

## **ROAD PROJECT PREPARATORY FACILITY - 2012.**

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### **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 purposes for which they were provided,
- (c) 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,
- (d) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report,
- (e) The financial covenants late 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 Project for the year under review amounted to Rs.256,039,009 and the cumulative expenditure as at 31 December 2012 amounted to Rs.1,853,389,108. The following statement shows a summary of the expenditure for the year under review, the expenditure for the previous year and the cumulative expenditure as at 31 December 2012.

Category of expenditure	Expenditure for the year ended		Cumulative expenditure as at 31 December 2012
	31 December		
	2012	2011	
	Rs.	Rs.	Rs.
<b>Equipment:</b>			
Package – II (Consultancy)	(1,680,028)*	-	3,702,898
<b>Work-in-progress:</b>			
<b>(Project expenses)</b>			
Package – II (Consultancy)	4,372,793	11,888,776	115,340,736
Eastern and North Central Provinces	(132,547)**	-	6,684,329
Non refundable tender deposits	-	-	(4,591,646)
<b>Consultancy:</b>			
Package – I	-	685,495	399,531,991
Package – II	-	343,043	410,811,723
Package I	258,100	5,236,781	169,454,270
Package V	3,020,654	85,930,855	236,525,310
Package roads for additional financing	185,113,251	-	185,113,251
Individual consultants	-	-	4,045,039
Assessment of flood damage	-	5,106,023	5,106,023
Consultancy services - Jaffana	4,533,449	38,652,673	91,768,958
Consultancy services - 400 km	53,880,514	93,560,894	177,097,420
Procurement consultancy	-	349,837	14,947,328
Preparatory work – Northern Road Connectivity Project	-	-	902,065
Preparatory work – Conflict Affected Region Emergency Project	-	(733,787)	854,701
Interest charges	<u>6,672,823</u>	<u>10,956,052</u>	<u>36,094,712</u>
	<u>256,039,009</u>	<u>251,976,642</u>	<u>1,853,389,108</u>

\* Due to depreciation of fixed assets and assets transferred to MLG&PC (Ministry of Local Government and Provincial Council) and RDA.

\*\* Due to adjustment in revaluation imprest.

## 2.2 Imprest Fund Account

According to the financial statements and information made available, the operations of the Imprest Fund Account during the year under review and the balance therein as at 31 December 2012 is given below.

	<u>Imprest Account No. 5930</u>	
	US \$	Rs.
Balance as at 01 January 2012	9,996	1,138,600
Add: Replenishments	Nil	Nil
Foreign exchange gain	-	132,547
	<u>9,996</u>	<u>1,271,147</u>
Less:		
Withdrawals	Nil	Nil
Balance as at 31 December 2012	<u><u>9,996</u></u>	<u><u>1,271,147</u></u>

## 3. Audit Observations

Following observations are made.

- (a) According to the Terms Of Reference (TOR), contract variation No. 1 for preparatory works of additional National road and Provincial roads, the scope of services for the consultant was consistent with the preparation of the reports of the Social Assessments (SAs), Resettlement Plans, Environmental Assessment, Detail Design Specification and cost estimates. Although, these reports had been prepared by the earlier consultant and TOR issued to review and update such reports, there was no justifiable evidence made available whether these reports had been reviewed by the consultant.
- (b) Although the statutory boards that receive grants from the consolidated fund are not liable for Value Added Tax and overhead, as per Section 8.6 of the Public Enterprises Circular No PED/12 of 02 June 2003, a sum of Rs. 72,395 had been recovered by the Road Development Authority from the Project as Overhead and Value Added Tax on the services provided to the Project.

(c) Salaries paid to an officer of the Project had been based on the formula introduced by the RDA, instead of applying the formula based on the Circular No:33 of 05 April 2007 issued by the Management Services Department. As a result, a sum of Rs.20,926 had been over paid by the Project when compared to the applicable salary scale.

(d) Although the gratuity payment was not entitled to an officer working in the Project who was absorbed into the service of Road Development Authority, a sum of Rs. 12,060 had been paid to the officer as gratuity payment violating the instructions in section II of the payment of gratuity Act No 12 of 1983.

#### **4. Financial and Operating Review**

##### **4.1 Utilization of Funds**

According to the Financial Statements and information made available, certain significant statistics relating to the budgetary provision for the year under review and utilization of funds during the year under review and up to 31 December 2012 are shown below.

<u>Sources</u>	<u>Amount agreed for financing in the Loan Agreement</u>		<u>Budgetary provision for the year 2012</u>	<u>Funds utilized during 2012</u>	<u>Funds utilized up to 31 December 2012</u>	<u>Utilization for the year as a percentage</u>
	<u>US \$.Mn</u>	<u>Rs.Mn</u>	<u>Rs.Mn</u>	<u>Rs.Mn</u>	<u>Rs.Mn</u>	<u>%</u>
	ADB	15	1,476.75	250.0	210.21	1,478.81
GOSL	05	492.25	33.5	33.5	360.49	100
	<u>20</u>	<u>1,969.00</u>	<u>283.5</u>	<u>243.71*</u>	<u>1,839.3**</u>	

\* This amount differ from the amount shown in the paragraph 4.1 of this report, due to Negative Working Capital Rs.12,255,113 and the assets used by the Chinese Grant Aid Project valued of Rs.69,243 transferred to the Project during the year under review at the request of Project Director.

\*\* This amount differ from the amount shown in the paragraph 4.1 of this report, due to Negative Working Capital Rs.12,912,301 & Grant amount Rs.1,177,592.

#### **4.2 Physical and Financial Performance**

The RDA and the Ministry of Local Government and Provincial councils with the participation of Provincial road agencies had identified roads to be rehabilitated and improved to meet the needs of modern and efficient road network.

It was observed that a total length of 2,200 Km of National Highways and 2,900 Km of Provincial roads had been selected for feasibility study and detailed design. However the contract had been awarded to a contractor at a value of Rs.1,387 million for the consultancy service of 3,141 km of National Highways and 3,119 km of Provincial roads. As per the Project progress report, feasibility study and detailed design pertaining to 4,940 Km had been completed by the Project as at 31 December 2012. Details of physical progress of contracts and cumulative expenditure as at the end of the year under review were as follows.

<u>Package</u>	<u>Length of road as per the contract</u>	<u>Actual Length of road Completed</u>	<u>Cumulative expenditure as at 31 December 2012</u>
	<b>Km</b>	<b>Km</b>	<b>Rs. Mn</b>
Package I	1,500	27 – FS 157 – DD	} 268.7
Package II	2,400	2,400	
Package 1B	351	347	130.8
Package 1C	664	664	169.4
Package V & VA	436	436	158.3
Package VB	77	77	78.2
Package X - NH	113	113	} 185.1
Package X – Provincial roads	69	69	
Jaffna	250	250	91.8
Killinochchi/Mullaitivu	<u>400</u>	<u>400</u>	<u>177</u>
	<u>6,260</u>	<u>4,940</u>	<u>1,670.1</u>