

Pro -Poor Eastern Infrastructure Development Project

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 2 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2010 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2010 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 Special (Yen) Account during the year ended 31 December 2010 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2010 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- (d) the statement of expenditure (SOE) 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 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 presented and information made available, the expenditure of the Project for the year under review amounted to Rs.2,573,697,860 and the cumulative expenditure as at 31 December 2010 amounted to Rs.5,380,039,837. The following statement shows a summary of expenditure for the year under review and the preceding year and the cumulative expenditure as at 31 December 2010.

represented 84 per cent of the allocation. As such it was not possible to be satisfied in audit that the documents relating to the Project had been prepared properly and the related activities of the Document Specialist had been performed properly as expected by the Project.

- (b) Even though the officers had not been recruited for 07 posts in the consultancy service, a sum of Rs.22, 702,579 for 161 man months had been shown in the Bill of Quantities. As such, it was not possible to satisfy in audit that the work of the contractor which should have been inspected by those officers had been performed properly.

3.3 Payments made from the Consolidated Fund on Activities Contrary to the Project

The following observations are made in this connection.

- (a) A sum of Rs.11,975,941 being the expenditure on road improvements payable to the contractors from the foreign loan and a sum of Rs.957,152 which had been paid to the Road Development Authority as cost of labour included in the project estimate and a sum of Rs.1,767,000 spent on the purchase of water pipes for laying under the main road of Kattankudy Town which were not included in the Project Estimate had been spent out of the Consolidated Fund. The reasons therefore were not made available while the Treasury concurrence for that had not been obtained.
- (b) A sum of Rs.454,897 had been paid to a private transport company in connection with the transport activities of the Private Secretary to the Minister of Transport which was not related to the Project activities.

4. Financial and Operating Review

4.1 Financial Review

4.1.1 Utilization of Funds

| | Amount agreed to be provided as per agreement | | Budget for the year 2010 | Utilization of Funds for the year 2010 | Funds utilized up to 31 st December 2010 |
|------|---|---------|--------------------------|--|---|
| | Yen (Mn) | Rs (Mn) | Rs (Mn) | Rs (Mn) | Rs (Mn) |
| JBIC | 4,460 | 4,756 | 1,790.0 | 1,630.8 | 4,716.3 |
| GOSL | - | 1494 | 241.9 | 241.9 | 591.3 |

of the main items between the expected and the actual progress was ranging from 0.08 per cent to 29.04 per cent.

4.2 .2 **Physical Performance**

Physical Performance of the road and Kallady bridge were 99.81% and 8.2% against the planned activities of 100% and 26.08% respectively as at 30 September 2010. Details are as follows.

| Contract | Revised contract value | Actual expenditure as at 31 December 2010 | Expected progress as at 31 December 2010 (%) | Actual physical progress as at 31 December 2010 (%) |
|---|-------------------------------|--|---|--|
| ----- | ----- | ----- | ----- | ----- |
| | Rs (Mn) | Rs (Mn) | | |
| | - | - | - | - |
| 1. Reconstruction of 64km from 364km to 427km of A4 road and 36km of A15 road | 3106.804 | 2906.614 | 100 | 99.8 |
| 2. Construction of Kallady bridge | 813.469 | 59.387 | 26.08 | 8.2 |