

## **OPEC Funded Rehabilitation of the A017 Road Corridor Project (Rakwana - Suriyakanda) - 2023**

---

The audit of the financial statements of the OPEC Funded Rehabilitation of the A017 Road Corridor Project (Rakwana - Suriyakanda) 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. This Project is implemented under the decision made at the meeting of cabinet of Ministers held on 01 January 2019. 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 information of the Project, 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 rehabilitate 18.0 km of the A017 Road Corridor in Sri Lanka, starting from 130.6 km in Rakwana and ending on 112.6 km in Suriyakanda, Sabaragamuwa Province. The overall objective of the Project is to improve connectivity and accessibility, which in turn is expected to promote economic activity, and contribute to the general socio-economic development in Sri Lanka. The corridor shall be designed as a two lane highway (10.0 m), with hard and soft shoulders on both sides. As per the Loan Agreement, the estimated total cost of the Project was US\$ 50.54 million equivalent to Rs.6,947.2 million and out of that US\$ 40 million equivalent to Rs.5,497.9 million was agreed to be provided by the OPEC Fund for International Development. The Loan Agreement was signed on 30 October 2019 and scheduled to be closed on 25 December 2025.

### **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 section of Auditor's Responsibilities for the Audit of the Financial Statements appeared in 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 the 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

<b>Accounting Deficiency / Audit Issue</b>	<b>Amount Rs. million</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
(a) According to the last IPC No.15 dated 31 December 2023, mobilization advance amounting to Rs.29.72 million had been recovered from the contractor. Even so it had not been accounted in Ledger accounts as per Public Sector Accounting Standard no.01. As a result, the receivable balance and payable balance shown in the financial statement had been over stated by Rs. 29.72 million.	29.32	Agreed. The necessary rectifications will be done in the upcoming financial statements and noted to avoid this type errors in further.	The Accountant should assure complying with SLPSAS before sign the Financial Statements.
(b) The consulting charges amounting to Rs. 50 million had been disbursed during the year under review. However it had been accounted under equity as at 31 December 2023. As a result, the equity had been over stated by Rs. 50 million and liabilities had been under stated by Rs. 50 million.	50	Agreed. The necessary rectifications will be done in the upcoming financial statements.	The Accountant should assure complying with SLPSAS before sign the Financial Statements.
(c) It was observed that, the Fixed Assets which use for this project had not been identified and shown in the financial statement.	-	Agreed. It has been purchased fixed assets at the later part of year 2023 for Divisional Secretariats offices who handle land acquisition, by the Contractor through IPC. This was not informed to accounts Division of the PMU and action will be taken to account in the upcoming financial statements.	The Accountant should assure complying with SLPSAS before sign the Financial Statements and proper communication should be maintain with relevant line agencies

## 2.2 Unsettled Balances

<b>Audit Issue</b>	<b>Amount Rs. million</b>	<b>Period Unsettled</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
Action had not been taken to settle the payables amounting to Rs.31.90 million shown under current liabilities since the year 2021 even up to 31 December 2023.	31.90	Over 2 years	Agreed Actions are being taken to settle the payables in year 2024 and currently settled Rs.12.0mn out of Rs.13.1mn.	Prompt action should be taken to settle the payable.

## 3. Physical Performance

### 3.1 Physical Progress of the Activities of the Project

<b>Component</b>	<b>Activity</b>	<b>As at 31 December 2023</b>		<b>Audit Issue</b>	<b>Reasons for delays</b>
		<b>Expected physical performance percentage</b>	<b>Performance achieved percentage</b>		
Civil works	Construction	45.8	39.17	Civil construction activities of the project had been commence from the end of the year 2022 after laps of 04 years due to delays in procurement process and delay in land acquisition. Further it was observed that the project activities could not be achieved within the project period.	Land acquisition, approvals from other agencies and receiving of donor concurrence for the procurement activities were carrying out on slow phase.

#### **Response of the Management**

Agreed. Other activities, such as land acquisition and approvals from other agencies, were carrying out on slow phase. However, there is a drastic delay on receiving of donor concurrence for the procurement activities which are beyond PMU control.

#### **Auditor's Recommendations**

Work programme should amend 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
(a) 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.17.4 million had been paid by the project for the cost of performance security.	Not agreed. Pursuant to Clause 4.2 of the Conditions of Contract, it is clearly stated that 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 these three packages. In this scenario Clause 4.2 further stated that if an amount is not stated in the Appendix to the Tender this clause shall not apply. Hence, a pay item for Performance Security has been provided. However, it is noted to delete the pay item in future contracts.	PMU should inform to the TEC to consider these matters while evaluating bidding documents.
(b) 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.49.08 million as a lump sum for field laboratory equipment and survey equipment as at 31 December 2023. Accordingly, a sum of Rs.27 million had been paid by the Project in excess of the engineer estimate. It was observed that unfavorable contract conditions may lead to additional benefits to the contractors.	Not agreed. Laboratory and Survey Equipment available in the Road Development Authority exceed the requirements and making the acquisition of new equipment unnecessary by the project conclusion.	PMU should inform to the TEC to consider these matters while evaluating bidding documents.
(c) It was observed that awarded rates of	Not agreed. Given the competitive nature of	PMU should

most pay items had been increased by a substantial margin which is ranging from 50% to 3042.86% when compared with the engineer estimated rates which amounted to a total increase of Rs.670 million according to the sample test. This indicates that the negotiations of the Technical Evaluation Committee with the Contractor were not satisfactory.

the bidding process, the Engineer's Estimate serves as guidance for bid evaluation. Furthermore, negotiations are not allowed pursuant to Clause 36 – Evaluation of Price Bids of Bidding Document. Further at the time of evaluation unrealistic rates are compared with quoted rates of other bidders and if there is a significant variation, reasons call from the bidder.

takenecessary action to mitigate losses from front loading.

(d) As per the standard specification for construction and maintenance of roads and bridges published by ICTAD – 2009, pay unit of preparation of base of foundation and dewatering is provision sum. However, in contrary to that, engineer estimates of all packages had been prepared as lump sum, and a sum of Rs.12.51 million had been paid by the Project without proper measurement.

Not agreed. It has been changed the pay items from Provisional Sum (PS) to Lump Sum (LS) since payment of PS Items are based on actual site measurement which involves close supervision and leads to malpractices.

Project Director should assure complying with ICTAD conditions before sanctioning the cost estimate.

(e) As per the Sub Clause No.14.2(c) of the Particular Conditions of the contract, advance payment deduction shall be commenced when total of interim payments certified to contractor has reached 30 percent of accepted contract amount. It was observed that, advance payment of Rs.885 million had been made by the Project for three packages. However, due to low progress, deduction of advanced payment had not been commenced up to now.

Not Agreed. Deductions of the advance Payment shall be made pursuant to Clause 14.2 of Particular Conditions of Contracts. According the Particular Conditions of contract, clause 14.2(b) 2<sup>nd</sup> advance payment shall be made when physical progress of the project reach to 30%. However, as per clause 14.2(c) deduction is commenced when financial progress exceeds 30%. However, recovery of advance is in progress and already recovered, package A Rs.68.0mn, package B Rs.106.65.mn, package C Rs.106.35mn as at 31.03.2024.

Project Director should assure complying with PCOC.

(f) As per the BOQ of the three contract packages for civil works, Rs.1,296 million had been estimated for 337 pay items. However, after elapse of more than 01 year of the contract period, any payment had not been made by the Project for those items up

Agreed. The Engineer's Estimate serves as guidance for the construction works to be undertaken. However, it is too early to predict the items which are not utilized in the project. However, day work items are utilized only when necessary.

Project Director should assure avoid unnecessary BOQ items before sanction the BOQ.

to the last interim payment certificate. Therefore those pay items were included in the BOQ was a problematic issue in Audit

- (g) As per the minutes of the Ministry Procurement committee meeting held on 20 April 2021, chaired by the Secretary to the Ministry of Highways, the rehabilitation of Suriyakanda – Rakwana Project (18 Km) had been split into 03 packages comprising 06 km for each contract package on employer’s requirement. Accordingly, package A and B had been awarded under Ministry Procurement Committee whilst package C awarded under Standing Cabinet appointed Procurement Committee.
- However, such decision to divide the Project into 03 packages had increased the preliminary expenses, supervision charges, Project overhead costs of the Project.
- Agreed. This stretch of road traverse through mountainous terrain and susceptible to landslides if cut slopes are extensively open to rain. Also, this road is close vicinity of Sinharaja Forest Reservation and consequently, rain would be expected throughout the year. Including major construction activities cost of the project is estimated (Engineer’s Estimate before the economic crisis) at Rs.4327mn for 18km length of the road. Moreover, construction period would need to be extended to 3 years under the above scenario. Consequently, Consultancy Supervision Charges increase and project is vulnerable to failure if the selected contractor does not perform well. Considering these facts RDA decided to reduce the project duration.
- Accordingly, project has been split into three packages with each contractor responsible for 6 km length of road and duration of the project has been reduced to 2 years.
- Project Director should obtain proper approvals from relevant Procurement Committee before packaging the Contract.
- (h) According to the Procurement time schedule, Procuring entity had planned to award the contract by 02 January 2022, however contract had not been awarded as per the procurement time schedule which will lead to low progress of the construction
- Not agreed.
- According to the given answer, there is a drastic delay on receiving of donor concurrence for the procurement activities which are beyond PMU control.
- According to the reply given by Project Director handing over date will not be extended. Therefore extension should not be allowed

### 3.3 Issues relating to the Land Acquisition

Audit Issue	Response of the Management	Auditor's Recommendation
According to the information made available to audit, it was scheduled to acquire 1515 plots of land for the construction of the Project. The Project had only issued Section 38(a) for 789 plots of land. However, compensation had not been assessed for any plots of land under the Section 17 up to 31 December 2023. Poor supervision of land acquisition process was mainly affected to that delay and it may be adversely affected to over run the project cost in future.	As per the table given above,789 land plots are to be acquired according to the Advance Tracing Drawing provided by the Survey Department initially. Subsequently, 38(A) Gazette Notice has been issued to all those land plots.	Land acquisition process should be carried out with proper action plan

### 3.4 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendation
Even though seven project offices had been operated in 1 <sup>st</sup> floor of the building, rent of building had not been apportioned among these seven projects in a reasonable manner. The Project had paid rent of Rs.10 million for the entire building during the year under review	There are 07 projects implement under the Miscellaneous Foreign Aided Project. Therefore, amount is charged depend on the availability of imprest and allocation for each month for each project. However, from year 2024 this will be distributed among the ongoing project.	Building rent should be appropriate on logical base and proper accounting policy need to be follow.

### 3.5 Non Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non Compliance	Response of the Management	Auditor's Recommendation
(a) As per the Clause No. 4.1(b) 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 also observed that the Procurement Plan had not been prepared aligned to the Annual Action Plan.	Agreed. PMU will be advised to attend on the matter.	PMU should take action to prepare and take approval from the Ministry 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 Procuring Entity shall consider new bids or may negotiate with the lowest evaluated bidder to try to obtain a satisfactory contract. However, contracts had been awarded contrary to the above Government Procurement Guidelines. | Not Agreed. The Engineer's Estimate of the above project has been prepared based on the HSR rates in the year 2021 and price bids were opened on 3 <sup>rd</sup> March 2022. Hence, TEC is of the opinion that the Engineer's Estimate would be much higher when compare prices of material at bid opening. The cost of construction materials and fuel prices have been rapidly increased during the bidding period. | PMU should assure the price escalations are calculated as per matters pointed out by TEC. |
| (c) | As per the Clause No.2.12 of the Government Procurement Guideline. | Members of TEC had not signed a declaration form at its first meeting.                                                                                                                                                                                                                                                               | Agreed. Arrangements have been made to have the declaration forms signed by TEC members who are currently involved in procurement works.                                                                                                                                                                                                                                                                              | Action should be taken to comply with the procurement guideline.                          |

### 3.6 Observations made on site visits

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
(a) According to the Specification 103.4 - traffic safety and control accessories the contractor should be provided by the contractor and Rs.14 million had been paid until the last IPC to three packages. However, during the site visit, unsatisfied safety conditions were observed at many locations such as there were no such accessories had been fixed. Therefore it was observed that, public face very inconvenience due to lack of adequate safety arrangements.	Agreed. However, all contractors have given their prime attention to improving public safety and minimizing public inconvenience. They have allocated three safety officers, one from each contract, to oversee the site and have made their best efforts to maintain safety diligently.	Log entries should be kept by engineers while on field inspection and payment should deduct accordingly

- |     |                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                            |
|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (b) | During the site inspection, several places were observed where soil erosion occurred by road sides, road banks and drains and shoulders filled up with soil. However, proper safety measures had not been applied.                                                                                                                                                                                                            | Agreed. Due to the hilly nature of the road, minor erosions occur in several places along the road resulting drains and shoulders get obstructed with soil. Contractors frequently attend to clear these areas as soon as possible. However, all three Contractors have been advised to improve safety arrangements of these places.                                                                                                                  | Instruction should be given to start the works and closely monitor the contractors works                                                                                   |
| (c) | The road construction works under Suriyakanda – Rakwana Project commenced on 17 October 2022 and planned to complete on 16 October 2024. According to the current low progress, the Project is not in a condition to complete the balance road construction activities of the road before original completion date on 16 October 2024. Excavations and partly completed structures were observed even up to 01 February 2024. | Agreed. There is a significant gap between Planned & Physical progress of Contract<br><br>(B) The Contractor was advised to catch up the delayed progress.<br><br>Furthermore, all contractors have submitted their requests for Extension of Time entitlement in accordance with the Conditions of Contract, due to adverse weather and they are currently under evaluation.                                                                         | There is a difference between this answer with para 1.2.2(d) answer. PMU should confirm before grant EOT, abnormal adverse weather conditions were occurred in the period. |
| (d) | During the site inspection, it was observed that the tea plantations had been damaged during the construction work and high risky locations probable for soil erosion and landslides were observed                                                                                                                                                                                                                            | Agreed. This road section traverses through hilly terrain, resulting in very high cut slopes during the widening of the existing road. Due to the high cut slopes, minor soil erosion may occur in some isolated sections of the road.<br><br>However, these erosions are not considered to be very dangerous, and they are expected to settle over time.<br><br>However, the Contractor has been advised to take necessary actions to mitigate them. | Actions should be taken to rectify all damages and mitigate procedure should be introduced.                                                                                |
| (e) | According to the guidelines and suggestions in the letter dated 18.02.2021 issued by the Natural Resources Management Centre to minimize the soil erosion and stabilize the                                                                                                                                                                                                                                                   | Agreed. All unsuitable soil and waste materials have been disposed to CEA approved disposal yards located within the project area and                                                                                                                                                                                                                                                                                                                 | Actions should be taken to rectify all damages and mitigate procedure should be introduced                                                                                 |

slope cuts should be created during the construction. Further, excavated materials and any waste materials used in construction should not be allowed to adulterate the water and excavated soil should be transported to suitable dump sites and should not be exposed to erosion. However, locations of soil erosion and poor drainage facilities were observed.

outside the project. The Contractors have made every attempt to minimize water pollution caused by soil erosion. However, due to the hilly nature of the area, numerous small streams are present throughout the road, making it challenging to completely prevent water pollution.

Nevertheless, the Contractor has been advised to take necessary actions to mitigate these issues

(f) It was observed that 12 Public Complaints had not been resolved as at the site visit. Due to slow progress and failure to attend public complaints promptly has caused inconvenience to the General Public.

Not agreed. All these complaints have been addressed by the Engineer for the Contract in consultation with the Employer.

Should attend to the public complaints immediately.