></b>				<b><u>Contract No.IRP/NP/02</u></b>			
	<b><u>BOQ Qty Cum</u></b>	<b><u>revise Qty Cum</u></b>	<b><u>Add Qty Cum</u></b>	<b><u>Percent age of increase Qty</u></b>	<b><u>BOQ Qty Cum</u></b>	<b><u>revise Qty Cum</u></b>	<b><u>Add Qty Cum</u></b>	<b><u>Percent age of increase Qty</u></b>
Clearing & Grubbing	22,862	51,196	28,334	124	55,719	62,822	7,103	13
Sub base	3,276	4,398	1,122	24	-	-	-	-
ABC	16,099	17,816	1,717	11	-	-	-	-
Embankment type	1,540	7,807	6,267	407	3,630	10,950	7,320	200
Shoulder	3,007	3,758	751	25	4,810	5,504	694	14

**4.2.5 Approval for Extension of time**

Recommendation for granting of extension of time for completion of contracts were given by 123 calendar days and 70 calendar days respectively based on assessment of Project Management Report. However the valid reasons or grounds for extension of time which were beyond the control of the contractors were not furnished for audit. Details of extension of time granted are given below.

<b><u>Contract No.</u></b>	<b><u>Original date of completion of contract</u></b>	<b><u>Extention 1</u></b>	<b><u>Extention 2</u></b>	<b><u>Extention 3</u></b>
NP/ 01	27.01.2012	17.07.2012	05.05.2013	31.08.2013
NP/02	29.11.2011	15.05.2012	06.07.2012	20.05.2013

**4.2.6 Revision of Contract values.**  
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Revision of contract value and revision of BOQ items were made without obtaining approval from the Lending agency and Ministry of Local Government and Provincial Councils.

- (a) Although contract values had been revised, no evidence was made available for audit about the reason for the revision and approval obtained from the Lending agency for revision of contract value.

<b><u>Contract No.</u></b>	<b><u>Original value</u></b> <b><u>Rs.</u></b>	<b><u>Revised</u></b> <b><u>Rs.</u></b>	<b><u>Difference</u></b> <b><u>Rs.</u></b>
NP/01	458,115,063	470,693,157	12,578,094
NP/02	427,502,519	426,894,391	(608,128)

(b) **Revision of BOQ items of the Contracts.**  
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Although the following BOQ items were revised over 10%, the approval from the relevant authorities were not obtained.

<b><u>Description</u></b>	<b><u>Original</u></b> <b><u>Rs.</u></b>	<b><u>Revised</u></b> <b><u>Rs.</u></b>	<b><u>Increased</u></b> <b><u>Percentage</u></b> <b><u>%</u></b>
<b>01. Package NP/01</b>			
<b>I. Road No. R441JF C006</b>			
1.Site Cleaning	464,645	753,119	62
2.Earth Work	4,018,500	5,722,050	42
<b>II. Road No. R441JF C007</b>			
1.Site Cleaning	624,136	803,765	29
2.Earth Work	5,084,350	12,270,000	141
3.Road Pavement	66,621,375	88,302,610	33
<b>III. Road No. R441JF C012</b>			
1.Site Cleaning	259,300	644,504	149



2. Culverts Retaining structures & Bus Bays	1,364,600	1,675,600	23
<b>02. Package NP/02</b>			
<b>I. Road No. C142</b>			
1.Site Cleaning	254,324	347,659	37
2.Earth Work	2,849,999	4,170,470	46
<b>II. Road No. C 143</b>			
1.Site Cleaning	287,424	332,867	16
2.Earth Work	5,830,180	14,869,540	155
3.Culverts Retaining structures & Bus Bays	469,193	624,439	133
<b>III. Road No. C 143</b>			
1.Earth Work	10,365,856	23,592,926	128
<b>IV. Road No. JF - 137</b>			
1.Earth Work	5,293,490	13,100,769	147

#### **4.3 Progress Review**

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Following observation are made

- (a). Provincial Road Project was commenced its activities on 23 May 2010. A foreign consultant company in association with another local consultant company had been appointed as Project implementation consultant for Provincial Road Project of the Northern Province by the Ministry of Local Government and Provincial Councils. Original proposal was to rehabilitate 100 kilometres road in Jaffna District consisting seven packages and later it was reduced to 55 km consisting 4 packages due to financial constraints. Out of the 4 packages two packages of contracts were terminated on 23 November 2012 due to poor progress against planned as per details given below.

<u>Terminated</u> <u>Contracts</u>	<u>No of km</u>	<u>Financial Progress</u>		<u>Physical Progress</u>	
		<u>Planned</u>	<u>Achieved</u>	<u>Planned</u>	<u>Achieved</u>
PRP/NP/03	14.0	83%	21%	76%	5.23
PRP/NP/05	12.4	87%	16%	74%	0.75
	<b>26.4</b>				

It was observed in audit that even though the above contracts were terminated on 23 November 2012, no action had been taken to complete the balance road work of 26.4 km by awarding new contractors.

- (b). Physical and financial progress of the rest of two packages had been shown poor performance as at 31 December 2012. Details are given below.

<b><u>Package No</u></b>	<b><u>Revised Contract Value Rs.</u></b>	<b><u>Physical Progress as at 31.12.2012</u></b>		<b><u>Financial Progress as at 31.12.2012</u></b>	
		<b><u>Target</u></b>	<b><u>Achieved</u></b>	<b><u>Target</u></b>	<b><u>Achieved</u></b>
PRP/01	470,693,157	95%	50%	92%	51%
PRP/02	426,894,391	73%	52%	80%	43%

Although 50% of the Project period was completed at the end of the year 2012, out of the allocated amount of Rs. 885 Million for the above two packages, expenditure of Rs. 425 Million only had been incurred.

#### **4.4 Uneconomic Transactions**

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Following observations are made.

- a) A sum of Rs. 6,863,310 had been paid as vehicle hiring charges up to 31 December 2012 to hire two vehicles. Further, charges of Rs. 100 approximately per kilometre had been paid to a private car hiring company in Colombo. However the hire charges in Jaffna was Rs. 40 per kilometre. As a result substantiate amount of money had been over paid as hire charges without considering economic of transaction.
- b) A sum of Rs. 135,000 had been paid as legal expenses to prepare legal documents with regard to the terminated contracts even though a legal officer had been appointed to the Provincial Council for monthly salary of Rs. 80,000. However, no legal service had been obtained from him. Further it was observed that Procurement Committee had approved the legal expenses of Rs. 125,000 only.

- c) A sum of Rs. 1,050,000 had been paid as building rental by the Project up to 31 December 2012. However valuation report for building rental of Rs. 50,000 per month had not been obtained from the Chief Valuer of the Department of Valuation.

**5. Systems and Controls.**

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

- (a) Accounting and Maintenance of accounting records.
- (b) Advances and Imprest
- (c) Contract Administration.