

Northern Road Connectivity Project (NRCP) – Ordinary Operations -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 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 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 purpose for which they were provided,
- (c) the withdrawals from and replenishments to the Imprest Fund Account during 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 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, and,
- (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, the expenditure of the Project for the year ended 31 December 2011 amounted to Rs.2, 275,114,421 and the cumulative expenditure as at 31 December 2011 amounted to Rs.2, 276,263,846. A summary of the expenditure of the Project for the year under review and the preceding period of two months and cumulative expenditure as at 31 December 2011 is given below.

| Item of Expenditure | Expenditure for the year ended 31 December 2011 | First accounting period from 22 October to 31 December 2010 | Cumulative expenditure as at 31 December 2011 |
|-----------------------------|--|--|--|
| ----- | ----- | ----- | ----- |
| | Rs. | Rs. | Rs. |
| Office Equipment | 1,100,215 | | 1,100,215 |
| Civil Works | 2,087,182,261 | | 2,087,182,261 |
| Supervision Consultants | | | |
| – National Highways | 56,237,195 | | 56,237,195 |
| – Provincial | 79,553,021 | | 79,553,021 |
| Survey/Testing Fees | 1,053,376 | | 1,053,376 |
| Incremental Expenditure | 24,881,124 | | 24,881,124 |
| Interest/Commitment charges | 23,477,229 | 1,149,425 | 24,626,654 |
| Deposits and Advances | 1,630,000 | | 1,630,000 |
| | <u>2,275,114,421</u> | <u>1,149,425</u> | <u>2,276,263,846</u> |

2.2 Imprest Fund Account

According to the financial statements and information made available, the operations of the Imprest Fund Account during year 31 December 2011 and the balance available in that account as at that date are given below.

| | <u>US\$</u> | <u>Rs.</u> |
|--------------------------------|-------------------------|-------------------------|
| Initial Imprest | 135,098.89 | 14,960,994 |
| Add: Replenishments | 136,134.49 | 14,958,235 |
| Foreign Exchange Gain | - | 180,154 |
| | ----- | ----- |
| | 271,233.38 | 30,099,383 |
| Less: Withdrawals | 244,105.77 | 27,009,513 |
| | ----- | ----- |
| Balance as at 31 December 2011 | <u>27,127.61</u> | <u>3,089,870</u> |

3. Audit Observations

3.1 Accounting Deficiencies

The following observations are made.

- (a) Mobilization advances aggregating Rs.1,659,798,683 paid during the year under review had not been separately disclosed in the financial statements.
- (b) Retention money recovered during the year under review had not been separately disclosed in the financial statements.
- (c) A sum of Rs. 2,400,000 had been paid during the year under review as rental advance for the office building for the period of one year without obtaining valuation certificate from relevant authorities.

3.2 Lack of Evidence for Audit

Although allowances aggregating to Rs.935,000 had been paid to 13 officers for the participating and assisting to Cabinet Appointed Procurement Committee (CAPC) and Technical Evaluation Committee (TEC) meetings for 10 contract packages during the year 2011, details of attendance were furnished only for two meetings and it was observed that some officers who were not participated to such meetings had also been paid the allowances.

3.3 Utilization of Assets

Computer and accessories to the value of Rs. 129,300 purchased during the year under review had remained idle even as at 30 May 2012 without taking action to utilize.

3.4 Utilization of Funds

According to the Budget for the year 2011 of the Government, a provision of Rs.5,000,000,000 had been made available for the Project under Head 117 Ministry of Ports and Highways, Programme 02 and Project 04. However, Rs.2, 275,114,421 only had been utilized for the activities of the Project during the year under review.

3.5 Planning and Monitoring

Although a sum of Rs. 1,121,851 had been spent to purchase of furniture, office equipment and computers during the year, a procurement plan for the Project had not been prepared.

3.6 Performance Review

According to information made available to audit, physical performance of the 10 contract packages as at 30 April 2012 were as follows.

| Contract Package | Date of Commencement | Expected date of completion | Physical Progress as at end of April 2012 |
|-------------------------|-----------------------------|------------------------------------|--|
| ----- | ----- | ----- | ----- |
| | | | % |
| RDA/NRCP/ICB/ADB/CP-1 | 7-Jun-11 | 28-Nov-12 | 15.80 |
| RDA/NRCP/ICB/ADB/CP-2 | 7-Jun-11 | 28-Nov-12 | 18.40 |
| RDA/NRCP/ICB/ADB/CP-3 | 7-Jun-11 | 30-Aug-12 | 19.60 |
| RDA/NRCP/ICB/ADB/CP-4 | 7-Jun-11 | 27-Jan-13 | 41.00 |
| RDA/NRCP/ICB/ADB/CP-5 | 7-Jun-11 | 28-Nov-12 | 50.80 |
| RDA/NRCP/ICB/ADB/CP-6 | 7-Jun-11 | 27-May-13 | 27.00 |
| RDA/NRCP/ICB/ADB/CP-7 | 7-Jun-11 | 28-Nov-12 | 51.60 |
| RDA/NRCP/ICB/ADB/CP-8 | 7-Jun-11 | 28-Nov-12 | 27.00 |
| RDA/NRCP/ICB/ADB/CP-9 | 7-Jun-11 | 28-Nov-12 | 40.50 |
| RDA/NRCP/ICB/ADB/CP-10 | 7-Jun-11 | 28-Nov-12 | 16.10 |

Out of the above 10 contract packages, 08 contract packages were expected to be completed in 2012. Out of that 70% of contract period were elapsed but physical progresses were in the range from 15% to 52% only.