

## **Road Sector Assistance Project - 2011**

### **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 adjustment arising from the matters referred to in paragraph 3.1 of this report, I am of opinion that;

- (a) the Project had maintained proper accounting record for the year ended 31 December 2011 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2011 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) Accounts during the year ended 31 December 2011 had been truly and fairly disclosed in the books and records maintained by the Project and the balances as at 31 December 2011 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 Development Credit Agreements.
- (e) satisfactory measures had been taken by the management to rectify the issues highlighted in by previous year audit report, and
- (f) the financial covenants laid down in the Development Credit Agreements 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 under review amounted to Rs.906,791,508 and the cumulative expenditure as at 31 December 2011 amounted to Rs.24,248,882,550. The following statement shows a summary of expenditure for the year under review, and the preceding year and the cumulative expenditure as at 31 December 2011.

<u>Description</u>	<u>Expenditure for the year</u> <u>ended 31 December</u>		<u>Cumulative</u>
	<u>2011</u>	<u>2010</u>	<u>expenditure as at</u>
	<u>Rs</u>	<u>Rs</u>	<u>31 December 2011</u>
Fixed Assets - Written down Value	7,270,878	120,123,681	138,769,169
Project Expenses	96,986,530	54,148,005	368,338,229
Training	5,411,577	2,929,744	49,647,082
Project and other			
Consultancy	34,955,627	29,053,173	105,067,138
Design Consultancy	-	-	122,604,637
Work-in-Progress	72,209,034		72,209,034
Relocation of Utilities	-	27,905	308,273,820
Civil Works	689,957,862	1,781,845,734	23,083,973,441
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	906,791,508	1,988,128,242	24,248,882,550
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## 2.2 Special (Dollar) Accounts

According to the financial statements and information made available, three Special (Dollar) Accounts had been maintained at the CBSL during the year under review for all three Agreements. The balances of respective accounts as at 31 December 2011 are given below.

Loan No	4429CE		4138CE		4906CE	
	SLRs	USD	SLRs	USD	SLRs	USD
Balance as at	<b>360,215,150</b>	<b>3,246,556</b>	<b>333,585</b>	<b>3,007</b>	-	-
01 January 2011						
Add :						
Replenishments	310,534,794	2,823,444	312,245,230	2,787,106	32,559,455	285,860
Foreign Exchange Gain/ (Loss)	4,004,250		(82,484)		114	
	<b>674,754,194</b>	<b>6,070,000</b>	<b>312,496,331</b>	<b>2,790,113</b>	<b>32,559,569</b>	<b>285,860</b>
<u>Less</u>						
Withdrawals	556,930,448	5,035,563	215,797,372	1,941,141	22,548,915	197,971
Balance as at						
31 December 2011	<b>117,823,746</b>	<b>1,034,437</b>	<b>96,698,959</b>	<b>848,972</b>	<b>10,010,654</b>	<b>87,889</b>

### 3. Audit Observations

#### 3.1 Accounting Deficiencies

Following observations are made.

- (a) The Interim Payment Certificates (IPCs) valued at Rs 74,487,646 submitted by four contractors for the period from 01 September to 30 November 2011 for the rehabilitation and reconstruction works of the Kantale - Trincomalee Road had not been brought to account for the year under review. Therefore, cost of civil work in progress and the balance of retention money shown in the financial statements had been understated by Rs. 74,487,646 and Rs. 5,891,968 respectively.
- (b) The Project had transferred the fixed assets valued at Rs143.26 million including the Road Survey Vehicle valued at Rs.92.688 million to the RDA from time to time, instead of transferring such assets at the end of the Project period. The depreciation amounting to Rs.42,564,122 thereon had been provided by the Project at the end of the year under review. It was further observed that the similar practices to assess the useful life time of such assets had not been applied by the Project and the RDA. Further, the Project did not provide depreciation on assets for the year of purchase and full depreciation was being charged for the year of disposal contrary to the provisions made in SLAS-18.
- (c) As mentioned in my previous year report, a sum of Rs. 102 million could not be withdrawn by the Project in 2010 due to various shortcomings of the PMU. As a result, expenses had been incurred, out of the funds provided by the General Treasury. Therefore, the Project had refunded a sum of Rs 192,993,362 to the General Treasury during the year under review.

#### 3.2 Physical Performance

##### (a) **Road Rehabilitation and Reconstruction Works carried out under Phase- 01 of the Project**

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Initially, the Project had planned to carry out the rehabilitation and reconstruction works of 13 roads. According to the progress reports, most of rehabilitation and reconstruction works of such roads had been substantially completed as at 31 December 2011. Following matters were observed in audit in this regard.

- (i) The rehabilitation and improvement works of 601 km of 12 roads had only been completed at the end of 2011, out of 620 km of the above mentioned 13 roads selected by the Project. The improvement works of Galkulama-Rambewa Road situated in North Western Province had been abandoned.
- (ii) The initial estimated cost of the contracts for improvement works of the above roads aggregating Rs.11,450 million had been subsequently increased by Rs. 2,246 million due to variations made in the BOQs of

- the respective roads. The initial cost of contract of Nittambuwa- Kandy Road and Galle- Deniyaya Road had been increased by 62% and 40% respectively. It was observed that a sum of Rs 9,462,807,417 had been shown as payable in the Balance Sheet under the civil works and construction supervision without having the approval of the Cabinet of Ministers and the lending agency.
- (iii) It was observed that the most of the construction works had been completed with delays in period ranging from 91 days to two and half years. Out of that, six contracts had been delayed for over one year. Such delays in completion of construction had caused to increase the cost of the construction by Rs.4, 196 million.
- (iv) Further, penalties amounting to Rs. 764,374 paid on delays of settling contractors' claims by the Project in connection with the construction of Ingiriya- Ratnapura Road had been included in the cost of the respective contract. Further, the payments amounting to Rs. 2,700,250 had been made to the members of Dispute Arbitration Board appointed for the settlement of dispute arisen between the contractor and the Project.
- (v) According to a report furnished in June 2010 by the University of Moratuwa relating to investigation of rehabilitation works of Nittambuwa – Kandy Road, several instances of the non- compliance with the standards and negligence of the contractor and the consultant from the planning stage to completion of construction works had been pointed out . Some of observations therein are given below.
- Lack of proper assessment carried out by the design consultants on the road surface and the transportation etc at the initial stages.
  - Deficiencies observed in mixing planning standards of road construction stages such as wearing course and binder course.
  - Cracks had developed on the road surface due to production of substandard asphalt, lack of compacting and insufficient tarring. No proper evidence were made available that the contractor had rectified the defects pointed out.

However, the Secretary to the Ministry of Ports and Highways had taken action to attend defect rectification works of the road from the contractor himself without incurring additional costs to the Project. Further, a Committee comprised with the officers of the Ministry of Ports and High ways, RDA and IDA and the representatives of the Contractor and the Consultant etc had been appointed on 27 July 2010 to monitor the rectification works, examine the cause of defects, inspect the site periodically and advice the field staff on improvement to the quality of the works. Eventhough the rectification works of the road was scheduled to be completed by 31 March 2012, 85% of slurry sealing of chainage 59+911 km to

114+500km of the Road had been completed. However, only 27.65% of slurry sealing of chainage 39+400 km to 59+911km of the road had been completed even as at 30 April 2012.

**(b) Road Rehabilitation and Reconstruction Works carried out under Phase 02 of the Project**

The rehabilitation and improvement works of the 42+300 km of Kantale-Trincomalee Road ( Section 157+000km to 199+300) had been commenced in 2011 under Phase 02 of the Project. The total length of the road had been divided into four sections, invited bids under national complete bidding procedure and awarded the contracts to four contractors. Following observations are made in this regard.

- (i) Different rates had been applied by the individual contractor for similar items in the BOQs. Further, all the rates applied by the contractors were higher than the rates indicated in the Engineer's estimates. According to the explanations made by the Secretary to the MOPH, the contractors had applied different rates due to the road terrain and the townships etc. Further, the Engineers had prepared estimates based on Highways Schedule of Rates (HSR). Thus, revealed in audit that Contractors' estimates were remained higher than the Engineers' estimate significantly.
- (ii) According to the Paragraph 8.3 of Section vii of the General Condition of the Contract Agreements entered into with the Contractors, the annual work plans are required to be submitted to the Project within 28 days of accepting the contracts. However, copies such the annual work plans for 2011 except for Section -01 of the road had not been submitted for audit.
- (iii) As per progress reports of the Consultants and Interim Payment Certificates, the progress of the construction works after 173 days from the commencement of the construction works is given below.

Road Section	As at 31 December 2011		Days remained as at 31 December 2011 to complete the works
	Financial Progress	Physical Progress	
	%	%	
157+000 to 167+280 km	13.00	21.37	285
167+280 to 178+000km	3.07	19.67	293
178+000 to 190+000km	2.99	17.87	305
190+000 to 199+300km	7.00	18.37	306

**(c) Road Maintenance Trust Fund**  
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The Road Maintenance Trust Fund (RMTF) had been established under the Deed of Trust signed by the Secretary to the Treasury on 09 December 2005. According to Section 06 of the Deed of Trust, revenue received consequent to the sale of petrol and diesel earmarked for road maintenance and proceeds received under the allocations made by the national budgets should be credited to the Trust Fund.

A Secretariat for the RMTF had been established in 2011 with eight staff members seconded from RDA. At present, the Secretariat carries out the functions of withdrawing the allocations made by the Annual Appropriation Act from the General Treasury and releases such funds to the RDA for National Road maintenance purposes. However, action had not been taken to stipulate a mechanism to collect the tax revenue from sale of petrol and diesel.

It was observed that the Consultant appointed to provide advisory services for RMTF had terminated the first agreement and a fresh agreement had been signed in May 2011 to complete the outstanding deliverable. Therefore, an advance amounting to Rs.15,263,439 had been paid under second Agreement. However, the final reports on Technical Audit Manual, Report on Technical Audit Assistance and the Final Project Report had not been furnished by the Consultants even at the end of the year under review.

**3.3 Human Resources Management**  
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The staff of the Project Monitoring Unit had comprised with 31 members at the end of the year under review. However, 32 cadre positions had been approved by the Management Services Department. Five posts of Project Engineers had remained vacant while four persons had remained excess in minor grades. In addition the staff of the Project Consultancy Unit located at Trincomalee had comprised with 38 members at the end of the year under review, eventhough 52 cadre positions had been approved by the Management Services Department. It was observed that the key posts of Contract Specialist, Engineers, Quantity Surveyors had remained vacant as at 31 December 2011.

**3.4 Assets Management**  
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A Multi Function Network Survey Vehicle (MFNSV) valued at Rs.92,688,961 and Falling Weight Deflactometer (FWD) valued at Rs 30,127,759 had been procured by the Project and handed over to the RDA in 2010 for the purpose of surveying road condition and pavement level condition respectively. According the information made available from the RDA, the road length of 3932.78 km and pavement length of 1,452.20 km had been surveyed during the year under review. Further the progress reports of RDA indicated that only 54% of road length, out of total road length expected to survey during the year under review had been completed.

