

Report of the Auditor General on the Financial Statements of the Emergency Natural Disaster Rehabilitation Project (Central, North Central and Eastern provinces) for the year ended 31 December 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 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 Imprest Fund Account during the period 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 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 for audit, the expenditure of the Project for the year ended 31 December 2012 amounted to Rs. 3,886,812,285 and the cumulative expenditure as at 31 December 2012 amounted to Rs 3,928,393,818. The expenditure for the year under review, expenditure for the preceding period and the cumulative expenditure as 31 December 2012 are summarized below.

Item of Expenditure	Expenditure for the year ended 31 December 2012	Expenditure for the one month period ended 31 December 2011	Cumulative Expenditure as at 31 December 2012
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	Rs.	Rs.	Rs.
Civil works	3,442,872,615	40,078,124	3,482,950,739
Equipment – Irrigation Department	136,698,530	-	136,698,530
Commitment Changes	831,479	-	831,479
Interest	123,363	-	123,363
Administration Cost	306,286,298	1,503,409	307,789,707
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Total	<u>3,886,812,285</u>	<u>41,581,533</u>	<u>3,928,393,818</u>

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 in that account as at that date are summarized below.

	<u>JPY</u>	<u>2012</u> Rs.
Balance as at 01 January 2012	3,284,749,693	4,818,399,324
Add: Replenishments	1,015,525,398	1,636,446,525
Foreign Exchange Gain	-	148,580,724

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	4,300,275,091	6,603,426,573
Less: Withdrawals	2,253,673,948	3,574,661,542
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Balance as at 31 December 2012	<u>2,046,601,143</u>	<u>3,028,765,031</u>

3. Audit Observations

The following observations are made.

3.1 Contract Administration

Rehabilitation of Roads – Road Development Authority

Eighteen roads coming under the purview of the Road Development Authority had been identified for rehabilitation under this Project and out of that 05 roads should have been completed during the year under review.

Following weaknesses were observed at the test examination of the above rehabilitation works.

(a) **Reconstruction of the Ambatenna – Bokkawela, Arambekade Road (0-1 Kilometre) No. RDA/DW/CP/GOSL/2011/249**

Although above contract should have been completed on 05 May 2012, only 55% of the physical progress had been achieved as at 31 December 2012. However, liquidated damages required to be recovered at Rs.19,000 per day had not been recovered from the part payments of the contractor.

(b) The following matter was revealed at the physical examination of the road in the North Central Province improved by the Road Development Authority.

Reconstruction of the Andarawewa – Balaluwewa Road

No. RDA/DW/NCP/JICA/2011/07 (28+000-36+500 Km)

The bridge constructed at the point 37/1 of this road had been higher than the road surface on either sides of the road. As a result, the asphalted road surface

on either sides of the bridge had sunk to a length of 40 metres. That section should be rectified to prevent road accidents.

3.2 Rehabilitation of Roads under Provincial Road Development Authority - North Central Province

Twenty five roads and three bridges had been identified for rehabilitation by the North Central Provincial Road Development Authority and out of this, eight roads and one bridge should have been completed by 31 December 2012. However, four roads and the bridge had not been completed and physical performance on these contracts as at 31 December 2012 were ranging from per cent 40 to per cent 82 only.

The following matters were observed at the physical examination of the above works.

(a) Kahatagasdigiya – Konwewa – Dematawewa (7+950) Bridge.
No.PRDA/NCP/A/M/P16

Contract for the rehabilitation of above bridge had been awarded to a contractor on 15 June 2012 at a contract sum of Rs.46,684,450 and it was scheduled to be completed by 15 April 2013. The following observations are made in this regard.

- (i) The Central Engineering Consultancy Bureau (CECB) was appointed as consultant for the preparation of design for the construction at a contract sum of Rs. 1,994,831 and out of that a sum of Rs.1,895,090 had been paid on 05 April 2012 except retention.
- (ii) The design prepared for the bridge had been amended from time to time and in that process, the design from the base of the bridge which had already been constructed had been amended.
- (iii) Even though the construction should have been completed by 15 April 2013, the revised design had not been finalized even by 30 August 2013.
- (iv) The construction had been made as per the new plan by amending the initial plan on the instructions of the Central Engineering Consultancy

Bureau at an expenditure of Rs.12,456,728. However the approval for that work had been obtained on a variance order only.

- (v) The negligence of the Engineer of the Central Engineering consultancy Bureau who had provided consultancy for the construction of the bridge and the revisions of the designs made by him from time to time had been proved by the entries made in the Log Book maintained at the work site. Action had not been taken to assign the responsibility for the loss caused to the Project by that institution.

(b) Kahatagasdigiliya – Konwewa -Dematawewa Road (7 Kilometre – 11 Kilometre) No. PRDA/NCP/A/H/P/15

According to the agreement entered into with a contractor for carrying out rehabilitation of 04 Kilometres of the above road, the work for the agreed value of Rs.85,047,467 should have been commenced on 30 June 2012 and to be completed on 15 March 2013.

The following observations are made in this connection.

- (i) Although time extension of the contract had been granted by 61 days up to 15 June 2013, physical progress of the contract as at 01 August 2013 was only per cent 49 per cent.
- (ii) Although flood damages had occurred during the rehabilitation of road in December 2012, altered design from 7+560 Kilometres to 8+400 Kilometres had not been provided to the contractor even up to 15 June 2013.
- (iii) Although flood damages had occurred during the rehabilitation of road in December 2012, the amended design had been provided in March 2013 for the section of 8+600 -11+000 Kilometres. However, the work had not been commenced even up to August 2013.

(c) **Seppukulama- Galenbidunuwewa Road (14Km-17.960 Km)**

No.PRDA/NCP/A/H/P10

According to the contract agreement the work should have been completed by 01 December 2012. However, the period of completion of the contract had been extended for more than 05 months without ensuring of the reasons furnished for extension of contract period. The work had not been completed even by 28 August 2013. The liquidated damages had not been recovered from the contractor. Further insurance cover had not been obtained from the contractor for extended contract period.

3.3 Rehabilitation of Roads under Provincial Road Development Authority - Central Province

Twenty four roads for improvement by the Central Provincial Road Development Authority had been identified. Even though the improvement of 13 of those roads should have been completed by 31 December 2012, the progress of Rehabilitation of 07 of those roads as at 31 December 2012 ranged between 42 per cent to 75 per cent only.

3.4 Rehabilitation of Roads under Provincial Road Development Department - Eastern Province

Forty one roads for improvement by the Eastern Provincial Road Development Authority had been identified. Even though the improvement of 08 of those roads should have been completed by 31 December 2012, the progress of Rehabilitation of 04 of those roads as at 31 December 2012 ranged between 40 per cent to 90 per cent only.

3.5 Rehabilitation of Irrigation works - Department of Irrigation

Out of the 540 irrigation works identified for improvement by the Department of Irrigation, the improvement of 38 of those works should have been completed by 31 December 2012. Nevertheless the progress of rehabilitation of 17 of those works as at 31 December 2012 ranged between 48 per cent to 85 per cent only.

3.6 Non – Compliance with Laws, Rules and Regulations

The following observations are made.

- (a) A Register of Fixed Assets in terms of the Treasury Circular No.842 of 19 December 1978 and a Register of Computers and Accessories in terms of the Treasury Circular No. IAI/2002/02 of 28 November 2002 had not been maintained.
- (b) A Board of Survey of the assets valued at Rs.53,133,475 of this Project had not been conducted in terms of Financial Regulation 756.

4. Financial and Physical Performance

4.1 Utilization of Funds

According to the disbursement schedule, total funds amounting to Yen 8,313 million (Rs.10,886 million) was expected to be utilized within six years from the year 2011 to 2016 and a sum of Rs.4,059 million had been provided for the Project for the year 2012 through the National Budget. Out of that, Rs.3,887 million or 96 percent of the allocated fund had been utilized by the Project for the year under review. 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 as at 31 December 2012
	Yen Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
JICA	7,000	9,161	3,670	3,581	3,620
GOSL	1,313	1,725	389	306	308
Total	<u>8,313</u>	<u>10,886</u>	<u>4,059</u>	<u>3,887</u>	<u>3,928</u>

4.2 Physical Performance

The rehabilitation of 111 roads and 599 irrigation works damaged by floods had been planned to be rehabilitated under the ENDRP Project. Even though the rehabilitation of 35 of those roads should have been completed by 31 December 2012, the rehabilitation of 16 of those roads had not been completed by 31 December 2012. The progress of certain roads had been at the 40 per cent level only.

Out of the 599 Irrigation works planned to be rehabilitated, the rehabilitation of 56 Irrigation works should have been completed by 31 December 2012. Out of that the rehabilitation of 26 Irrigation works had not been completed by 31 December 2012 and the progress of certain Irrigation works had been at 48 per cent level only. The details are as follows.

	Number planned to be Rehabilitated	As at 31 December 2012		Progress as at 31 December 2012 of the works scheduled to be completed in 2012	
		Plan to be completed	Completed	Number of works	Range of progress
Road Sector					
RDA	18	05	05	-	-
PRDA -CP	24	13	06	07	42% - 75%
-EP	41	08	04	04	40% - 90%
-NCP	28	09	04	05	40% - 82%
Total	<u>111</u>	<u>35</u>	<u>19</u>	<u>16</u>	
Irrigation Sector					
Irrigation					
Department	540	38	21	17	48% - 85%
PID - NCP	38	04	-	04	75% - 98%
- EP	21	14	09	05	78% - 96%
Total	<u>599</u>	<u>56</u>	<u>30</u>	<u>26</u>	