

Provincial Road Improvement Project (Central and Sabaragamuwa Provinces)- 2011.

1. Opinion

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 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 Special Yen 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,
- (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 presented and information made available, the expenditure of the Projects for the year ended 31 December 2011 amounted to Rs.571,861,200 and the cumulative expenditure as at 31 December 2011 amounted to Rs.9,002,139,143. A summary of the expenditure for the year under review, the expenditure as at 31 December 2010 and the cumulative expenditure as at 31 December 2011 is given below.

Item of Expenditure	Expenditure for the year ended 31 December 2011	Expenditure up to 31 December 2010	Cumulative expenditure as at 31 December 2011
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	Rs.	Rs.	Rs.
Civil Works	483,633,113	6,614,695,346	7,098,328,459
Machinery and Equipment	-	117,493,799	117,493,799
Motor Vehicles	-	48,257,308	48,257,308
Consultancy charges	-	1,040,816,130	1,040,816,130
Project Administrative Cost	8,106,079	226,609,246	234,715,325
Loan Interest	80,122,008	382,137,104	462,259,112
Service Charges for Special (Yen) Account	-	269,010	269,010
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	571,861,200	8,430,277,943	9,002,139,143
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2.2 Special Yen Account

According to the financial statement and information made available, the operations of the Special (Yen) Account during the year ended 31 December 2011 is given below.

	<u>JPY</u>	<u>Rs.</u>
Balance as at 01 January 2011	97,914,323	133,271,185
<u>Add:</u>		
Replenishments	225,776,140	302,540,028
Foreign Exchange Gain	-	109,074
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	323,690,463	435,920,287
<u>Less:</u>		
Withdrawals	321,699,674	432,999,999
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Balance as at 31 December 2011	1,990,789	2,920,288
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3. Audit Observations

Following observations are made.

- (a) Although the fixed assets procured for the Project such as vehicles, furniture and equipment and plant and machinery amounting to Rs. 43,098,000, Rs.796,299 and Rs.2,740,340 respectively had been transferred to SL P-96 Project, those assets had continuously been shown as assets of the Project.

- (b) Four contracts awarded for road rehabilitation and improvement had been terminated due to poor performance and legal proceedings were going on. Although an advance of Rs. 6 million by equal amount of Rs.3 million each had been released to Central and Sabaragamuwa Provinces for legal proceeding on 27 December 2011, Performances of those proceedings were not made available to audit even up to September 2012.

(c) Cancellation of Contracts

- (i) The Contract valued at Rs. 208.2 million awarded under Package No. SIKG2-A, had been cancelled by the Provincial Project Director, Sabaragamuwa Province during 2008 due to poor progress. Even though a request had been made for the encashment of Rs. 33.4 million from the performance and advance payment bond of the construction guarantee fund, no favorable response had been received even after legal action initiated through the Department of Attorney General. No Progress had been reported to audit up to 18 October 2012 in this regard.
- (ii) A Contract valued at Rs. 253.6 million implemented under package No. S1RP2, had been cancelled with effect from 03 July 2008 due to poor performance. Even though the bank had been requested to pay a sum of Rs.52.9 million from the performance and advance payment bond, the bank had not paid any attention. However the Project had initiated legal action through the Department of Attorney General. But no progress was reported to audit up to 18 October 2012 in this regard.
- (iii) Legal action had been initiated through an Arbitrator by demanding a sum of Rs.300.1 million by the contractor as the contract valued at Rs. 264.8 million under the package No.S1RP1 had been cancelled on 09 May 2007 due to poor performance and for the loss of Rs.82.8 million made by the Project. The case was pending even as at 18 October 2012.
- (iv) The contract valued at Rs. 276.1 million under the Road Package No. C1KD1 awarded to a private contractor had been cancelled by the Project on 05 June 2007 due to non-performance of the contract and a sum of Rs.69 million had been recovered after encashment of the bank guarantee and the performance bond. However, the contractor had filed the case claiming a sum of Rs. 211.5 million as losses sustained by him in the Dispute Adjudication Board. Meanwhile, the Project also had claimed a sum of Rs.108 million in additions to the above from the contractor as compensation. The case was pending as at 18 October 2012.