

OPEC Funded Rehabilitation and Improvement of Colombo National Highways Project – 2023

The audit of the financial statements of the OPEC Funded Rehabilitation and Improvement of Colombo National Highways Project 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. 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 of the Project, the Ministry of Ports, Shipping and Highways, presently the Ministry of Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to upgrading 65.45 kilometres of 13 key national roads in Colombo suburbs and reconstructing of Narahenpita -Nugegoda Bridge. As per the Loan Agreement the estimated total cost of the Project amounted to US\$ 86.25 million equivalent to Rs.11,212.37 million and out of that US\$ 50 million equivalent to Rs.6,499.57million was agreed to be financed by the OPEC Fund for International Development. The Project commenced its activities on 11 December 2013 and scheduled to be completed by 31 December 2017. However, the date of completion of the activities of the Project had been extended up to 12 May 2026.

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 Project 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 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 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 skepticism 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

Accounting Deficiency / Audit Issue	Amount Rs. million	Response of the Management	Auditor's Recommendations
(a) According to the note no.03 of the financial statements, the construction of Kottawa, Thalagala road had been completed and handed over to the Road Development Authority on 12 January 2022. However, the value had not been transferred to the civil works and still accounted as work in progress. Therefore civil works had been understated by that amount.	1,630.69	Value of works completed will be recorded under the civil works in the future financial statements.	Should be complied with SLPSAS.
(b) Non-current assets purchased in the year 2022 had not been accounted for the relevant year and considered as purchases during the year under review and accounted accordingly.	0.633	<p>The Project neither considered those assets as purchases nor accounted for them as purchases during the year under review. This adjustment serves as an error correction,</p> <p>As instructed in draft report for the year ended 31 December 2022. We have reclassified the values of two office tables and one computer desktop under non-current assets.</p> <p>These assets are now accounted under non-current assets in the financial statements as at 31.12.2023, they are included under investment activities in the cash flow statements as at 31.12.2023.</p>	Should be complied with SLPSAS.
(c) According to the Sri Lanka Public Sector Accounting Standard No. 08 provision has not been made for compensation and interest payable for the Orugodawatta Ambatale road for the year under review.	81.52	When preparing the financial statements for the year 2023, all compensation and interest related to Orugodawatte – Ambatale Road could not be identified properly, as vouchers had not	The Accountant should assure complying with SLPSAS before sign the Financial Statements.

According to the Financial Statements, the amount of compensation to be paid for 3 roads was Rs.139.86 million. However only in the first two months of 2024 compensation amounting to Rs.202.31 million had been paid for previous year. Therefore Rs.62.45 million difference was observed. Accordingly, only for the first two months of 2024, 34 vouchers valued Rs.19.07 million had been submitted to pay. Therefore, it was observed that the amounting of compensation to be paid in the Financial Statements was understated.

been fully finalized by the Divisional Secretariats by 31.12.2023. However necessary action will be taken to accurately make provisions for compensation and interest in the future.

(d) Court cases against the Project had not been disclosed in the Financial Statements as per Sri Lanka Public Sector Accounting Standard No.08.

Actions will be taken to disclose court cases against Project in the future Financial Statements.

The Accountant should assure complying with SLPSAS before sign the Financial Statements.

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 percentage	Performance achieved percentage		
OrugodawattaAmbathaleRoad (Stage I)	Road Construction	100%	98%	Actual progress of the respective roads were behind the planned progress.	Contractors poor performance, delay of utility shifting and land acquisition delay.
(Stage II)		100%	94%		

Response of the Management

The construction was delayed mainly due to NWS&DB water pipe laying and also land acquisition delay. Further, initial utility shifting delays also contribute to the progress.

Auditor's Recommendations

Work programme should ammend time to time and should take necessary approval by PMU and action need to be taken to avoid unnecessary delay.

3.2 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
<p>(a) Retention money of Rs.83.6 million had been released to the contractor of Orugodawatta – Ambathale road (stage II) as at 31 December 2023 without changing the mobilization advance of Rs.96.76 million had to be recovered as at 31 December 2023. Accordingly, reasons had not been explained to the Audit relating to releasing whole retention money without recovering the balance of mobilization advance. Further, it was observed that, the road works carried out by the said contractor had not been completed the works even up to March 2024. Further, it was observed that the validity period of the advance payment guarantee also expires by 30 April 2024.</p>	<p>Agreed</p> <p>The retention is released against a valid bank guarantee as per the given Procurement Guide Line. The recovery of Advance Payment is carried out as per given formula in the contract agreement and there is no relation between the above two activities. The balance advance payment to be settled as at 29.02.2024 is Rs.58.3mn.</p> <p>The road works are not completed due to water leaks and still existing one pipe is functioning up to Wellampitiya junction and 03 pipes beyond Wellampitiya (Orugodawatta end) are functioning.</p> <p>The validity Period of the advance Payment was extended by the contractor M/s. Tudawe Brothers (Pvt) Ltd on 28.03.2024.</p>	<p>Project Director should assure completeness of works, before releasing the retention money.</p>
<p>(b) As per the Clause No.4.2 of general conditions of contract (FIDIC- 1999), contractor shall obtain the performance security at his own cost. However, a sum of Rs.7.39 million had been paid by the project for the cost of performance security.</p>	<p>Pursuant to Clause 4.2 of the Conditions of Contract (COC), it is clearly stated that the Contractor shall obtain a Performance Security at their own cost if the amount and currencies stated in the Appendix to the Tender. Contrary to above, the amount is not stated in the Appendix to the Tender of the Tender Documents published for Orugodawatta – Ambatale Stage I. In this scenario Clause 4.2 further stated that if an amount is not stated in the Appendix to the</p>	<p>PMU should inform to the TEC for consider these matters while evaluating bidding documents.</p>

		Tender this clause shall not apply. Hence, a pay item for Performance Security has been provided.	
(c)	As per Sub clauses 128 and 129 of the Specifications to the Contract, the laboratory, equipment and furnishings shall revert to the contractor at the date of issuing of the taking over certificate and survey equipment shall revert to the contractor at the end of contract. However, the Project had paid a sum of Rs.15.66 million as a lump sum for field laboratory equipment and survey equipment as at 31 December 2023. It was observed that unfavorable contract conditions may lead to additional benefits to the contractors.	Agreed. Laboratory and Survey Equipment available in the Road Development Authority (RDA) exceed the requirements, making the acquisition of new equipment unnecessary by the project conclusion. Hence, Clause 128 & 129 Particular Specifications (Employer's Requirement) have been incorporated into the contract to align with the employer's expectations.	PMU should inform to the TEC for consider these matters while evaluating bidding documents.
(d)	A sum of Rs.36.56 million had been paid by the Project as a lump sum for office and house for employer/engineer as at 31 December 2023, further a sum of Rs.8.36 million had been paid by the Project in excess of the engineer estimate.	The contractor's bid rate would be based on the depreciation value of the furniture and equipment. However, it is noted to change the bid specification on future contracts such that furniture and equipment are the property of the employer at the end of the project.	PMU should inform to the TEC for consider these matters while evaluating bidding documents.
(e)	As per the last IPC at the end of 31 December 2023, the Project had paid a sum of Rs. 144.4 million in excess of the BOQ without proper approval. It was observed that cost of preliminary and general items had been overstated by such amount which will lead to additional cost to the contract.	National Water Supply and Drainage Board (NWS&DB) has commenced new pipe laying work along the project road in parallel with road works. Pipe laying work was delayed, and road works also delayed. Hence, the payment of Preliminary and General items has exceeded accordingly.	Work programme should ammend time to time and should take necessary approval by PMU and action need to be taken to avoid unnecessary expenses.
(f)	As per the BOQ of the Orugodawatta – Ambatale Road two packages for civil works, Rs.607.36 million had been estimated for 221 pay items, at the end of the Project any payment had not been made by the project for those items up to the last interim payment certificate paid for the	Out of 107 work items some of Items yet to be completed Further some of work Items were deleted from the Contract due to site situation and financial crisis.	Project Director should ensure avoiding unnecessary BOQ items before sanction the BOQ.

month of December 2023. Therefore the estimation of these pay items were problematic issue in Audit.

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| (g) | Quantity for the pay items had been measured properly by the engineer according to the design of the road, accordingly quantity included in the BOQ had been agreed with Contractor in the agreement. Contrary to that, Rs.194.6 million had been paid for additional quantities to the Contractor without proper approval. This is questionable in audit and it was observed that this additional cost will increase the contract sum. | As per the site condition provided BOQ quantities are increased based on Engineers recommendation and action being taken to revised the BOQ accordingly. | Project Director should ensure avoiding unnecessary BOQ items before sanction the BOQ. |
| (h) | Even though engineer estimate had been prepared by the engineer with proper measurement according to the design of the road, variation orders amounting to Rs.208 million had been paid to the contractor for the Construction of OrugodawattaAmbatale road. These variations had not been approved up to 31 March 2024 and that was a problematic issue in Audit. | As elaborated in items (vi) and (vii), quantities and new work Items are included during the execution of the work, and variation orders are issued accordingly as recommended by Engineer and action being taken for Employer's approval. | Work programme should ammend time to time and should take necessary approval by PMU. |
| (i) | As per the Last Consultant Report, 280 Nos of compaction tests were failed and 6 Nos asphaltic concrete (thickness and density) were also failed. Accordingly 272 Nos of compaction retests had been done and results had not been mentioned in consultant report. Therefore quality assurance of the road is questionable in audit. | The failed compaction tests are redone and confirmed the requirements. According to the Engineer's explanation air void ration (A/V) of 6 tests for asphalt concrete marginally deviate from the specification and monitored last two years and not adversely effect on the road surface. | Log entries should be kept by engineers while on field inspection and payment should be made accordingly. |
| (j) | The loan agreement of the Colombo National Highways project was signed on 10 June 2013 for USD 50 million and expired on 31 December 2017. However, due to delay in the construction activities of the project, the loan closing date had been extended by the funding agency in several times up to 29 February 2024. | Agreed
Approval to get the loan extension was received on 29.03.2024 from the Department of External Resources. | Project Director should take necessary action to expedite project activities. |

Although the Cabinet Decision had been received to extend the loan validity period up to 12 May 2026, the approval of the Department of External Resources had not been received up to the date of audit, 25 March 2024.

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| (k) | <p>The scope of works of the Project consisted with rehabilitation and improvement of 63.72 kilometers of 12 national roads in Colombo District and the Bridge No 2/1 of Narahenpita - Nugegoda road implemented under 06 contract packages. Even though the activities of the Project commenced on 11 December 2013 and scheduled to be completed by 31 December 2017, the rehabilitation works of 06 national roads and improvement of the bridge had only been completed as at 31 December 2023.</p> <p>The road named PanchasaraMawatha which had been connected to this road had been rehabilitated under a variation to the contract without any approval. The cost of this construction was Rs.30.85 million and it was observed that, this was out of the Project objectives. This variation order amounting to Rs.30.85 million had been submitted for approval to the Secretary to the Ministry of Highways on 19 December 2022 and approval had not been received up to 31 March 2024.</p> | <p>Not agreed.</p> <p>Improvement of PanchasaraMawatha principally approved by the Secretary (MOH&H) on 29.12.2022.</p> <p><u>Maharagama – Piliyandala Road</u></p> <p>Court has ordered to revisit the bid evaluation by expert panel who comprise with expertise from 03 universities and the panel report submitted to the court.</p> | <p>Project Director should comply with the scope of the project.</p> |
| (l) | <p>The contract for the rehabilitation works of OrugodawattaAmbathale road stage I had been commenced on 01 July 2017 at a cost of Rs.1,528 million and scheduled to be completed on 30 June 2019. The Project had extended the period of contract in 10 times without considering the performance of the contractor up to 28 August 2023. According to the last progress report, EOT had not been</p> | <p><u>Orugodawatta – Ambatale Road - Stage I</u></p> <p>The construction was delayed mainly due to NWS&DB water pipe laying and also land acquisition delay. Further, initial utility shifting delays also contribute to the progress.</p> <p>Hence, contractors performance</p> | <p>Work programme should be amended time to time and should take necessary approval by PMU.</p> |

requested after 31 March 2023.
The contract for the rehabilitation works of OrugodawattaAmbathale road stage II had been commenced on 21 October 2019 at a cost of Rs.1,943 million and scheduled to be completed on 20 October 2021. However, the period of contract had been extended by the Project in 04 times up to 09 September 2023. According to the last progress report, amounting to Rs.55.25 million valued interim claim had been submitted by the contractor. It was observed that the claim was under evaluation and EOT had not been requested after 31 December 2022. It was a problematic issue in Audit.

According to the Condition No.8.7 of contract agreement, liquidated damages (LD) should be charged from the contractor for delays of contracts. Although Stage I and II had been delayed respectively in 125 days and 113 days, amounting to Rs.347.19 million of LD had not been charged by the Project. Project Director is responsible for that situation.

not mainly effect for the construction delay.

Orugodawatta – Ambatale Road - Stage II

The EOT request submitted to the RDA for approval.

As explained above, contractor cannot be made fully responsible for the project delay and accordingly LD cannot be applied.

(m) Contrary to the standard specification for construction and maintenance of roads and bridges – published by ICTAD – 2009, six pay items amounting to Rs.83.3 million had been added to the engineer estimate additionally for the above procurement.

The standard specification for construction and maintenance of Roads and Bridges published by ICTAD – 2009 is not cover all construction activities and additional items are added according to the site condition.

Project Director should assure and recall necessity of the additional employee requirement and reasons should be recorded.

3.3 Non Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations

Audit Issue

Response of the Management

Auditor’s Recommendation

(a) Clause No. 4.1 (6) of Government Procurement Guidelines	Procurement plan had not been approved by the Secretary to the Line Ministry and not sanctioned by the foreign funding agency. It was	It is advised PMU to adhere on the matters.	PMU should take action to prepare and take approval from the Ministry
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		also observed that the procurement plan had not been prepared aligned to the annual action plan.		for the procurement plan.
(b)	Clause No. 7.9.2 of Government Procurement Guidelines	If the lowest evaluated responsive bid exceeds the engineer estimates by a substantial margin, the Procurement entity shall consider new bids or may negotiate with the lowest evaluated bidder to try to obtain a satisfactory contract. Construction of Maharagama Piliyandala road (Section I) valued Rs.794.49 million, which exceed engineer estimate by 63% had been awarded contrary to the above Procurement Guidelines..	The Engineer's Estimate of the above project has been prepared based on the HSR rates in the year 2021.	PMU should assure the price escalations are calculated as per matters pointed out by TEC.
(c)	Clause No. 2.6.1 of Government Procurement Guidelines	Chairman of the TEC or his representative had not attended to the pre bid meeting.	One engineer as a member of the Technical Evaluation Committee (TEC), attended to the Pre-Bid meeting as the representative of the TEC Chairman.	Action should be taken to comply with the procurement guideline.
(d)	Clause No. 2.12 of Government Procurement Guidelines	A member of above TEC had not signed declaration at its first meeting.	Agreed. Actions will be taken to implement this in future procurement works.	Action should be taken to comply with the procurement guideline.

3.4 Issues relating to the Land Acquisition

Audit Issue

According to the information received, it was scheduled to be acquired 5,710 plots of land including 992 plots of crown land for the Project activities and the compensation amounting to Rs.12,176 million including interest of Rs.2,658 million had been paid by the project for

Response of the Management

Total plots to be acquired is 5666 which included 992 crown lands. However, 361 plots has been registered under sections 44 as at 31.12.2023.

After payment of compensation, possession of land can be obtained

Auditor's Recommendations

Land acquisition process should be carried out with proper action plan.

4683 plots of land due to delays in settlement of the compensations as at 31 December 2023. However, only 05 plots of land had been registered under section 44 of the Land Acquisition Act as at 31 December 2023. Further, it may be adversely affected to the performance of the Project.

and construction can be proceeded. However, land registration under section 44 of land acquisition act, commenced after payment of compensation.

Hence, section 44 registration is not effected for project performance.

3.5 Matters in Contentious Nature

Audit Issue

As there was no remaining provision of the loan to pay the additional cost, a sum of Rs.24.24 million has been paid as Prolongation Cost from the GOSL Funds received during the year under review on 12 May 2023. It was observed that, according to the note No.01 of Financial Statements only compensation and interest were to be paid by the GOSL Fund, contrary to that a sum of Rs.24.24 million received out of GOSL funds had utilized for the payment of construction expenditure without proper approvals.

Response of the Management

It has been mistakenly mentioned that GOSL funds were only provided to pay compensation and interest. GOSL funds are allocated under two votes: funds provided under 117-2-4-32-2105 (17) are designated for compensation and interest payments, while funds provided under 117-2-4-32-2506 (17) are intended to cover PMU expenditure and the cost of construction under foreign aid-related domestic funds. Furthermore, the consent has been granted for the payment of Prolongation Costs.

Auditor's Recommendation

The Accountant should be responsible for the Financial Statements.

3.6 Delays in commencements of activities of the Project

Audit Issue

The total length of PiliyandalaMaharagama road is 5.8 km and the improvement is programmed to three road sections. The Section one having 1.8 km road length which was awarded on 07 December 2023. However, works have been temporarily suspended due to a court case filed by a bidder against the contract awarding. It was badly affected to the Project Performance.

Response of the Management

The Maharagama – Piliyandala road was implemented under 03 contracts due to land acquisition delay. It has been decided not to start construction work until completion of LAQ work totally. The section I of the road (from 0+000km 1+800km) was awarded for construction and work was temporarily suspended due to FR case submitted by one bidder.

Auditor's Recommendation

PMU should take necessary action to mitigate delay and cost.

3.7 Idle/Unutilized/Underutilized Resources

Audit Issue

The allocation amounting to Rs.900 million and Rs.75 million(vote no.117-2-4-32-2506-0/17) had been provided under foreign loan and GOSL component respectively during the year under review. However, foreign loan allocation of Rs.179 million representing 20 per cent and GOSL allocation of Rs.15 million representing 20 percent had not been utilized by the Project due to poor progress of the Project activities.

Response of the Management

Agreed.
The given allocation during the year 2023 under Vote 117—4-32-2506(12) is Rs.900Mn. Which includes expenditure for Maharagama – Piliyandala Road too. The Project was temporary stopped due to court case and no disbursement and sufficient imprest was not received under 117-2-4-32-2506(12) and Rs.15 Mn under 117-2-4-32-2506(17) could not be utilized.

Auditor's Recommendation

PMU should be taken action to utilize the loan fund effectively.