

ROAD NETWORK IMPROVEMENT PRIORITY ROAD PROJECT 1 - 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 Sri Lanka Accounting Standards.
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (d) the financial covenants laid down in the Loan Facility 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.5,570.88 million and the cumulative expenditure as at 31 December 2012 amounted to Rs.13,413.69 million. The following statement shows a summary of the expenditure for the year under review, the expenditure for the preceding year and the cumulative expenditure as at 31 December 2012.

<u>Category of expenditure</u>	<u>Expenditure for the year ended 31 December</u>		<u>Cumulative expenditure</u>
	<u>2012</u>	<u>2011</u>	<u>as at 31 December 2012</u>
	Rs. Million	Rs. Million	Rs. Million
Fixed assets	1.45	0.07	1.52
Assets transferred to RDA	3.39	-	3.39
Work-in-progress	8,633.86	2,930.36	11,564.22
Exchange rate difference	-	(31)	-

Advance & prepayment	(3,068.24)	4,912.38	1,844.14
Cash & bank balance	<u>0.42</u>	<u>-</u>	<u>0.42</u>
	<u>5,570.88</u>	<u>7,811.81</u>	<u>13,413.69</u>

3. Audit Observations

3.1 Accounting Deficiencies

The value of 10 Nos passenger vehicles purchase at Rs.37,621,540 through BOQ had been shown in the financial statements under work-in-progress of the civil works, instead of being shown as non-current assets of the Project.

3.1.2 Land Acquisition

Delays in land acquisition had been observed in the contract No. RDA/RNIP/PRP1/C1A-3, and 9 Nos. of plots of land had not been acquired as at 10 May 2013. The delay of handing over of the land to the contractor may cause to grant extension of time and cost overrun.

3.1.3 Human Resource Management

The staff for the Project should be recruited in terms of the Management Services Circular No.33 of 5 April 2007 issued by the Department of Management Services of the General Treasury. Although cadre of the Project had been approved by the Department of Management Services, consultants had been recruited without obtaining the relevant approval and paid remuneration amounting to Rs.1,480,000 during the year under review. Although job descriptions stipulated in the terms of reference of those consultants had been submitted to audit, the beneficial impact and the contribution to the Project from these consultants could not be ascertained in audit.

3.1.4 Quality Assurance of the Project Activities

With regarding the constructions of Siribopura flyover contract No. C1A-3, it was observed that the Hair-line cracks in the abutment and the surface irregularities at flange-web junction of a post tensioned girder. This situation indicated that the contractor had not followed approved method for the works.

3.1.5 Contract Administration

In terms of Section 4.3.1 of the Government Procurement Guidelines, no provisions made available to Telecom Levy and Cess added to the bill of quantity for removal and relocation of Telecom cables. A sum of Rs.298,138 had been paid to Sri Lanka Telecom as the above taxes for removal and relocation of existing telecom network along with the Siribopura junction, Hambanthota in contract No.C1A-1.

3.1.6 Performance

Following observations are made.

- (1) The Boundary Wall of Orubendiwewa National School had been damaged during the rehabilitation of the C-6A Kandy-Mahiyanganaya-Padiyathalawa road. The reconstruction of boundary wall length was 95 metres which was the same length that the insurance company compensated. The total amount of reconstruction cost estimated was Rs.843,621 and actual amount paid by the insurance company was Rs.572,338. Although balance amounting to Rs. 271,233 should have been borne by the contractor, this had been borne by the Project without any contractual obligations in the contract agreement. Further 11 months had been taken to reconstruct the boundary wall.

- (2) It was observed that scope changes had been taken place in Kiriibbanara – Udamauara Road contract No. C1A-2. The scope changes made in road section from CH 0+000 km to CH 6+000 km as 4 lanes requirement instead of original estimates of 2 lanes requirement and deleted the existing causeway in Bopale junction after obtaining the cost proposal of the contractor. The drawings for widening of existing causeway and reasons for deletion of existing causeway had not been made available to audit. The changes of scope had been made by the PMU due to introduction of required variation on Bopale junction – Udamauara road section. Further, it was observed in audit that, due to scope changes of the original estimates the cost has been increased by Rs.415 million or 52.14 per cent. According to clause No 8.13.4 of the Procurement Guidelines, the Project had not given explanation as to why it was not detected at the design stage. This situation indicated the poor contract management of the Project.

- (3) No proper time frame had been made for the land acquisitions and relocation of utility services in relation to the flyover at Siribopura contract No. C1A-3 which was badly affected to the progress of the contractor. Further, it was observed that the payments for shifting of utility services had been made through the contractor and the contractor had recovered such payments in subsequent interim payment certificate with additional profit and overhead from the Project.

3.2 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision and the utilization of funds for the period under review and up to 31 December 2012 are given below.

Sources	Amount agreed for financing in the Loan Facility Agreement		Budgetary provision for the year 2012	Funds utilized during the year 2012	Funds utilized up to 31 December 2012	
	US\$ Mn.	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	%
CDB	152.8	15,280	6,925.47	6,884.99	10,268.10	67.19
GOSL	<u>17.0</u>	<u>1,700</u>	<u>592.98</u>	<u>592.97</u>	<u>1,413.71</u>	<u>83.16</u>
	<u>169.8</u>	<u>16,980</u>	<u>7,518.45</u>	<u>*7,477.96</u>	<u>*11,681.81</u>	<u>68.79</u>

* These amounts differ from the amounts shown in paragraph 2.1 of this report due to non-inclusion of accrued expenditure, retention money, foreign exchange rate difference and transactions of inter current accounts.

3.3 Financial and Physical Performance

The China Development Bank Cooperation had allocated USD 152.8 million to carry out six contract packages for road improvement and rehabilitation works as per Loan Facility Agreement and the numerous changes of scope of work such as, design changes, and additional works variations had been taken place during the implementation. As a result of above changes intended completion date of the contracts had been extended. As per information made available, the physical progress of those contract packages as at 31 December 2012 are shown below.

Contract No.	Name of contract	Contract amount Rs. Million	Actual cost Rs. Million	Physical progress as at 31 December 2012	
				Target %	Actual %
C1A	(I) Beliatta - Tangalle road	1,350	1,380	100	95
	(II) Bopale - Kiribbanara - Uadamauara Road.	} 2,675	1,846	100	72
	(III) Flyover at Siribopura Junction				
C2A	Pelawatta - Kankotiyawatta- Thiniyawala - Morawaka road (47Km)	3,900	1,235	71	44
C3	Thiruwanaletiya - Agalawatta road (0 - 033.45 Km)	2,800	1,005	51	38.5
C6A	Kandy - Mahiyangana - Padiyathalawa road	1,550	1,215	100	90.2
C8	Kalkudah - Valachchenai road	700	610	100	100
C11	Paranthan - Mullaithivu road (52.13 Km)	5,700	3,920	41.36	63.79