

Re - awakening Project (Community Livelihoods in Conflict Affected Areas Project) -2012.

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 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 purpose for which they were provided,
- (c) the withdrawals from and replenishments to the Special (Dollar) 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 Credit Agreements
- (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 Credit Agreement had been complied with.

2. Financial Statements

2.1 Financial Performance

According to the financial statements and information made available for audit, the expenditure on the Project for the year ended 31 December 2012 amounted to Rs. 4,094,102,426 and the cumulative expenditure as at 31 December 2012 amounted to Rs 11,457,037,272. The expenditure for the year under review, expenditure for the preceding year and the cumulative expenditure as 31 December 2012 are summarized below.

<u>Components</u>	<u>Expenditure</u> <u>for the year ended</u> <u>31 December</u>		<u>Cumulative</u> <u>Expenditure as at</u> <u>31 December 2012</u>
	<u>2012</u>	<u>2011</u>	
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
(a) Civil works	2,966,078,625	294,328,683	5,297,226,671
(b) Goods and Equipment	28,559,725	Nil	365,006,732
(c) Consultancy Services	162,015,760	106,304,287	764,356,397
(d) Incremental	190,425,231	180,059,230	923,142,899
(e) Sub-grants	747,023,085	777,094,861	3,851,366,429
(f) Flood damage	Nil	255,938,144	255,938,144
	-----	-----	-----
Total	<u>4,094,102,426</u>	<u>1,613,725,205</u>	<u>11,457,037,272</u>

2.2 Special (Dollar) Account

According to the financial statements and information made available, the operations of the Special (Dollar) Account during the year under review are summarized below.

	<u>2012</u>	
	<u>US \$</u>	<u>Rs.</u>
Balance as at 01 January 2012	3,120,605	355,441,036
Add: Replenishments	37,767,000	4,708,064,823
Foreign Exchange Gain	—	160,966,299
	-----	-----
	40,887,605	5,224,472,158
Less: Withdrawals	(32,496,064)	(4,157,396,877)
	-----	-----
Balance as at 31 December 2012	<u>8,391,541</u>	<u>1,067,075,281</u>

3. Audit Observations

3.1 Accounting Deficiencies

The following observations are made.

- (a) Differences were observed with the balance sheet prepared for the credit agreement No 3935 and the related schedules as per details given below. No actions had been taken to reconcile these differences and adjusted in the accounts up to 31 may 2013.

<u>Description</u>	<u>Expenditure</u> <u>According to</u> <u>Balance Sheet</u> <u>Rs.</u>	<u>Expenditure</u> <u>According to</u> <u>Schedule %</u> <u>Rs.</u>	<u>Difference</u> <u>Rs.</u>
Civil works	320,162,665	320,475,860	(313,195)
Consultant Service	157,402,043	157,341,721	60,322
Incremental	190,374,807	190,121,935	252,872

4. Financial and Physical Performance

4.1 Utilization of Funds

The amount of Loan agreed by IDA for the Project was US\$ 141.14, and the expenditure incurred during the year under review was Rs. 4,105,237,707 and the cumulative expenditure as at 31 December 2012 amounted to Rs. 11,457,037,272.

A provision of Rs. 4,300,000,000 had been made available in the Annual Estimates of the GOSL for the year 2012 under Head No. 105 – Ministry of Economic Development, Programme - 02 Development Activities, Project 03 – Special Development Project. The provision and the actual expenditure incurred from the years 2005 to 2012 are given below.

<u>Year</u>		<u>Provision</u>		<u>Expenditure</u>		<u>Percentage</u>
		<u>Rs.</u>		<u>Rs.</u>		<u>(%)</u>
2005		381,000,000		284,354,595		74
2006		1,200,000,000		628,876,712		52
2007	RFA	1,400,000,000		689,743,295		
	GOSL	<u>400,000,000</u>	1,800,000,000	<u>147,988,958</u>	837,732,253	47
2008	RFA	848,100,000		610,017,964		
	GOSL	<u>128,190,000</u>	976,290,000	<u>110,503,900</u>	720,521,864	78
2009	RFA	1,175,000,000		114,933,219		
	GOSL	<u>150,000,000</u>	1,325,000,000	<u>1,167,986,711</u>	1,282,919,930	97
2010	RFA	1,000,000,000		873,878,223		
	GOSL	<u>125,000,000</u>	1,125,000,000	<u>106,431,568</u>	980,309,791	87
2011	RFA	1,450,000,000		1,403,885,170		
	FAL	900,000,000		--		
	GOSL	187,500,000	2,537,500,000	183,596,477	1,587,481,647*	63
2012	RFA	1,100,000,000		1,009,650,000		
	FAL	3,000,000,000		2,887,170,000		
	GOSL	<u>200,000,000</u>	<u>4,300,000,000</u>	<u>179,960,000</u>	<u>4,076,780,000*</u>	95
Total				<u>10,398,976,792*</u>		

* The above mentioned figures differ from the figures shown in Paragraph 4:1 of this report due to exclusion of beneficiaries' contributions

4.2 Human Resource Management

4.2.1 The following observations are made relating to the personal files of the project staff

- (a) Although the educational and vocational qualifications and experiences of the staff should have been confirmed from relevant authorities, such confirmations had not been obtained by the Project in respect of 08 officers who have attached to the Project during the year under review.

- (b) Although the copies of the identity cards and birth certificates should have been filed in personal files, such documents had not been obtained by the Project in respect of 08 officers attached to the Project.

4.2.2 Capacity Building

Training Programmes in India (From 25 March 2012 to 4 April 2012 and from 10 to 24 June 2012)

Reports on study tour had not been submitted by the participants of the training programmers.

4.3 Civil Works

The Following observations are made.

	Name of Project	Estimated Amount	Audit observation
	-----	-----	-----
		Rs.	
a.	Rehabilitation of Chadayanthalawa Anicut and LB Bund	8,850,000	(i) Honey combs had been observed on the anicut bund. (i) Soil test report had not been obtained. (iii) Grade I soil should be used for Bund construction but very poor quality soil had been used. . (iv) It was observed that the bund had been washed away in rain.
b.	Channel Gramam – 02 Rehabilitation of Drainage	2,256,262	(i) Honey combs were observed on the side wall of the drainage. (ii) As per the estimated Plan, the width of the side walls of drainage system should have been made in 5 inches. However it had been made only 4 inches of width.

- | | | | |
|----|--|--------------|---|
| c. | Rehabilitation of Rajawewa Tank | 6,861,429 | (i) Even though as per the estimated item No. 2.1 gravel layer should be placed on bund road, it had not been so done.

(ii) Soil testing had not been carried out. |
| d. | Constructiuon of Borapotha Pokurugama Concert Road | 3,711,282.28 | Even though the width of the road should have been made in 10 feet, it was observed that the width of the 64 meters of road had been made in the range of 9 feet to 9.9 feet. |

4.3.1 Construction of Pompugar Kannaki Amman Kovil Road (Batticaloa)

Following observations are made.

(a) 12th Lane

- (i) Serious cracks were observed on the road.
- (ii) Sub base of the road had not been properly prepared.
- (iii) Significant part of the road has been broken and separated from the road in three places.
- (iv) Even though as per the estimate the width of the road should have been made in 3.6 m it had been made in the range of 2.99 m to 3.05 m.

(b) 6th Lane

- (i) Even though as per the estimate the width of the road should have been made in 3.5 meters, the width had been made in 3 meters only.
- (ii) Base of the road had not been made according to the estimate.
- (iii) Even though the gravel unit of 768.6 m³ to the value of Rs. 614,880 should be used for the base gravelling as per the estimate, it had been used only gravel unit of 60 m³. Hence the road was with flooded even if a small rainy day

(c) 5th Lane

- (ii) Cracks were observed on the road.
- (iii) Even though as per the estimate, the width of the road should have been made in 3.5 meters the width had been made in 3 meters only.

4.3.2 Construction of Poly Net Houses

The following observations are made.

- (a) According to the agreement No. Rap/PMU/NCB/POLY-2011/10 dated on 08 July 2011 entered into with the contractor, the work should be completed within 30 days and the defects liability period should be 365 days. However, the work had not been completed in the stipulated period and the damage houses had not been re constructed, Details are given below.

	No of Houses
Northern Province	95
Trincomalee District	<u>25</u>
Total	<u>120</u>

The guaranty period was 3 - 8 years but the repair works of the constructed houses had been given to another contractor.

(b) **Trincomalee District Poly Net Tunnel**

- (i) The warranty period was 3 - 8 years but it was observed in physical verification that the 05 tunnels were destroyed and 20 tunnels were partly damaged.
- (ii) Even though the lowest tendered amount of Rs. 16,803,820 had been quoted by a private company the contract had been awarded to another private company who quoted Rs. 30,496,620.

(iii) The estimated quantity of 05 items had been changed in contrary to Sections 39 and 40 of the contract agreement and payments had been increased from Rs. 116,200 to Rs. 131,180.

(iv) According to the contract agreement, the work completion date was 08 August 2011. However, the work had been completed only on 23 August 2012 and liquidated damages had not been deducted from the payments.

4.3.3 Management of Village Development Organizations (VDO) at Ampara and Batticaloa Districts

(a) Five VDOs had maintained Bank current accounts for their transactions, However, bank reconciliation statements had not been prepared for the year under review.

(b) Stock books had not been maintained by five VDOs.

(c) Payment vouchers had not been properly maintained by the Paragahakelle west VDO.

4.4 Physical Performance

According to the information furnished to audit, the physical performance of the Project as at 31 December 2012 relating to village rehabilitation and development and flood damage rehabilitation is given below.

(a) village rehabilitation and development

<u>District</u>	<u>Irrigation /</u>		<u>Rural Roads</u>		<u>Culvert /</u>		<u>Wells / Water</u>		<u>MPB / Livelihood</u>	
	<u>Canal / Anicut /</u>	<u>Bund / Spill /</u>	<u>(Km)</u>	<u>Completed</u>	<u>target</u>	<u>Completed</u>	<u>target</u>	<u>Completed</u>	<u>target</u>	<u>Completed</u>
	<u>SWE Bund</u>	<u>(Nos.)</u>	<u>target</u>	<u>Completed</u>	<u>target</u>	<u>Completed</u>	<u>target</u>	<u>Completed</u>	<u>target</u>	<u>Completed</u>
	<u>(Nos.)</u>	<u>(Nos.)</u>	<u>target</u>	<u>Completed</u>	<u>target</u>	<u>Completed</u>	<u>target</u>	<u>Completed</u>	<u>target</u>	<u>Completed</u>
Ampara	17	14	80.35	76.89	45	26	62	56	28	26
Batticaloa	17	17	80.98	79.6	17	12	71	61	33	33

Trincomalee	16	15	101.18	99.37	82	16	71	63	33	26
Vavuniya	03	03	185.29	181.48	-	-	113	113	65	63
Mannar	14	14	136.77	135.67	05	05	79	73	113	103
Kilinochchi	20	20	60.73	56.63	11	05	64	63	85	77
Mullaithivu	23	23	95.28	86.26	01	01	70	55	106	92
Jaffna	08	07	110.42	109.55	03	03	598	596	71	62
Anuradapura	31	24	98.59	54.89	-	-	41	29	21	18
Pollonnaruwa	09	08	66.03	59.24	06	06	19	19	17	16
Puttalam	16	15	105.94	100.64	44	29	24	21	21	21
Monaragala	04	04	149.02	101.01	06	06	66	58	16	16

(b) Flood Damage Rehabilitation (FDR)

<u>Activities</u>	<u>Target</u>	<u>Completion as at</u>	<u>Percentage</u>
	<u>Nos</u>	<u>31 December 2012</u>	
		<u>Nos</u>	
Livelihood Restoration Activities (Establishment of poly net houses)	800	356	44.5
Rehabilitation of Irrigation Schemes	255	103	40.4
Rehabilitation of Rural Roads	628	398	63.4
Rehabilitation of Drinking Water Schemes	79	29	36.7

4.6 Non – recovery of Loans under Livelihood Support Assistance (LSA)

According to the information furnished to audit, loan outstanding for more than 03 months amounting to Rs 85.00 million had not been recovered from the recipients who had been paid loans under LSA for various purposes in 12 districts. In this regard, adequate action had not been taken by the Project to recover loan arrears from the respective recipients. Details are given below.

Districts	Focal Vilege	Loans granted		Recoveries made		Loan Outstanding	Loan Outstanding for More than 3 Months
		Nos.	Rs	Nos.	Rs	Rs	Rs
			Million-		Million	Million	Million
-----	-----	-----	-----	-----	-----	-----	-----
Ampara	25	1778	32.84	1968	37.90	23.25	5.42
Batticaloa	25	2895	42.09	4116	87.85	31.66	9.28
Trincomalee	25	2090	51.34	2644	76.85	51.29	8.69
Vavuniya	40	2776	67.78	2102	60.78	53.35	21.77
Mannar	40	2985	76.06	3174	91.79	39.95	9.46
Jaffna	40	2450	67.81	3306	113.87	60.04	7.16
Anuradhapura	25	2708	51.60	3821	102.70	43.40	8.98
Polonnaruwa	25	2089	45.33	2763	65.97	35.37	5.25
Puttalam	26	1769	42.70	1915	69.12	37.47	7.24
Moneragala	25	2124	48.56	2346	65.80	49.75	1.75
Total	296	23664	526.11	28155	772.63	425.53	85.00

5. Systems and Controls

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

- (a) Accounting
- (b) Contract Administration
- (c) Cash Management