

## **Integrated Road Investment Program (iRoad) - 2023**

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The audit of financial statements of the Integrated Road Investment Program for the year ended 31 December 2023 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 Article IV of the Loan Agreements No. 3171-SRI (SF) dated 05 November 2014, the Loan Agreement No. 3221-SRI and 3222 SRI (SF) dated 28 May 2015, the Loan Agreement No. 3325-SRI and 3326 SRI (SF) dated 11 December 2015 and Loan Agreement No. 3610-SRI 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 Project**

According to the Loan Agreement, 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 economic centres. 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 Asian Development Bank. The balance amount of Rs.13,780 million is expected to be financed by the Government of Sri Lanka. 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 Basis for Qualified Opinion section of my report, the accompanying financial statements give a true and fair view of the financial position of the Program as at 31 December 2023 and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.4 Basis for 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 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 Project'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 Project.
- 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 Deficiency	Amount Rs.million	Response of the Management	Auditor's Recommendation
(a)	Although the payment for Interim Payment Certificates via iRoad II funds should be credited to the Inter Current Account and retention account respectively, the gross amount of Rs. 20.42 million paid for IPC-26 at package No. RMC/05-C had been credited	14.58	Contractor payment of IPC No. 26 of the contract package RMC/05-C had been correctly recorded. However, additional entry was recorded by JE/23/216 for same IPC payment and the reversal entry will be made in 2024.	Correct amount should be show in the financial statements.

erroneously to the retention account. Therefore, the retention liability had been overstated.

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| (b) | The mobilization advance recovery amount of Rs.4.16 million from the contractor of the RMC/01D package had been credited as retention. Therefore, the mobilization advance and retention had been overstated by that amount.  | 4.16     | This incorrect entry was made due to coding error, therefore, it will be corrected in 2024.   | Correct amount should be show in the financial statements.  |
| (c) | As per 3.5 of the note to financial statements, the receivable amount from 12 terminated contractors from performance guarantees had been stated as Rs.2,668.47 million. However, the relevant amount receivable had been confirmed by the Program as Rs.2,618.47 million as at 31 December 2023. Therefore, an unreconciled balance was observed during the audit. | 50.00    | Value of the performance guarantees relating to 12 terminated contractor's amounts to Rs. 2,618.47 Mn as at 31.12.2023 whereas it had been erroneously stated in the Notes to the Financial Statements as Rs.2,668.47 Mn. | Correct amount should be show in the financial statements.  |
| (d) | The retention amount relevant to the RMC 06-B package had been accounted repeatedly in retention account. Thus, the current liabilities had overstated by that amount.  | 13.15    | It is noted to rectify the duplicated amount of Rs.13.15 million in retention account of RMC/06-B contract package in 2024.   | Correct amount should be show in the financial statements.  |
| (e) | The provision for Dispute Arbitration Board claims amounting to Rs. 3,176.90 million, details of payment for laboratory, furniture and survey equipment and terminated contracts couldn't be verified as at 31 December 2023 as the details were not furnished to the audit.  | 3,176.90 | The requested information could not be submitted to the Audit in time due to delay in collecting details with the limited staff available.  | Separate files and registers should be maintained for each arbitration matter and all contract administration documents should be kept until settle the arbitrations. |

## 2.2 Non Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non Compliance	Response of the Management	Auditor's Recommendation
(a)	Sub clauses 108.4 of the Special Conditions of the Contracts	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 up to 2022 and the payments made during the year under review couldn't be verified due to evidences were not being furnished to audit. Thus it may indicate that favorable contract conditions may lead to undue benefits to the contractors.	The Contractors had been allowed to use the second hand/used laboratory equipment based on the manufactures certification and the Engineer's recommendation. The RDA is currently in the possession of adequate quantities of Laboratory Equipment and space for storage of such equipment is also not available. Further, the value of the equipment after using and depreciation for 3 years will be very less.	The special conditions of the contract should be carefully reviewed before enforcement. Special attention should be drawn by TEC and PC when reviewing the bidding documents to secure the employer rights, keep value for money and avoid undue benefits to contractors.
(b)	Section 9.3 of the Management Service Circular No. 01/2019 dated 05 March 2019	The Project Steering Committee should be met at least once every two months. However, only one meeting had been held during the year under review.	As the works have been suspended during this period, meetings were not called on regular basis.	Adhere to the circular instructions.
(c)	Paragraph 02.i of Assets Management Circular No. 02/2017 dated 21 December 2017	Vehicles used without registered ownership should be handed over to the respective registered owner or registered ownership should be obtained with the consent of the respective registered owner. However, out of the vehicles handed over to RDA by the Program, 13 vehicles have been used by other institutions without proper ownership. Therefore the intended objectives could not be achieved due to handing over the vehicles prior to the end of the Program.	Those vehicles have been released to other government institutions by RDA upon formal requests received from them. 5 Nos of RDA vehicles temporarily transferred from RDA for the use of the Ministry. However, action will be taken to duly transfer the ownership of such vehicles after getting the RDA Director Board approval.	The vehicle should be used for the intended purposes those were purchased.

### 3. Physical Performance

#### 3.1 Physical progress of the activities of the Project

Component	Activity	As at 31 December 2023		Audit Issue	Reasons for delays
		Expected physical performance km	Performance achieved km		
Completion of rehabilitation works of National and Rural roads.	National and Rural roads	3,275 km	2,990 km	A length of 165 km of national roads and 2,825 km of 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 09 years as at 31 December 2023.	Most of the contractors suspended their works, poor performance of the contractors, delays in contract payments are mainly affected to the poor progress.

**Response of the Management** Some Contractors suspended their works due uncertainty of IPC payments. Some contractors were reported poor performance. However, due to limitation in government borrowing, completion of full scope will not be possible.

**Auditor's Recommendation** Maximum effort should be taken to achieve intended targets of the Program within the time frame.

#### 3.2 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	It was observed that 12 contract packages in 05 Provinces had been terminated by employer and contractor as at 31 December 2023 and mobilization advances amounting to Rs.2,793.41 million thereon had been unable to recover from those contractors as at 31 December 2023.	Recovery of advance payment is withheld due to injunction orders for eight (8) contracts.	Immediate actions should be taken to recover by encashment of the advance bonds or losses should be recovered from responsible officers and disciplinary actions should be taken.
(b)	The recoverable amount of Rs.2,668.47 million from Performance Guarantees remained unrecovered due to delays in the actions taken on encashment of the respective guarantees. As a result, those delays were taken by the contractors as an opportunity to take legal actions against encashment of the guarantees.	Performance guarantees are unable to en-cash due to injunction orders.	Immediate actions should be taken to recover by encashment of the guarantees or losses should be recovered from responsible officers and disciplinary actions should be taken.

- (c) The recoverability of mobilization advances of Rs.6,250.03 million as at 31 December 2023 could be uncertain due to the delay in payments to the contractors and descopeing the balance works of road rehabilitations under critical works program. Most of the on-going contracts are descoped due to funding limitations. Therefore, the advances cannot be recovered as planned. PMU carried out several discussions with the contractors to formulate a mechanism for the recovery of advances by way of setting off pending IPCs, retention money etc. with the consent of the contractors. Impact of the rescheduling should be ascertained and maximum effort should be taken for change, the condition of contract agreement.
- (d) Although the employer shall pay the amount certified in each IPC within 56 days as per Sub Clause 14.7 of the General Conditions of the contract, it was observed that payables to contractors for civil works was Rs.2,671.28 million as at 31 December 2023. Furthermore, the provision of Rs.284.77 million for delay interest had been made as at 31 December 2023 as per the Sub Clause 14.8 of the General Condition of the contract. Therefore, the delays in payments to the contractors will make additional cost and burden to the government. The works have been suspended in early 2023 and several IPC payments have been withheld due to insufficient funds. However, after receiving tranche 4 loan of iRoad2 Program, all the IPCs were settled. But, interest payments for delayed payments have to be paid as per the conditions of contract. Measures should be taken to minimize delay interest and should be certified the accuracy of the claims.

### 3.3 Vehicle Utilization

According to the information furnished, the Program had purchased 335 motor vehicles including 168 motor bicycles at a cost of Rs.1,499.58 million and most of those vehicles were already handed over to the Road Development Authority. According to the information furnished to the audit, 08 motor vehicles and 09 motor bicycles out of those are allocated to the iRoad Program at present. The following observations are made.

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	The double cab which was purchased under the contract package KL-01 at a cost of Rs.7.47 million had met with an accident on 07 December 2019 before it hand over to the Road Development Authority after completion of the road rehabilitation of the relevant package. As per the estimate given by the repairer, the cost of the estimate was	The repairer has agreed to complete the repairs within 04 months period at a meeting held on 28 March 2024 between the Contractor and the vehicle repairer.	The loss should be recovered from the responsible parties.

Rs.6.93 million and the cost borne by the insurer was only Rs.4.00 million. Therefore, the actions taken to recover the balance amount of Rs.2.93 million had not been revealed to the audit.

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| (b) | The final investigations to detect the responsible parties as per Financial Regulation No.104 had not been furnished to the audit.   | The Preliminary inquiry was conducted on the accident to this vehicle and preliminary report has been submitted   | Adhere to the Financial Regulations and action should be taken on responsible officers for delay.              |
| (c) | Although 318 out of 335 vehicles had been handed over to the RDA which was purchased by the Program itself before completion of the road rehabilitation works. Therefore, the Program had decided to hire 14 vehicles for the use of PMU and provincial offices during the year and a sum of Rs.16.36 million had been paid as at 15 December 2023 as rent for those vehicles. Hence, it could be an additional burden to the limited funds received for crucial works of road rehabilitations from donor. | Since there were no adequate quantities of RDA Vehicles available for engagement in above activities, fourteen (14) vehicles were hired by following due procurement procedures for the work in the provinces and the Project Coordination. | Investigation should be conducted to identify responsible officers for mismanagement and misuse of the assets. |

### 3.4 Extraneous Payments

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
Accumulated commitment charges amounting to US \$ 1.4 million equaling to Rs.248.27 million had been paid by the Program uneconomically to the Lending Agency on un-disbursed proceeds of the loan as at 31 December 2023.	As per the conditions in the Loan Agreement 0.15 per cent Commitment Charge is levied on the unutilized amount of the effective Loan.	Action should be taken to utilize loan funds efficiently.

### 3.5 Underutilized Resources

<b>No</b>	<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
(a)	Generally, the entire loan amounting to US \$ 800 million is released by the donor in several tranches from time to time under the multi-finance facility. The donor had released USD 557 million under four tranches according to their regular disbursement method before 31 December 2023. However, the processing was withheld as a result of the macroeconomic	The Program is finance by a Multi tranche Financial Facility (MFF) with 10 year implementation period. The last two tranches for US \$ 243 million was cancelled due to limitation of Government borrowing resulted in economic	A proper Action Plan should be prepared and approved base on activities identify for descope allocation.

crisis. Later, it was decided to provide further USD 60 million under tranche 4 of Second Integrated Road Investment Program to carry out the critical works of the already commenced and incomplete road section, maintenance of not commenced roads and payment of previous work done relating to both iRoad and Second iRoad programs. A sum of US\$ 543.67 million equivalent to Rs. 97,178.01 million had only been utilized as at 31 December 2023 out of the loan amount of USD 800 million equivalent to Rs.104,000 million after spending 09 years from the loan agreement signed on the 1 to 4 Tranches of the Program. Further, a sum of Rs. 1,376.64 million had been paid for civil works via the funds received under tranche 4 of the iRoad II program.

crisis. Recently approved iRoad2 tranche 4 has the provision for the expenditure of iRoad1 Program. Accordingly, iRoad1 payments have been made.

- (b) Although a sum of Rs.22,020 million had been made in the Budget Estimate for the year under review, the actual expenditure was Rs.5,768.78 million. Therefore, the saving was Rs.16,251.22 million as at 31 December 2023.

Even though budget estimate was made for 2023, contractors were instructed for temporary suspension of works until the next tranche loan is received. The iRoad2 tranche 4 loan was effective from 03 December 2023. Therefore, actual expenditure was much less than anticipated.

Action should be taken to revise the allocations and effective measures should be taken to achieve the outcome without delay.

### 3.6 Matters in Contentious Nature

#### Rehabilitation of Balangoda-Bowatta-kalthota road under iRoad Program

The Balangoda-Bowatta-kalthota road was rehabilitated in 2022 as a variation of Palmadulla-Ebilipitiya-Nonagama road under the RMC 04 package in the year 2022. The total length of 16 km of this road had been awarded to the same 04 contractors already awarded the rehabilitation works of Pelmadulla-Embilipitiya-Nonagama road. The following observations are made.

Audit Issue	Response of the Management	Auditor's Recommendation
(a) Although the Secretary of the Ministry of Highways had approved this rehabilitation work subject to the concurrence of the donor and following of the procurement procedures, those concurrences were not revealed to the audit and it was observed that the constructions were awarded without following the relevant procurement procedures.	This road was initially identified and proposed to be rehabilitated under the iRoad Program RMC contracts. Accordingly, ADB concurrence was obtained to include under the iRoad1 Program with the approval of Department of National Planning (NPD) and with the recommendation of Department of External Resources	Adhere to the conditions of the Procurement Guideline and action should be taken on responsible officers for non-compliance to the guideline.



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| (b) | Furthermore, this road had been rehabilitated for the purpose of the National Vesak Festival in Kuragala temple contrary to the initial work plan of the iRoad Program.   | (ERD). The PMU was in the process of finalizing the documentation in order to invite bids.  | Action should be taken to conduct the road rehabilitations within the scope of the Program.  |
| (c) | It was informed that 02 of the 04 contractors had completed their civil works during the agreed period and the construction works of remaining two contracts were remained without completing as at 31 December 2023. However, the amount of payments to the contractors and approval for payment were not revealed to the audit. | However, due to the announcement of National Vesak festival, the immediate requirement to rehabilitate this road became essential. Therefore, the Secretary instructed the Project Director to carry out the works by issuing variation order to the RMC/04 contractors who were working close to this road section. Accordingly, the contractors were instructed to carry out the work immediately as only 4 – 5 months available to complete the works. | The evidence should be furnished to the audit without delay and an investigation should be conducted on payments made for contractors. |
| (d) | As per the details furnished to the audit, a preliminary investigation was conducted by the Ministry and the relevant report was submitted by the Director General (Engineering) on 30 November 2023. However, the evidences were not revealed regarding further actions taken after this investigation.                          | At the meantime, the works were suspended due to insufficient funds in the Loan.<br><br>However, this has to be regularized immediately.  | Action should be taken on the investigation without any delay and identify the responsible parties.                                    |