CAPITAL PROJECT IMPLEMENTATION

5.1 Capital expenditure forms a major part of Government budget. During the past five years Government spent a total sum of Rs 44.3 billion on project expenditure. At paragraph 2.4 of my 2005-06 Audit Report, I reported on shortcomings encountered on implementation of projects. These are summarised below:

- Inaccurate design of projects. Basic details such as topography of land, boundaries, and way leaves were not often considered for a proper design.

- Delay in project implementation. Some causes of delays were modification of original design, inadequate resources deployed by Contractors, late nomination of sub contractors and late ordering of contract materials.

- Inadequate site supervision and monitoring of projects. Poor quality of works was another recurring feature of capital project. This occurred, among others, because of sub-standard materials and works not performed according to contract specifications.

- Increasing consultancy costs. Government was resorting more and more to consultancy services because of high number of projects. This was becoming costly.

- Excessive variation works due to changes in client’s needs, scope of works loosely defined, inadequate verification of sites.

- Non-renewal of performance bonds and insurance policies on their expiry.

- Funds earmarked for specific projects were not fully utilised for the purpose they were intended.

Recommendations made included the following:

- The setting up of a Regulatory Body to regulate the building and construction industry. The Body would be responsible to provide guidelines for proper implementation of projects from inception to completion and actual occupation.

- Payment of lump sum fee to Consultants instead of a percentage fee. The latter results in frequent changes in design along with variations which Consultants themselves recommend.

- Proper definition of clients’ requirements and they should not be subject to major changes during construction.

- Changes in conditions of contracts to provide for defaulting Contractors to make good any increase in contract value of uncompleted works on re-award.

- Before embarking on projects, their financial impacts and priorities should be considered.

- To increase rate of performance bond and liquidated damages to prevent Contractors from delaying or abandoning projects.

- To take sanctions against Consultants/Project Manager and Contractors for works not done according to contract specifications.
Where there are main contractors and nominated sub-contractors in projects, proper projects planning is important in terms of timely award of different contracts.

At paragraph 5.2 of my 2006-07 Audit Report, I reported that the above unsatisfactory features were still prevalent.

5.2 Follow up

During the year under review, it was noted that the above shortcomings were still prevalent.

The total amount of capital expenditure (consisting loans, project expenditure and reserves) and project expenditure for the past five years are as shown in Table 5-1.

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Capital Expenditure Rs</th>
<th>Project Expenditure Rs</th>
<th>Project Expenditure as a % of Capital Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>8,428,613,052</td>
<td>7,887,111,520</td>
<td>93.6</td>
</tr>
<tr>
<td>2004-05</td>
<td>7,829,878,126</td>
<td>7,129,515,909</td>
<td>91.0</td>
</tr>
<tr>
<td>2005-06</td>
<td>8,373,332,890</td>
<td>8,155,055,512</td>
<td>97.4</td>
</tr>
<tr>
<td>2006-07</td>
<td>7,925,278,564</td>
<td>7,784,814,475</td>
<td>98.2</td>
</tr>
<tr>
<td>2007-08</td>
<td>13,664,715,863</td>
<td>13,398,666,608</td>
<td>98.0</td>
</tr>
<tr>
<td>Total</td>
<td>46,221,818,495</td>
<td>44,355,164,024</td>
<td></td>
</tr>
</tbody>
</table>

As project expenditure has been increasing over the years from Rs 7.9 billion in 2003-04 to Rs 13.3 billion in 2007-08. It must be emphasised that project expenditure form a major part of total capital expenditure of Government, that is over more than 90 per cent.

If the shortcomings relating to projects implementation are properly addressed, Government can mitigate most of the unnecessary costs arising from them. For example, in one particular Ministry, a Consultant was paid Rs 23.3 million for extended period of supervision as a result of delays in project implementation. Therefore projects should be properly planned and monitored to avoid delays. It is said that 75 per cent of the time spent on a project should be on planning and monitoring.

These shortcomings call for an urgent need to review the whole concept of project management from inception of projects to final handing over. The recommendations made in 2005-06 and reproduced above are still relevant.

It is satisfying to note the enactment of the Construction Industry Development Board Bill by the National Assembly at its sitting on 11 November 2008. The Act provides improvement in the regulation of the construction industry.