

SOUTHERN TRANSPORT DEVELOPMENT 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 purposes for which they were provided,
- (c) the withdrawals from and replenishments to the Imprest Fund Accounts during the year ended 31 December 2012 had been truly and fairly disclosed in the books and records maintained by the Project and the balances 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 Loan Agreement,
- (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 Loan Agreement had been complied with.

2. Financial Statements

2.1 Financial Performance

According to the financial statements presented, the expenditure of the Project for the year under review amounted to Rs.10,555,355,748 and the cumulative expenditure as at 31 December 2012 amounted to Rs.85,439,740,790. 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</u>		<u>Cumulative</u>
	<u>December.</u>		<u>expenditure as at</u>
	2012	2011	<u>31 December 2012</u>
	Rs.	Rs.	Rs.
Property, Plant and Equipment	(4,119,579)*	(4,075,291)	20,451,516
Work-in-Progress	<u>10,559,475,327</u>	<u>8,662,278,607</u>	<u>85,419,289,274</u>
	<u>10,555,355,748</u>	<u>8,658,203,316</u>	<u>85,439,740,790</u>

* Due to depreciation of assets and assets transferred to RDA.

2.2 Imprest Fund Accounts

Although the section from Kottawa to Pinnaduwa had been completed in 2011, certain transactions were being finalized during the year under review too.

According to the financial statements and information made available, the operations of the Imprest Fund Accounts for the year ended 31 December 2012 is summarized below.

	<u>Asian Development Bank</u>		<u>Nordic Development Fund (NDF)</u>	
	US \$	SL.Rs	US \$	SL.Rs
Balance as at 01 January 2012	1,749	199,264	2,834	269,454
Add: Replenishments	680,432	80,346,295	Nil	Nil
Foreign Exchange Gain	-	1,926,811	-	Nil
	<u>682,181</u>	<u>82,472,370</u>	<u>2,834</u>	<u>269,454</u>
<u>Less:</u>				
Withdrawals	<u>604,511</u>	<u>72,595,777</u>	<u>Nil</u>	<u>Nil</u>
Balance as at 31 December 2012	<u>77,670</u>	<u>9,876,593</u>	<u>2,834</u>	<u>269,454</u>

3. Audit Observations

3.1 Land Acquisition and Resettlement

A sum of Rs. 2,422 million consisting of statutory compensation, LARC compensation (Land Acquisition and Resettlement Committee) for the year amounting to Rs.1,956 million and interest on delayed payment of compensation amounting to Rs. 363 million had been paid to the affected parties.

According to the Circular No. MH/W/1/93 dated 08/09/2006 issued by the Ministry of Highways, land owners are not entitled to receive the 25% bonus on assessment of land value and Land Acquisition and Resettlement Committee process, when land acquired based on the request of land owners. On the contrary, a sum of Rs. 624,950 had been paid as bonus to three land owners, of whom the land had been acquired on their request.

3.2 General Administration

3.2.1 Human Resource Management

Following observations are made.

- (a) Annual action plan with clear identification of the core staff responsibilities and targets to be achieved during the year under review, had not been prepared. Therefore the entire progress of the Project could not be properly evaluated in order to take corrective measures if there are deviations and to make necessary changes with the view to achieving objectives set for.
- (b) Although cadre of the Project had been approved by the Department of Management Service of the General Treasury, four numbers of local consultants had been deployed without obtaining the relevant approval and a sum of Rs. 2,996,075 had been paid as remuneration during the year under review.

3.2.2 Contract Administration

- (a) The construction of parking area for the Police vehicles in ADB Funded Section from Kurundugahahetekma to Pinnaduwa had been awarded to a private company for Rs. 10,601,637. Following observations are made in this regard.
 - (i) According to the clause No 4.3.1(A) of the Government Procurement Guidelines, Engineering cost estimates should be prepared before commencing civil works.

However, a sum of Rs.11,873,833.81 had been paid to the contractor for construction of parking area for Police vehicles in ADB section without preparing engineering cost estimate.

- (i) According to the clause No 4.3.1(c) of Government Procurement Guidelines, 10 per cent of the estimates should be provided for physical contingency. The estimate had been prepared by the Project by violating the above requirement and a sum of Rs. 2,493,834 equivalent to 26 per cent had been paid as variation in relation to the construction contract of parking area for Police vehicles.
- (iii) It was observed that without evaluating the Tender bidding documents for the construction of parking area for Police vehicles, the contract had been awarded to a contractor at a contract price of Rs.8,375,000 and the payments had been effected without obtaining work done measurements.
- (b) A sum of Rs. 5,321,436 had been paid for certain construction works carried out from Kottawa to Pinnaduwa road section by the Project. However, relevant cost estimates and approved fund provisions were not made available for the audit.

3.2.3 Non-compliance with Rules and Regulations.

The following observations are made.

- (a) According to the clause 14.2 of the particular conditions of contract in package 1, only 20% of the accepted contract amount shall be payable as advance. However, it was observed that an additional advance payment amounting to Rs.522,272,250 had been made in the IPC No.14 without complying with the above requirement in the Government Procurement Procedure.
- (b) A sum of Rs. 1,961,127 had been paid to the RDA by the Project as overhead expenses from January to October in 2012 contrary to Section 8.3.9 of the Public Enterprises Circular No PED/12 dated 02 June 2003.

4. Financial and Operating Review

4.1 Financial Performance

- (a) A sum of Rs. 1,119,005,069 had been received from the ADB during the year, for the settlement of bills.

(b) Funds had been received from Exim bank amounting to Rs. 18.7 billion with regard to section from Pinnaduwa to Godagama. Details are as follows.

<u>Package</u>	<u>Original contract price</u> (Rs.Mn)	<u>Cumulative up to 31 December 2012</u>	
		<u>Target</u> (Rs.Mn)	<u>Actual</u> (Rs.Mn)
Package I (Pinnaduwa to Kodagoda)	10,170	4,026.66	1,953.75
Package II (Kodagoda to Godagama)	8,530	3,873.11	2,642.76

4.2 Physical Performance

The section from Kottawa to Pinnaduwa (Galle) which is 95.05 Km and Galle Port access road (5 Km) had been completed and opened to traffic on 27 November 2011.

The balance section from Pinnaduwa to Godagama (30 km) is under construction. The Physical Performance of balance section as at 31 December 2012 was as follows.

<u>Package</u>	<u>Target</u>	<u>Actual</u>	<u>Slippage</u>
Package I (Pinnaduwa to Kodagoda)	47.76%	26.11%	- 21.65%
Package II (Kodagoda to Godagama)	48.00%	37.64%	- 10.36%