

Integrated Road Investment Program (i-Road) - 2022

The audit of financial statements of the Integrated Road Investment Program for the year ended 31 December 2022 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 4.03 of Article IV of the Loan Agreement No. 3171- SRI (SF) for Tranche- 1 dated 05 November 2014, the Loan Agreement No. 3221- SRI and 3222 SRI (SF) for Tranche- 2 dated 28 May 2015 and the Loan Agreement No. 3325- SRI and 3326 SRI (SF) for Tranche- 3 dated 11 December 2015 and Loan Agreement No. 3610- SRI (SF) for Tranche- 4 dated 15 December 2017 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comments and observations which I consider should be reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Program

According to the Loan Agreements of the Program, the Ministry of Higher Education & Highways, presently the Ministry of Transport and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Program. The objective of the Program is to enhance the road accessibility between rural communities and socio economics centers. The long term impact is to increase transport efficiency of national and provincial roads. As per the Loan Agreements, the estimated total cost of the Program was US\$ 906 million equivalent to Rs. 117,780 million and out of that US\$ 800 million equivalent to Rs 104,000 million was agreed to be financed by the Asian Development Bank. The balance amount of Rs.13,780 million is expected to be financed by the Government of Sri Lanka. The financing plan of the program consists of six Tranches under Multi Tranche Financing Facility and out of that 06 separate loan agreements amounted to US\$ 557 million had been signed with the donor under 04 Tranches at 31 December 2022. The Program had commenced its activities on 01 June 2014 and scheduled to be completed by 30 September 2024.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Program as at 31 December 2022 and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Program's financial reporting process.

1.6 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Program.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Comments on Financial Statements

2.1 Accounting Deficiencies

No	Accounting Deficiencies	Amount Rs. Million	Responses of the Management	Auditor's Recommendations
(a)	Although the Program had capitalized the civil work expenditure cost of 30 completed road packages amounting to Rs.49,187 million as at 31 December 2022, a sum of Rs.743.30 million has to be paid further to the capitalized cost for 16 packages out	743.30	The entries will be passed to the respective accounts.	The correct amount should be shown in the financial statements.

of those 30 packages. Thus it was observed that the cost of completed roads had been understated by that amount in the financial statements.

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| (b) | Although the Program had capitalized the cost of 30 completed packages including KE 03 package as at 31 December 2022, the taking Over Certificates had not been issued so far for 09 of the 25 roads included in the KE 03 package. Therefore, the cost of the completed road had been overstated by Rs.1,667.84 million in the financial statement. Further, the taking Over Certificates of entire roads of the KU 03- R package had been issued end of the year under review, however the civil work cost of Rs. 2,162.78 million of those roads had not been included under the cost of completed roads in the Statement of Financial Position. Therefore, the cost of the completed road had been understated by that amount. | 3,830.62 | Taking over procedure completed & reported the Roads handing over details of completed Roads under contract package KU 03-R in 2023. | The correct amount should be shown in the financial statements. |
| (c) | The entire building rent amounting to Rs.18.32 million for the year under review on the Program Management Unit of i-Road and i-Road 2 had been charged to the iRoad Program without being apportioned proportionately to each unit. Therefore, it was observed that the PMU expenditure of the iRoad Program had been overstated by Rs. 9.16 million. | 9.16 | According to the ADB Project Administrative Manual (PAM), provisions are not available segregation of funds for use of other program. | Expenditure should be fairly apportioned among the programs. |
| (d) | The office software, computer equipment and office equipment valued at Rs.1.05 million purchased during the year under review had been accounted as expenditure. Therefore, the fixed assets value in the financial statements had been understated by that amount. | 1.05 | Out of Rs.1.05 million, the assets purchase value of Rs.0.40 million have to be accounted under fixed assets. Balance amount had been charged under PMU expenditure. | The correct amount should be shown in the financial statements. |

2.2 Non-compliance with Rules and Regulations

No	Reference to the Laws, Rules and Regulations	Non-compliances	Responses of the Management	Auditor's Recommendations
(a)	Sub Clause 14.6 of the Particular Condition of Contract	The minimum amount of Interim Payment Certificate to be submitted by the contractor was 1.5 per cent of the accepted contract value. However, 131 Interim Payment Certificates below than the required threshold amounting to Rs. 1,637.27 million under 22 RMC packages had been paid to the contractors during the year under review.	The Consultant (Engineer) had been advised to process monthly payment certificates even if the payment values were below the limit.	Adhere with the thresholds stipulated in the condition of contract.
(b)	Sub Clause 14.7 and 14.8 of the Particular Condition of Contract	Although the employer shall pay the amount certified in each IPC within 56 days as per Sub Clause. It was observed that delays ranging from 01 to 793 days in 84 IPC payments amounting to Rs.3,147 million during the year under review. Further, it was observed that the contractor shall be entitled to claim financial charges on the unpaid amount during the period of delay.	Contractor's submission may have some document discrepancies and incompleteness and the Engineer request the missing documents without returning the whole IPCs.	Adhere to the condition of contract.
(c)	Sub Clause 4.2 of the General Condition of the Contract	Accordingly, a sum of Rs. 458.75 million had been paid additionally to the contractors to reimburse the cost of Performance Securities obtained by the contractor in 29 Packages and actions had not been taken to recover that amounts from the contractors even up to 31 December 2022.	This cannot be recovered as mentioned in your report because pay item included in the BOQ.	Adhere to the condition of contract.
(d)	Section 7.9.2 of the Procurement manual	According to the Section 7.9.2 of the Procurement manual, if the lowest evaluated responsive bid exceeds the Engineer's Estimates by a substantial margin, the Procurement Entity should request new bids or negotiate with the bidder to obtain a satisfactory contract. The prices are significantly higher than the Engineer's Estimate of 03 packages and it varied in between 5 per cent to 22 per cent.	Appropriate consideration would be given to incorporate realistic rates when preparing estimates in future.	Action should be taken to follow the Procurement Guideline.

- (e) Special Clause under 1.6 of the Bidding Documents The Program had included a special clause under 1.6 in Section 3 of the bidding documents to enable the lowest substantially responsive bidder to allow more than one contract contrary to the Standard Bidding Documents of the Government Procurement Guideline. Therefore, the lowest substantially responsive bidder couldn't be able to grant more than one contract package. It was observed that the accumulated cost overrun to the Program from this kind of contract awarding in 03 packages was Rs. 359.30 million.
- Evaluation and qualification criteria of the bidding document clearly states that a bidder can be awarded only one contract even if they become lowest evaluated substantially responsive bidder for more than one contract.
- Action should be taken to follow the Procurement Guideline.

3. Physical Performance

3.1 Physical Progress of the Activities of the Program

- (a) National and rural roads

Component	Activity	As at 31 December 2022		Delay/Audit Issue	Reasons for delays
		Expected physical performance (%)	Performance achieved (%)		
Completion of rehabilitation works of National and Rural roads.	National and rural roads	92.75	62.59	27.43 km of 4 national roads and 2,199 km of 566 rural roads only had been completed out of the total selected length of 370 km of national roads and 2,905 km of rural roads after laps of 07 years as at 31 December 2022. Further, out of those completed roads 29 rural roads with a length of 72.22 km had not been handed over to the Road Development Authority due to some packages had not been fully completed as at 31 December 2022.	Inefficient contract operation, fuel and material shortages etc.

Response of the Management

371.54 km of national roads and 3093.51 km of rural roads have been awarded and 126.27 km of national roads (7 nos) and 2791 km (566 nos) of rural roads had been completed as at 31 December 2022.

Auditor's Recommendations

Maximum effort should be taken to achieve intended targets of the program within the time frame to avoid additional cost.

- (b) Rehabilitation works under 100,000 km Rural Road Development Program

Component	Activity	As at 31 December 2022		Delay/Audit Issue	Reasons for delays
		Expected physical performance	Performance achieved		
		(%)	(%)		
Completion of rehabilitation works of Terminated Packages of R1, R2, KE 1 and MA 1	Rural roads	100	29	The balance works in terminated packages of R1, R2, KE 1 and MA1 had been planned to be implemented under 100,000 km Rural Road Development Program and it was observed that the same terminated contractors in the Program had been selected for the rehabilitation contracts again. Further, the initial contract values of those contracts were increased by Rs. 580.14 million and it was observed that undue benefits had been given to the unsuccessful contractors by providing the opportunities to rebid the same contract through Local Bank Funded Project. Moreover, it was planned to complete the rest of the works within 15 months from the date of signing the new agreements, however the progress had remained from 18 per cent to 50 per cent after lapsed of 29 months as at 31 December 2022.	Weakness in selection of contractors.

Response of the Management

The balance works were entrusted to be carried out under 100,000 km Rural Road Program on the condition of recovering of the Advance Payment paid by the i Road Program. The recoverable amount of Advance Payments had not been settled yet.

Auditor's Recommendations

Necessary action should be taken to achieve intended targets of the program.

3.2 Contract Administration

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Although all laboratory, furniture and survey equipment will be reverted to the contractor at the end of the Program as per Sub clauses 108.4 of the Conditions of the Contracts, a sum of Rs. 397.77 million had been paid as a lump sum for laboratory, furniture and survey equipment as at 31 December 2022. Thus it may indicate that favorable contract conditions may lead to undue benefits to the contractors and overrun the project cost.	Possibility of changing of this policy in future contracts will be looked into.	Instruction should be given to follow the conditions of contract.
(b)	The contractor would entitle to an extension of time (EOT) to complete the works owing to the accepted reasons stated in Section 8.4 of the General Conditions of the contract and it was observed that the EOT had been given for inefficient of the contractor, bad climate, scarcity of materials, COVID pandemic etc. The following observations are made in this connection.		
(i)	In the year of 2022, the contract period has been extended several times in relating to 8 packages in the Northern Western Province. However, justifications for EOT were unacceptable in audit.	No EOT's had been granted outside the provision of sub-clause 8.4 of G.C.C.	Action should be taken to closely monitor the contractor's works.
(ii)	The extension of time had ranged from 55 to 432 days and it represented 7 per cent to 59 per cent of the initial contract period (730 days) of Northern Western Province. It may adversely affect to overrun the project cost.	Total number of EOT days approved for a project will vary based on the bad climate, Covid pandemic, scarcity of materials and economic crisis.	Action should be taken to closely monitor the contractor's works.
(iii)	The Program had given time extensions repeatedly even without getting approval for the early submitted EOT.	The Engineer will evaluate it and recommend the number of days, which the contractor entitled for that EOT.	Action should be taken to closely monitor the contractor's works.
(iv)	Although the date of time extensions of the contract packages had lapsed over considerable period, any action had not been taken the Program to grant further extension or charge the delay damages as per Section 8.7 of the General Conditions of the contract.	Delay damages under the sub-clause 8.7 of G.C.C are being imposed for the contracts for which EOT has not been submitted.	Adhere to the conditions of contracts.

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| (c) | According to the settlement agreements made with the Road Development Authority and the contractor relevant to the contract packages which were transferred to the 100,000 km Rural Road Development Program, both parties had agreed to settle of unrecovered mobilization advances through the certified amount of payment in interim bills. However, it was observed that the unrecovered mobilization advances relevant to 04 packages were Rs.963.26 million as at 31 December 2022. | The contractors commenced work in all packages but the progress expected could not be achieved due to pandemic situation. | Action should be taken to recover the outstanding balance. |
| (d) | The Program had not taken immediate actions to recover the Mobilization Advances amounting to Rs. 2,793.41 million relevant to 12 contract packages after its termination and those advances remained outstanding over 03 years. | Despite taking every step to recover this money by the PMU, the contractors have obtained court orders to prevent it. Advances will be recovered after the court proceedings are over. | Action should be taken to recover the outstanding balance. |
| (e) | Although over 03 years had passed since the terminate of the contracts, the Program had not taken any steps to complete the remaining works of the 02 contract packages namely G 01 and KL 02 that had been terminated. | Roads under G1 package was excluded from the iRoad Program. Completion of balance works of KL2 contract is withheld due to court injunction order. | Maximum effort should be taken to achieve intended targets of the Program. |
| (f) | The Performance Guarantees of 12 terminated packages amounting to Rs. 2,618.51 million were expired. However, the Program had not been taken any action to recover that amount. | Although we have taken action to encash the Performance Guarantees, this cannot be recovered until finalizing the court proceedings. | Action should be taken to encash the securities immediately |
| (g) | According to Section 8.9.3 of the Procurement Guidelines 2006, the contract agreement should be signed by the Secretary to the Line Ministry in case of a contract value over Rs. 500 million. However, 75 civil work contracts and 4 consultancy contracts over that limit of the Program had been signed by the Chairman of the Road Development Authority. | In pursuance of the Road Development Authority Act no. 73 of 1981, the Chairman of the RDA has been authorized to sign all the contracts entered with RDA, since the RDA is an Employer of RDA Construction contracts. | Adhere to the Procurement Guideline. |

(h) **Individual Consultancy**

(1) **Procurement Specialist**

The Program had recruited a Procurement Specialist on 15 January 2015 for a period of 132 ending on 20 August 2015 for Rs.2.84 million. The contract had been extended 11 times and the total payment as at 31 December 2022 was Rs.56.91 million and the following observations are made.

- (i) A transport allowance of Rs.6.33 million had been paid additionally to the contractual amount as at 31 December 2022. The approval of the Procurement Committee had been given as per the recommendation of the Technical Evaluation Committee. Adhere to the conditions of the Agreement.
- (ii) The procurement activities of iRoad and iRoad 2 Programs had been done by the same Procurement Specialist. However, the total expenditure of Rs. 56.91 million had been accounted as an expenditure of the iRoad Program without apportioning the expenditure proportionately among both Programs. The consultant has been recruited for iRoad Program. All the officials who have been recruited by iRoad are working in iRoad II. Expenditure should be fairly apportion among the Programs

(2) **Document Specialist**

A Document Specialist had been recruited by the Program on 02 April 2018 for a period of 12 months at a rate of Rs. 13,500 per day and a sum of Rs. 20.03 million had been allocated by the Program during the year under review. The following observations are made.

- (i) ADB concurrence for this appointment had not been furnished to the audit and this post had not mentioned in the Facility Administration Manual of the Program. The Document Specialist position is not included in the Facility Administration Manual of the program and therefore concurrence of the ADB is not a requirement. Conditions of Agreement should be followed.
- (ii) The document activities of iRoad and iRoad 2 Programs had been done by the same Document Specialist. However, the total allocation of Rs. 20.03 million had been accounted as an expenditure of the iRoad Program without apportioning the expenditure proportionately among both Programs. The position was not specific for any particular phase of the i Road programs and the assistance of the Consultant had been utilized at the Project Coordination Office. Expenditure should be fairly apportion among the Programs

3.3 Unutilized Resources

Audit Issues	Response of the Managements	Auditor's Recommendations
Although a sum of Rs 15,358 million had been made in the Budget Estimate for the year under review, the actual expenditure was Rs. 14,501.12 million. Therefore the saving was Rs.856.88 million as at 31 December 2022. However the payable balance to contracts was Rs. 3,582.24 million as at that date.	Noted	Program funds should be utilized efficiently during the period.

3.4 Extraneous Payments

Audit Issues	Response of the Managements	Auditor's Recommendations
Accumulated commitment charges amounting to US\$ 1.13 million equaling to Rs. 183.52 million had been paid by the Program uneconomically to the Lending Agency on un-disbursed proceeds of the loan as at 31 December 2022.	The loan is received in Tranches and the Commitment Fee will be minimized by utilizing the loan within the planned period.	Action should be taken to utilize loan funds efficiently.

3.5 Issues Relating to the Project Monitoring Unit

Key Cadre Position	Period of the service in the PMU	Whether employed in other entities	Employed on contract basis/acting basis	Responses of the Management	Auditor's Recommendations
Project Director	26 months	Yes (Road Development Authority)	Acting basis	Consideration will be given to appoint full-time Project Director	As per circular instructions the Project Director should always be recruited on full time basis.

3.6 System and Controls

The following observations are made.

Audit Issue	Management Response	Auditor's Recommendation
(a) According to the Facility Administration of the program and Section 9 of the management Services Circular No.01/2019 dated 05 March 2019, the Project Steering Committee should be conducted at least quarterly to oversee, monitor and coordinate project implementation. However, it was observed that meetings had not been conducted in 1 st and 3 rd quarter of the year 2022.	Agreed.	All Steering Committees should be implemented as per stipulated manner.
(b) The 166 vehicles and 164 motorbikes purchased by the Program at a cost of Rs. 1,778.73 million for facilitate the employer's and consultant's staff had been handed over to the Road Development Authority in the year 2020. However Road Development Authority had not been maintained an updated Fixed Assets Register and failed to conduct a Board of Survey on those assets. Therefore, the existence of those assets couldn't be confirmed in audit.	These assets have been handed over to the Mechanical Division of or their RDA or representative and taking over letters are available with us.	Action should be taken to update Fixed Assets Register.