

## **Road Network Improvement Project - 2011.**

### **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 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, and
- (c) satisfactory measures had been taken by the management to rectify the issues highlighted in by previous year audit report.

### **2. Financial Statements**

#### **2.1 Financial Performance**

According to the financial statements and information made available, the expenditure of the Project for the year under review amounted to Rs.33,379,753 and the cumulative expenditure as at 31 December 2011 amounted to Rs.17,546,380,192. The following statement shows a summary of the expenditure for the year under review, and the preceding year and the cumulative expenditure as at 31 December 2011.

<b><u>Description</u></b>	<b><u>Expenditure for the year ended 31 December</u></b>		<b><u>Cumulative expenditure as at 31 December 2011</u></b>
	2011 Rs	2010 Rs	Rs
Fixed Assets-Written Down Value /(Transferred)	(179,599)	(844,843)	12,435
Civil Works completed	131,711,746	212,479,214	14,138,782,303
Work-in- Progress	-	-	130,619,771
Project Administration	18,560,055	19,505,840	3,230,190,330
Land Acquisition	2,036,203	3,278,394	65,173,392
Net Current Assets	(118,748,652)		(18,398,039)
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	33,379,753	234,418,605	17,546,380,192

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## 2.2. Imprest Fund

There were two Imprest Fund Accounts in operation under this Project up to 30 April 2009. No foreign funds had been received thereafter and no any balance remained in the Imprest Fund Accounts since then.

## 3. Audit Observations

Following observations are made.

- (a) Action had not been taken by the Project to transfer the fixed assets purchased during the Project period at a cost of Rs.62,425,145 to the RDA even though the Project had concluded its activities as at 31 December 2008 and the period for settlement of imprest had been closed on 30 April 2009. Further, it was observed that some of the fixed assets of the Project valued at Rs 13,189,007 had been remained in the custody of entities which had no direct relationships with the project activities.
- (b) It was observed that an advance made to the Western Provincial Director's Office of the RDA amounting to Rs 300,000 and another advance amounting to Rs 233,500 made on foreign visit had remained unsettled for over two years. Further, retention money aggregating Rs. 229,066 relating to the contracts which were completed in 2008 by seven contractors had been remained in the accounts for over three years without taking action either to release it or treat as revenue. In addition, accrued expenses aggregating Rs.120,617 had been outstanding in the accounts for over three years.
- (c) The initial estimated cost of the Project for civil works was SDR 35.48 million equivalent to Rs. 9,564 million and out of that, SDR 25.19 million equivalent to Rs. 6,933 million had been agreed to be financed by the Lending Agency. However, the actual cost for the civil works of the Project as at 31 December 2011 had been increased up to Rs. 17,578 million due to extra works, price fluctuation etc. Therefore, the loan proceeds for civil works had been increased up to SDR 46.19 million equivalent to Rs.9,629.06 million after making re- allocations. The government contribution had also been increased up to Rs.7,949 million at the end of the year under review.
- (d) All the road construction works under the Project had been completed as at 31 December 2008 except the construction of AA010 Katugastota-Kurunegala Road (37.8 Km) and B 205/369 Katugastota – Wattegama Road (9.8 Km) . Following observations are made in this regard.

- (i) The Contract valued at Rs.1,088,612,328 to rehabilitate AA010 Kataugastota – Kurunegala Road (37.8 Km) and B 205/369 Katugastota to Wattagama Road (9.8 Km) had been awarded to a Chinese Company and the scope of work under the civil works component had been modified under variation orders and changes made in the BOQ, due to slow progress shown by the contractor. Therefore, initial contract value had been subsequently increased by Rs.553,387,762. The section of Katugastota – Wattagama road (9.8 km) had been totally withdrawn from the original contractor in 2010 and subsequently it had been given to another contractor. However, rehabilitation works of Katugastota – Wattagama road had not been completed even though 6 years lapsed after awarding the contract.
  - (ii) According to the information received, the balance work of the Section from 03+ 100km to 14+160km of AA010 Kataugastota – Kurunegala Road had been awarded to Maganeguma Construction Equipment Company under the supervision of Provincial Director of Road Development Authority of the Central Province. According to the Provincial Director, 60 % of the rehabilitation works had been completed as at 31 December 2011. However, copy of the contract agreement had not been received for audit and the total value of the contract and due dates for completion of works could not be ascertained in audit.
- (e) A proper action plan had not been prepared for land settlement activities and therefore, period for completion of such activities and the cost expected to incur thereon could not be ascertained in audit. However, the activities of the acquisition of the lands had not been completed on due dates. Following observations are made in connection with the land acquisition activities of the Project.
- (i) As per instructions given by the Road Development Authority to the Divisional Secretaries through the letter dated 03 September 2001, all the compensation payments should be completed before 28 February 2002. However, interest on delays in payment of compensation aggregating Rs.147,158,366 had been paid as at 31 December 2011 in respect of 10,721 plots of land. Thus, indicating that the Project had not taken meaningful action to settle the compensation payments as enable to avoid extra cost.
  - (ii) According to the information made available, the payments for compensation had not been completed even as at 31 December 2011 for 153 plots of lands acquired for rehabilitation works carried out at the following roads.

<u>Road</u>	<u>No of plots of land remained in disputes on settlement of compensation as at 31 December 2011</u>
Katugastota- Kurunegala Road	118
Katugastota- Wattegama Road	14
Pandura- Ingiriya Road	05
Pasyala- Mirigama Road	07
Ambalangoda- Elpitiya Road	09
Total	153

#### **4 Closure of the Activities of the Project**

The Project activities scheduled to be carried out by the loan proceeds except the works described in Paragraph 5(d) of this Report had been completed in 2008 and all eligible expenditure had also been claimed and withdrawn before 30 April 2009. Further, the Project Completion Report had also been submitted by the Consultants in May 2009. However, action had not been taken by the RDA as the executing agency to wind up the accounts of the Project and hand over the assets to the respective parties.