

ROAD NETWORK IMPROVEMENT PRIORITY ROAD PROJECT 2 - 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.23,266 million and the cumulative expenditure as at 31 December 2012 amounted to Rs.29,325 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</u>		<u>Cumulative</u>
	<u>ended 31 December</u>		<u>expenditure as at 31</u>
	<u>2012</u>	<u>2011</u>	<u>December 2012.</u>
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Fixed assets	147,064	2,610	149,674

Work- in- progress	16,100,660,630	432,126,680	16,532,787,310
Advances and prepayments	<u>7,165,552,215</u>	<u>5,626,884,014</u>	<u>12,792,436,229</u>
	<u>23,266,359,909</u>	<u>6,059,013,304</u>	<u>29,325,373,213</u>

3. Audit Observations

3.1 Accounting Deficiencies

Following accounting deficiencies were observed in audit.

- (a) A sum of Rs. 77,731,936 had been overstated in the accrued expenditure shown in the Financial Statements for the year under review as a result of making over provision.
- (b) Although 80 percent of the value of materials at site could be claimed by the contractor through interim payment certificate (IPC), Rs.1,387,000 had been paid to the contractor for materials at site without verifying the measurement sheets of the materials.

3.2 Human Resource Management

Cadre of the Project should be approved by the Department of Management Services in terms of Management Services Circular No. 33 of 5 April 2007. In contrary to that eight officers had been recruited to the Project Consultancy Unit without obtaining the relevant approval. Further it was observed that 4 consultancy personnel had been deployed by the Project and a sum of Rs. 1,128,090 had been paid as remuneration and transport allowances, but performance reports of these consultants had not been submitted.

3.3 Contract Administration

Following observations are made.

- (a) Although the contractors were mobilized at work sites, updated programme of works had not been obtained from them in terms of the sub clause No. 8.3 of the condition of the contract. In the absence of such programmes, it was observed that there were numerous changes of scope of works had been taken place and works had been carried out day to day on adhoc basis. Such situation was observed in the activities of contract No C6 which may result cost overrun, time extensions for the contract etc.

- (b) A sum of Rs. 100,000 had been paid as monthly rental for the building occupied by the Engineer's Office in contract package No.C6 for the year under review without obtaining the rental assessment from the Government Chief Valuer.
- (c) As per sub clause 4.8 of volume 2 of the particular condition of the contract, the contractor should comply with safety precautions and satisfactory traffic controlling arrangements should continue during the execution of work. According to the letter No. PRP2/C6CW/01/035 dated 18 June 2013 issued by the Resident Engineer, it has been observed that the safety precautions provided and traffic controlling arrangements were unsatisfactory at the road section from chainage 10+890 to 10+988 and outstanding works being carried out at 13 Km in contract No. C6. As a result difficulties had been faced by vehicles and pedestrians. Actions had not been taken by the Resident Engineer of the Project for the above non compliances as per RDA guidelines and their traffic management plan.
- (d) According to the Non Conformity Report Nos. 12 and 13 issued by the Resident Engineer in relation to grading of Aggregated size of 1.18 MM, 2.36 MM and 4.75 MM (Project No. RDA/RNIP/PRP2/C6) of the Anuradhapura – Galkulama Road Project were out of the specified limits. Further, it was observed that the corrective and preventive actions taken had not been submitted by the contractor to the RE and no written evidence were made available, whether the contractor had rectified as per instructions given by the Project Consultancy Unit.
- (e) It was observed that scope of works had been changed by the PMU in Galkulama - Anuradhapura Road Project (Contract No. RDA/RNIP/PRP2/6C) due to introduction of certain variations. According to the revised work programme, all the works should be completed by 12 September 2013. Following observations are made in this regard.
- (i) ABC quantity is exceeded for more than 35 per cent of the BOQ quantity
 - (ii) Sub base material quantity also exceeded for more than 500 per cent.
 - (iii) New work from chainage 15+000 to 16+000 as variation of drains, foot work, paving etc. (Road opposite to the Anuradhapura Teaching Hospital) had neither been

completed within the original period of completion nor the period of the contract had been extended.

- (f) The Procurement process should ensure transparency and consistency in the evaluation and selection of contractors in terms of Section 1.21 (f) of the Government Procurement Guidelines. However, it was observed that a contract for Rs. 34,379 million had been awarded to 3 Chinese contractors by the Project as per instructions in the paragraph 3 of the letter issued by the Chief of the Sri Lanka Residence Mission of China Development Bank without following the instructions in the Government Procurement Guidelines 2006.

3.4 Performance

The following observations are made.

- (a) Although in terms of clause No. 4.4 of the General Conditions of the contract, the contractor shall not sub-contract the whole of the work, the contractors awarded the whole of the work of the contracts of Rs. 7,275 million to the sub-contractors in relation to the Contract No. C5B, C10A and C10B violating to the above condition of contract. Further, it was observed that according to the condition of contract, supervision consultancy has no power to directly control the sub-contractors' work and this situation may effect to the quality and performance of the work.
- (b) According to the minutes of the site meetings, monthly progress report of the Project indicated that the contractor's work-in-progress was below the expected level. It was observed that the contractors' resources such as skill and unskilled labour, plant and equipment were not sufficient to carry out their monthly scheduled work programmes. As a result of inadequate resources of the contractors, key items of the construction work was significantly behind the targeted progress. When comparing the expected and physical progress following slow progress were observed.

Contract No.	Expected progress as at 31 December 2012	Actual progress	Slippage
	%	%	%
i. C21-Reconstruction of bridges on Thiruwanaletiya-Agalawatta road	51.52	33	18.52
ii. C4C - Horawela- Pelawatta - Pitigala road	100	27.80	72.20
iii. C24-Reconstruction of bridges on Horana-Anguruwatota-Aluthgama road	67.77	58.50	9.27
iv. C10A- Thihagada-Kamburupitiya-Mawarala-Kotapola road	13.95	6.34	7.61
v. C10B- Hungama-Middeniya Road	24.53	12.54	11.99

3.5 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review are given below.

	Amount agreed for financing in the Loan Facility Agreement		Budgetary provision for the year 2012	Funds Utilized during the year 2012	Funds utilized upto 31 December 2012	
	US\$ Mn.	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	%
China	500	50,000	15,955	15,955	19,230	38.46
GOSL	<u>56</u>	<u>5,600</u>	<u>1,918</u>	<u>1,918</u>	<u>2,481</u>	<u>44.30</u>
	<u>556</u>	<u>55,600</u>	<u>17,873</u>	<u>17,873</u>	<u>21,711</u>	<u>39.05</u>

* These amounts differ from the amounts shown in the paragraph 2.1 of this report, due to non-inclusion of accrued expenditure, retention money and transaction of inter current accounts which is yet to be claimed.

3.6 Physical Performance

According to the information made available, the physical progress of 19 contracts in relation to the Project as at 31 December 2012 were as follows.

No.	Contract No.	Name of road/bridge/Project activity	Targeted completion date	Physical progress as at end of the year under review.	
				Target %	Actual %
1	RDA/RNIP/PRP2/C2A	Kandy-Mahiyangana-Padiyatalawa Road (93.15-102.28 km)	06.12.2012	100	100
2	RDA/RNIP/PRP2/C2B	Badulla-Karametiya-Andaulpotha Road (0.0-48.0 km)	06.12.2013	46.57	46.50
3	RDA/RNIP/PRP2/PkgC/C5	Mahiyangana-Dimbulagala-Dalukkane Road (0.0-24.10 km)	06.12.2013	55.02	85
4	RDA/RNIP/PRP2/PkgC/C5B	Bibile-Uraniya- Mahiyangana Road (22.0-39.58 km)	19.03.2014	25.01	30.40
5	RDA/RNIP/PRP2/PkgC/C6	Galkulama-Anuradhapura Road (0.15 km) & (16.0-16.64 km)	06.11.2013	86.95	46.07
6	RDA/RNIP/PRP2/PkgC/C7	A) Kadahapola-Rambawewa Road (0.0-18.71 km)		16.58	13.80
		B) Kurunegala-Narammala-Maddampe Road (0.0-22.36 km)	17.06.2014	15.02	13
		C) Galagedara-Rambukkana Road (0.0-18.50 km)		9	8

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7	RDA/RNIP/PRP2/PkgC/C11	Tennekumbura- Rikillagaskada - Ragala road (20.30 - 73.64 km)	19.09.2014	18.3	17.3
8	RDA/RNIP/PRP2/PkgC/C12	Uswetakeiyawa Epamulla Pamunugama Road (0.0 - 8.05km)	08.01.2013	71.13	57.70
9	RDA/RNIP/PRP2/PkgC/C13	Palaviya - Kalpitiya Road (14.0 - 40.60km)	29.05.2014	14.04	16.00
10	RDA/RNIP/PRP2/PkgC/C15	Mahiyangana - Dimbulagala - Dalukkane Road (24.10 - 72.8km)	05.06.2014	6.38	5.43
		Manampitiya - Aralaganwila - Maduru oya Road (0.0 -3.0km)		6.38	5.43
11	RDA/RNIP/PRP2/PkgC/C17	Provincial roads in Nuwara Eliya district	19.03.2014	28.37	24.6
12	RDA/RNIP/PRP2/C1A	Horawela - Pelawatte - Pitigala Road (0.0 - 17.50km)	05.06.2013	38.58	26.33
13	RDA/RNIP/PRP2/PkgC/C4	Tiruwanaketiya - Agalawatte Road (33.45 - 67.80km)	11.12.2013	55	15
		Horana - Anguruwatota - Aluthgama Road (5.0 - 32.0km)	11.12.2013	46.88	19.97
		Horawela - Pelawatte - Pitigala Road (17.5 - 25.74km)	11.12.2012	100	27.8

14	RDA/RNIP/PRP2/PkgC/C9	Construction of a flyover at Mattala airport access road junction in Hambantota hub development	06.12.2013	62	67
		Construction of a flyover at 100 feet road and bypass road junction in Hambantota hub development	11.12.2013	61	50
15	RDA/RNIP/PRP2/PkgC/C21	Reconstruction/widening of Bridges in Tiruwanaketiya - Agalawatte Road (33.45 - 67.80km)	05.12.2013	51.52	33.00
16	RDA/RNIP/PRP2/PkgC/C24	Reconstruction/widening of Bridges in Horana - Anguruwatota - Aluthgama Road (5.0 - 32.0km)	05.12.2013	67.77	58.50
17	RDA/RNIP/PRP2/PkgC/C20	Nagoda- Kalawellawa- Bellapitiya road (27.0 - 57.0 km)	19.03.2014	27.25	16.30
18	RDA/RNIP/PRP2/PkgC/C10B	Hungama - Middeniya road (0.0 - 30.0 km)	19.03.2014	24.53	12.54
19	RDA/RNIP/PRP2/PkgC/C10A	Thihagoda- Kamburupitiya- Mawarala- Kotapola road (23.0 - 67.0 km)	06.04.2014	13.95	6.34