

**Northern Road Connectivity Project - Provincial Component - 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, 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 year 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**

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**2.1 Financial Performance**

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According to the financial statements and information made available, the expenditure of the Project for the year ended 31 December 2012 amounted to Rs. 780,930,315 and cumulative expenditure as at 31 December 2012 amounted to Rs. 1,481,263,816. A summary of the expenditure for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2012 are given bellow.

Category of expenditure	Expenditure for the year ended 31 December		Cumulative expenditure as at 31 December 2012
	2012	2011	
	Rs.	Rs.	Rs.
Civil Works	756,041,451	530,254,792	1,436,296,242
Fixed Assets	143,500	3,179,095	3,396,371
Loan Interest	9,912,013	3,032,215	12,944,228
Project Management Cost	14,833,351	11,265,681	28,626,975
<b>Total</b>	<b>780,930,315</b>	<b>547,731,783</b>	<b>1,481,263,816</b>

## **2.2 Imprest Fund Account**

According to the financial statements and information made available, the operations of the Imprest Fund Account for the year ended 31 December 2012 and the balance available in that account as at 31 December 2012 are given below.

	<u>US\$</u>	<u>Rs.</u>
Balance as at 01 January 2012	511,490	58,259,403
<u>Add</u>		
Replenishments	1,813,411	223,569,089
Foreign Exchange Gain	-	3,520,862
	2,324,901	285,349,354
<u>Less</u>		
Withdrawals	2,307,247	283,104,449
<b>Balance as at 31 December 2012</b>	<b>17,654</b>	<b>2,244,905</b>

### **3. Audit Observations**

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Following observations are made.

#### **3.1 Planning and Monitoring**

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A comprehension detail action plan, covering all project components and the fund allocation with the targets of financial and physical wise with fixing responsibility in monthly, quarterly and by annually covering entire project period should be prepared to ensure the achievement of project objectives by using allocated funds within the Project period. However, such a plan had not been prepared and implemented by the Project up to 30 September 2013.

#### **3.2 Payment of Coordinating Allowance**

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A sum of Rs. 360,000 had been paid to the Chief Secretary, Secretary to the Ministry of Infrastructure and Deputy Chief Secretary - Finance of the Northern Provincial council as coordinating allowance for the year 2012. In this regard, following observations are made.

- (i) 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 attended to the Streeing Committee Meetings.
- (ii) PAYE Tax in terms of Section 133 of Chapter XV of the Inland Revenue Act No. 10 of 2006 as amended by the Inland Revenue (Amendment) Act No 22 of 2011 had not been deducted from the allowance of the officers who were paid the coordinating allowance exceeding Rs. 50,000 per month.

#### **3.3 Financial and Operating Review**

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##### **3.3.1 Utilization of Funds**

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The Project commenced it's activities in October 2010 and was scheduled to be completed by 30 June 2015 at a total cost of US\$27.16 million equivalent to SL Rs.3,530.8 million. Certain significant

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statistics relating to the financing of funds, budgetary provision for the year under review and the utilization of funds during the year under review and the cumulative budgetary allocation and actual fund utilization as at 31 December 2012 are shown below.

	Estimated Total Cost of the Project		Budgetary Provision for the year 2012	Funds Utilized during the year 2012	Cumulative Budgetary Provision up to 31 December 2012	Cumulative fund Utilization up to 31 December 2012
	US\$ Mn.	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
ADB	24.4	3,172.0	792	700.7	1,366	1,318.4
GOSL	2.76	358.8	81	80.2	166	162.8
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	27.16	3,530.8	873	780.9	1,532	1,481.2
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**3.3.2 Physical performance**

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The Northern Road Connectivity Project had awarded 06 road packages to construct roads to the length of 140.81 Km to 04 contractors at the contract value of Rs.1,893,458,068. It was observed that the construction of 04 packages to the length of 106 Km were at weak levels as shown below.

Road Package	Total length of the Roads Km.	Due date of Completion	Revised Due date of Completion	Percentage of Completion as at 31 December 2012	Percentage of Completion as at 31 July 2013
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				%	%
(i) NP01 - NPMAC001	3.71			98.72	100
- NPMAC005	5.07			99.57	100

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- NPMAC007	3.48			90.75	100
- NPMAC010	2.00			100.00	100
- NPMAC020	0.84			100.00	100
(ii) NP02 - NPAM029	26.96	10.02.2013	31.10.2013	44.10	58
(iii) NP03 – 09 Roads	16.23			100.00	100
(iv) NP04 - NPVAC027	5.98	09.02.2013	25.05.2013	93.90	98
- NPVAC029	10.20	09.02.2013	25.05.2013	66.66	91
- NPVAC034	9.68	09.02.2013	25.05.2013	73.85	96
(v) NP05 - NPVAC007	15.33	09.02.2013	23.05.2013	39.35	80
- NPVAC010	13.91	09.02.2013	23.05.2013	25.44	67
(vi) NP06 - NPVAC014	24.14	09.02.2013	23.05.2013	29.12	52
- NPVA032	3.28			98.94	100
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	140.81				
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Following observations are made in this regard.

- (a) Performance of four out of six contract packages consisting of 106 km roads represented of 75.28 per-cent of total length of the roads had been behind the targets.
- (b) Although revised targets dates of four contract packages had been expired in May 2013 performance level of these packages were ranging from 58 per-cent to 98 per-cent as at 31 July 2013.
- (c) Liquidated damages required to be recovered from the contract payments had not been recovered from the part payments made to the contractors.

### **3.3.3 Implementation of Project Activities**

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Even though a period of 02 years had elapsed as at 31 December 2012 proper action had not been taken to implement one of the component of constructing a building for the office of Northern Provincial Road Development Department by utilizing project funds.