

**North East Community Restoration and Development Project (NECORD) II (Loan) - 2011**

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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, and 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 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 Imprest Fund Account for the year ended 31 December 2011 had been truly and fairly disclosed in the books and records maintained by the Project and the balance 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 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

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### 2.1 Financial Performance

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According to the financial statements and information made available for audit, the expenditure on the Project for the year ended 31 December 2011 amounted to Rs.494,347,382 and the cumulative expenditure as at 31 December 2011 amounted to Rs. 502,731,680. A summary of the expenditure for the year under review and preceding year and the cumulative expenditure as at 31 December 2011 is given below.

Component	Expenditure for the		Cumulative Expenditure as at 31 December 2011
	Year ended 31 December		
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	<u>2011</u>	<u>2010</u>	
	Rs.	Rs.	Rs.
(a) Civil works	7,139,306	126,864,600	2,424,357,150
(b) Equipment and materials	-	58,330,246	588,633,307
(c) Project Management	10,950	35,469,207	118,892,482
(d) Interest on loan	<u>29,120,243</u>	<u>25,942,261</u>	<u>93,606,527</u>
<b>Total</b>	<b><u>36,270,499</u></b>	<b><u>246,606,314</u></b>	<b><u>3,225,489,466</u></b>

### 2.2 Imprest Fund Account

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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 31 December 2011 are shown below.

	US \$ -----	Rs ---
Balance as at 01 January 2011	1,280,000	141,965,312
Add : Replenishments	918,528	102,236,673
Foreign Exchange Gain	-	1,873,488
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	2,198,528	246,075,473
Less : Withdrawals	(1,230,544)	(135,820,781)
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Balance as at 31 December 2011	<b><u>967,984</u></b>	<b><u>110,254,692</u></b>

### 3. Audit Observations

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The following observations are made.

- (a) Although suppliers had been registered for the supply of stationery and computer spare parts, similar goods to the value of Rs.74,450 had been procured from the supplier who had not registered with the Project.
- (b) Although 03 computers and computer accessories had been purchased for Rs. 445,060, the procurement documents regarding to the above purchases had not been made available for audit.
- (c) Although a sum of Rs. 248,337 had been paid to the Eastern Provincial Council for internal audit work, reports relating to the internal audit work were not made available for audit.
- (d) Two officers who had exceeded their age limit of 57 years had involved in internal audit works and coordinating of women development in contrary to Section 2.28 of Management Services Circular No.33 of 2007.
- (e) Although running charts of the Project's vehicles should be rendered for audit in terms of Financial Regulation 1646, those had not been rendered for audit. As a result, the cost of fuel amounting to Rs.1,611,545 used for those vehicles could not satisfactorily evaluated in audit.

- (f) According to the progress report as at 31 December 2011, 34 construction works had not been completed in due dates. However, liquidated damages had not been recovered from the payments, made to the contractors.

#### 4. Financial and Physical Performance

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##### 4.1 Physical Performance

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The overall sector wise physical performance of the Project as at 31 December 2011 is given below.

Sector	No. of Sub Projects Approved by the Provincial Project Coordinating Committee	Completed Sub Projects No.	Provision  Rs. (Mn)	Actual Expenditure  Rs. (Mn)
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Health	37	03	486.933	147.233
Education	20	-	100.923	17.919
Agriculture and Livestock	18	01	121.003	23.261
Irrigation	10	-	132.005	44.095
Rural Roads	02	-	13.452	9.450
Rural Electrification	02	-	224.409	127.755
Institutional Infrastructure	35	04	187.005	45.865
Community Village Infrastructure	34	-	132.005	45.145
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<b>Total</b>	<b><u>158</u></b>	<b><u>08</u></b>	<b><u>1,397.735</u></b>	<b><u>460.723</u></b>

## 4.2 Reimbursements

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

	<b>Rs.</b>	
Total Expenditure	509,653,204	*
Less : Interest Charges	(1,257,497)	
Less : GOSL Contribution	<u>(81,296,967)</u>	
Eligible Expenditure for Reimbursements	<b><u>427,098,740</u></b>	
Reimbursements claimed up to 31 December 2011	319,452,454	
Reimbursements to be claimed in subsequent months	<u>107,646,286</u>	
	<u>427,098,740</u>	
Reimbursement Received up to 31 December 2011	292,841,490	
Reimbursement Received after December 2011	83,904,040	
Reimbursement to be received	50,353,210	
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	<b><u>427,098,740</u></b>	

\*The above figure is differ from the amount shown in paragraph 4.1 of this report due to inclusion of mobilization advance and exclusion of the retention money.

## 5. Systems and Controls

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

- (a) Procurements
- (b) Contract Administration
- (c) Internal audit