

North East Community Restoration and Development (NECORD) Project II (Loan Supplementary) - 30 September 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 nine months period ended 30 September 2012 and the financial statements give a true and fair view of the state of affairs of the Project as at 30 September 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 for the nine months period ended 30 September 2012 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 30 September 2012 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- d) the Statement 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 nine months period under review amounted to Rs. 1,177,405,559 and the cumulative expenditure as at 30 September 2012 amounted to Rs. 1,680,137,239. A summary of the expenditure on the Project for the period under review, the expenditure for the preceding year and the cumulative expenditure as at 30 September 2012 is given below.

Component -----	Expenditure for the nine months period ended 30 September 2012 -----	Expenditure for the year ended 31 December 2011 -----	Cumulative Expenditure as at 30 September 2012 -----
	Rs.	Rs.	Rs.
(a) Civil works	781,470,077	423,723,304	1,211,419,469
(b) Equipment and materials	351,280,638	24,065,347	375,345,985
(c) Incremental Expenditure	42,646,243	45,301,234	90,105,687
(d) Interest on loan	2,008,601	1,257,497	3,266,098
Total	1,177,405,559 -----	494,347,382 -----	1,680,137,239 -----

2.2 Imprest Fund Account

According to the financial statements and information made available, the operations of the Imprest Fund Account for the nine months period ended 30 September 2012 and the balance available in that account as at that date are summarized below.

	<u>US \$</u>	<u>Rs</u>
Balances as at 01 January 2012	1,280,000	141,965,312
Add : Replenishments	918,528	102,236,673
Foreign Exchange Gain	_____ -	_____ 11,403,675
	2,198,528	255,605,660
Less : Withdrawals	<u>2,195,137</u>	<u>255,165,475</u>
Balance as at 30 September 2012	<u>3,391</u>	<u>440,185</u>

3. Audit Observations

Non - compliance with Financial Regulation 1646

Although the daily running charts of the official vehicles of the Project should be presented to audit on or before 15 days of the following month in terms of Financial Regulation No. 1646, the daily running charts of five vehicles of the Project had not been rendered to audit as required. Due to non submission of running charts fuel expenses amounting to Rs. 1,476,034 incurred for five vehicles could not be satisfactorily vouched in audit.

4. Financial and Physical Performance

4.1 The overall sector wise financial and physical performance of the Project as at 30 September 2012 as per the progress report is given below.

Sector	No. of sub projects Approved by Provincial Project Coordinating Committee	No. of sub projects Completed	Estimated amount	Actual Expenditure
	-----	-----	-----	-----
			Rs. Million	Rs. Million
Health	60	60	841.03	756.62
Education	31	31	163.1	141.51
Agriculture and Livestock	20	16	154.34	83.78

P.S.No. 2014/327 Fourth Instalment – Part VII Foreign Funded Projects - Report of the Auditor General 2012

Irrigation	10	7	139.70	110.89
Rural Roads	10	2	62.52	13.96
Rural Electrification	2	2	238.06	231.24
Institutional Infrastructure	36	33	180.49	136.18
Community Level Village Infrastructure	37	35	156.00	112.57
Total	206	186	1,935.25	1,586.77

4.2 The overall component wise financial and physical performance of the Project as at 30 September 2012 as per the progress report is given below.

Component -----	Allocation (Supplementary Loan) -----				Actual Expenditure -----			No. of sub projects Approved by PPCC	No. of sub projects Completed
	ADB	GOSL	Total	Total					
	US\$ (Mn)	US\$ (Mn)	US\$ (Mn)	Rs. (Mn)	US\$ (Mn)	Rs. (Mn)	%		
Civil Works	9.0		9.0	1121.337	8.176	1,211.42	108.03	148	135
Equipments	2.0		2.0	249.186	2.875	363.515	145.88	56	51
Project Management	1.0		1.0	124.593	0.590	69.684	55.93		
Tax and Duties - GOSL		3.8	3.8	418.000	1.850	32.254	7.72		
Interest During Implementation	0.8		0.8	99.674	0.050	3.266	3.28		
Total	12.8	3.8	16.6	2012.790	13.541	1680.138	83.47	204	186

Following observations are made in this connection.

- (a) The PPCC had been approved 148 sub projects under civil works component for which the ADB had allocated US Dollar 9 million. Out of which 135 sub projects had been completed up to the end of the project period and a sum of US Dollar 8.78 million had been spent thereon.
- (b) Further, the PPCC had approved 56 sub projects under Equipment Component valued of US Dollar 2 million and out of that 51 sub projects had been completed up to the end of the Project period and a sum of US Dollar 2.88 million had been spent thereon.

4.3 Reimbursements

The following statement shows the details of reimbursements claimed during the period under review.

	Rs.
Total Expenditure	1,680,137,238
Less : Interest Charges	3,266,098
Less : GOSL Contributions	<u>240,406,164</u>
Eligible Expenditure for Reimbursements	<u>1,436,464,976</u>
Reimbursements Claimed up to 30 September 2012	1,372,472,007
Reimbursements to be claimed in subsequent month	<u>63,992,969</u>
	<u>1,436,464,976</u>
Reimbursements Received	1,073,766,169
Direct Payments made	344,742,208
Reimbursements to be received	<u>17,956,599</u>
	<u>1,436,464,976</u>

5. Systems and Controls

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

- (a) Maintenance of Accounting Records
- (b) Internal Audit