

**Northern Road Connectivity Project (NRCP) – Ordinary Operations - 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, 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 Sri Lanka Financial Reporting Standards.
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the withdrawals from and the replenishments to the Imprest Fund Account for the year under review 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 (CBSL) 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 presented and information made available, the expenditure of the Project for the year ended 31 December 2012 amounted to Rs. 7,573,416,263 and the cumulative expenditure as at 31 December 2012 amounted to Rs. 8,775,671,805. A summary of the expenditure of the Project for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2012 is given below.

Item of Expenditure -----	Expenditure for the year ended 31 December		Cumulative expenditure as at 31 December
	2012 Rs.	2011 Rs.	2012
Office Equipment	334,007	466,351	800,358
Computer Equipment	-	655,500	655,500
Mobilization Advance		1,659,798,683	539,293,238
Contract Payment	7,172,837,255	520,404,701	7,693,241,957
Supervision Consultants			
– National Highways	184,198,978	12,471,002	196,669,980
– Provincial Roads	133,418,072	79,553,021	212,971,093
Survey/Testing Fees	300,000	1,053,376	1,053,376
Incremental Expenditure	34,412,665	24,881,124	59,293,788
Interest/Commitment charges	47,915,286	22,327,804	71,392,515
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	<b><u>7,573,416,263</u></b>	<b><u>2,321,591,562</u></b>	<b><u>8,775,671,805</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 for the year 31 December 2012 and the balance available in that account as at that date are summarized below.

	<b>US\$</b>	<b>Rs.</b>
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Balance as at 01 January 2012	27,127.61	3,089,870
Add: Replenishments	233,580.31	28,699,191
Foreign Exchange Gain	-	1,470,558
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	260,707.92	33,259,619
Less: Withdrawals	249,017.11	31,773,007
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Balance as at 31 December 2012	<b>11,690.81</b>	<b>1,486,612</b>
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## **3. Audit Observations**

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### **3.1 Accounting Deficiencies**

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The following observations are made.

- (a) As per the valuation carried out by the Department of Valuation, the monthly rental was Rs. 210,000 or monthly rent payable in advance for one year was Rs. 2,280,000 (Rs. 190,000 per month). However one year lease rentals had been paid in advance considering that monthly rental was Rs. 200,000. As a result a sum of Rs. 120,000 had been paid in excess of the amount payable.
  
- (b) The Project had paid a sum of Rs. 2,330,428 during the year under review to the RDA for the gratuity allowance of the project officers for the period of service in the Project. It was observed that a sum of Rs. 173,034 paid for four officers who were not entitled for gratuity had also been included in this amount.

### **3.2 Planning and Monitoring**

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The following observations are made.

- (a) A comprehensive detailed action plan highlighting financial and physical targets with fixing responsibilities in monthly, quarterly, bi-annually etc. covering entire Project period should be prepared to ensure the achievement of project objectives within the specific project period. However such a plan had not been prepared and implemented.
- (b) An action plan clearly identifying the responsibilities of core – staff with target to be achieved and the budgetary allocation relating to the activities carried out during the period had not been prepared. Therefore the progress of the Project as a whole could not be properly evaluated in order to take corrective measures and to make necessary changes for achieving objectives set for.

### **3.3 Contract Administration**

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Following observations are made.

- (a) Although contract bills had not been furnished and certified, a sum of Rs. 1,017 relating to 12 contract packages had been accounted as payables.
- (b) As per contracts awarded, eight packages of road rehabilitation/ improvement with a total length of 125.16 km should be completed at a cost of Rs. 7,922.5 million during the year under review. However, 3 packages of road rehabilitation / improvement had been fully completed with a total length of 41.54 km at a contract value of Rs.2, 295.2 million and physical performance of the other 5 packages were ranging from 70% to 91% only.

**4. Financial and Physical Performance**  
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**4.1 Utilization of Funds**  
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According to the financial statements and information made available, budgetary provisions made and the utilization of funds up to end of the year under review are shown below.

	Amount agreed to be provided in the Loan Agreement		Budgetary Provision in the Annual Estimate for the year under review	Funds utilized				Utilization As a %
	US \$ Mn	Rs Mn		during the year under review		up to 31 December 2012		
	US \$ Mn	Rs Mn	Rs Mn	US \$ Mn	Rs Mn	US \$ Mn	Rs Mn	
ADB	130	14,950	5,000	38.87	4,963.37	59.57	7,228.38	48.34
GOSL	16	1,823	50		17		21.94	1.2
	<b>146</b>	<b>16,773</b>	<b>5,050</b>	<b>38.87</b>	<b>4,980.37 *</b>	<b>59.57</b>	<b>7,250.32*</b>	<b>43.22</b>

\* These figures differ from the amount shown in Paragraph 4:1 of this report due to

**4.2 Physical Performance**  
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**4.1.1 The Rehabilitation/Improvement to A034 Road from Mankulam to Mullaitivu (13 km to 24 km)**  
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According to the progress report of the Project for the year 2012, the actual progress of 72.64 per cent only had been achieved, out of 100 per cent progress targeted for the year under review, thus indicating that the actual progress was remained behind the target. The detailed progress in main components of the road rehabilitation/improvements are given below.

<b>Description</b>	<b>Progress as at 31 December 2012 Percentage</b>
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Clearing and Grubbing	96.00
Embankment	93.31
Sub-base	86.00
Base	60.00
Asphalt Wearing Course	39.41
Bridges – Beam bridges	87.00
Shell bridges	97.00
Box Culverts	97.00
Line drains	95.00
Foot Walks	Commenced

It was observed that the road rehabilitation / improvement works of culverts, bridges, line drains and approach roads at 13 km – 24 km had not been completed even as at 31 December 2012 even though all works were targeted to complete during the year under review. In this connection the Project Director had stated that the contractor had claimed extension of time due to scarcity of embankment and base materials and shortage of bitumen.

**4.1.2 The Rehabilitation/Improvement to A034 Road from Mankulam to Mullaitivu (38+500 km to 49+100 km)**

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 According to the progress report of the Project for the year 2012, the actual progress of 62.14 per cent only had been achieved, out of 100 per cent progress targeted for the year under review, thus indicating that the actual progress was remained behind the target. The detailed progress in main components of the road rehabilitation/improvement are given below.

<b>Description</b>	<b>Progress as at 31 December 2012 %</b>
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Clearing and Grubbing	Completed
Embankment	40.00

Sub-base	63.21
Base	82.00
Asphalt Wearing Course	55.01
Bridges	98.00
Box Culverts	95.00
Line drains	89.00

It was observed that the road rehabilitation / improvement works of culverts, bridges, line drains and approach roads at 38+500km to 49+100km had not been completed even as at 31 December 2012 even though all works were targeted to be completed during the year under review. In this connection the Project Director had stated that the contractor had suffered delays to obtain necessary permits and approval to operate barrows pits. Due to this earth work delayed and also shortage of bitumen and adverse climatic conditions the work was delayed. However, the Contractor had claimed extension of time.

**4.1.3 The Rehabilitation/Improvement to A032 Road from Navatkuli to Kerativu (0 km to 17+400 km)**

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- (a) According to the progress report of the Project for the year 2012, the actual progress of 90.90 per cent only had been achieved, out of 99.20 per cent progress targeted for the year under review, thus indicating that the actual progress was remained behind the target. In this connection the Project Director had stated that the contractor substantially completed on 28 March 2013. An extension of time of 50 days granted due to bitumen shortage.
  
- (b) The road works of rehabilitation/improvement (CP4) had been scheduled to be completed in 27 January 2013 by the Project. However, Rock filling and Shoulders of road rehabilitation/improvement had not been completed even up to the audit inspection carried out on 30 May 2013. In this connection the Project Director had stated that the contractor substantially completed on 27 March 2013 and contractor was attending the outstanding works during the Defect Liability Period.

**6.1.4 The Rehabilitation/Improvement to B437 Road from Vallai to Araly (0 km to 27+400 km)**

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(a) As per the statement given by the contractor, considerable Asphalt wearing had been completed at 9+210 km to 9+780 km. However, Asphalt surface cracked and Asphalt surface wheel marks have been shown at pavement at 9+210 km even up to the audit inspection carried out on 30 May 2013. In this connection the Project Director had stated that the asphalting work in the reference section was done in November 2012 and observed longitudinal surface cracks in the asphalt wearing course and adjacent gravel in June 2013.

(b) The road works of rehabilitation/improvement (CP6) of culverts and approach roads at 10 km to 27+400 km had not been completed even as at 31 December 2012 even though such works were targeted to complete during the year under review. In this connection the Project Director had stated that the contractor substantially completed on scheduled original date of completion on 27 May 2013.

**6.1.5 Civil works under Contract Packages**

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Contractor's targets and actual progress as at 31 December 2012 are given below.

<b>Contract Packages</b>	<b>Target progress Percentage</b>	<b>Actual Progress Percentage</b>
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1	4.73	2.99
2	0.87	1.03
3	1.02	1.02
4	9.00	4.70
5	14.42	4.30
6	18.18	1.50
7	11.50	9.00



8	32.00	8.00
9	21.00	13.00
10	15.00	7.00

**6.1.6 Overall physical progress as at 31 December 2012**

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Overall physical progress as at 31 December 2012 are given below.

	<b>CP1</b>	<b>CP2</b>	<b>CP3</b>	<b>CP4</b>	<b>CP5</b>	<b>CP6</b>	<b>CP7</b>	<b>CP8</b>	<b>CP9</b>	<b>CP10</b>
Length of Road (km)	23.35	24.14	14.5	17.4	17.4	14.0	13.0	11.0	14.5	10.6
Overall physical progress (%) as at December 2012.	70.5	81.6	99.2	90.9	99.5	80.2	98.0	72.6	91	80

**7. Systems and Controls**

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

- (a) Maintenance of Accounting Records
- (b) Contract administration
- (c) Performance
- (d) Utilization of Vehicle