

## **Western Province Road Development Project - 2023**

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The audit of the financial statements of the OPEC Funded Western Province Road Development 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 the Parliament appear in this report.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Loan Agreement, 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 objectives of the Project is to upgrading, improvement and widening of 27 Km of pre-selected national highways in the Western Province of Sri Lanka. As per the Loan Agreement, the estimated total cost of the Project was US\$24.87 million equivalent to Rs.3,232.5 million and out of that US\$ 17 million equivalent to Rs.2,209.84 million was agreed to be financed by OPEC Fund for International Development. The Project had commenced its activities on 05 October 2017 and scheduled to be completed by 28 June 2019. However, the date of completion of the activities of the Project had been extended up to 10 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 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 this 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

Accounting Deficiency / Audit Issue	Amount Rs. million	Response of the Management	Auditor's Recommendations
(a) According to the note no.03 of financial statements, the construction of Bellena - Moragala road had been completed and handed over to the Road Development Authority on 06 September 2020. However, the value had not been transferred to civil works and still accounted as work in progress. Therefore civil works had been understated by that amount.	1,293.72	<b>Agreed.</b>  Action will be taken to transfer the said value to Civil Works in the financial statement for the year 2024.	The Accountant should assure complying with SLPSAS before sign the Financial Statements.
(b) According to the Financial Statements, the amount of interest for the land acquisition has to be paid for the Kaduwela & Agalawaththa roads was Rs.29.1 million. However in the first two months of the year 2024 interest amounting to Rs.66.8 million had been paid for the previous year. Accordingly, the amount of compensation to be paid in the Financial Statements was understated.	37.7	<b>Agreed.</b>  Based on the in-hand vouchers, we have accrued the interest amount in the financial statements. Practically, it is challenging to accrue the exact figure until the vouchers are received from the DS Office for payments. However, we will take measures to ensure the accuracy of the exact figure in the future.	The Accountant should assure complying with SLPSAS before sign the Financial Statements.
(c) As per the Section 18 of Sri Lanka Public Sector Accounting Standard – 04, borrowing cost that are directly attributable to the acquisition, construction or production of assets should be capitalized as part of the cost of that assets. However, the Project had not capitalized borrowing cost relevant to the NSB loan amount as at 31 December 2023.	119.38	<b>Agreed.</b>  This loan was borrowed by the Road Development Authority (RDA), not the project. Consequently, the borrowing cost is a liability of the RDA. Upon the project's completion and handover to the RDA, they will capitalize the project's cost along with the associated borrowing costs. Therefore, the project has	The Accountant should assure complying with SLPSAS before sign the Financial Statements.

disclosed the borrowing costs in its financial statement until the project is handed over to the RDA in accordance with the instructions provided by the Chief Accountant, Ministry of Transport and Highways, via letter no. MT&H/HWY/ACC/18/2024/14 dated 2024-02-05.

(d)	The interest payable for land acquisition as at 31 December 2023 was accounted as Rs.190.09 million, according to the detailed information submitted to the audit by the land division, the interest payable for land acquisition as at 31 December 2023 was Rs.282.16 million. Therefore, a difference of Rs.92.07 million was observed between those amounts.	92.07	Agreed.  It was notice that there was an arithmetic error in the schedule we have already sent, therefore corrected schedule is attached.	The Accountant should assure with accuracy before sign the Financial Statements.
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## 2.2 Unsettled Balances

No	Description	Amount Rs.  million	Period Unsettled	Response of the Management	Auditor's Recommendation
	The Project had not taken any action to recover two receivable balances regarding advertisement, survey work, landslide study, pavement design and environmental consultation expenses totaling to Rs.16.96 million over the last four years as at 31 December 2023.	16.96	4 years	<b>Agreed.</b> Action has been taken to settle the I/C/A with OFID – IV, and currently, Rs.6.0 million has been recovered out of Rs.16.96 million. The balance will be settled by the end of 2024.	Prompt action should be taken to settle the payable.

### 3. Physical Performance

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

Audit Issue	Response of the Management	Auditor's Recommendation
(a) The KPI's had not been established to measure the out put and out come of the project operation. Therefore, level of benefits to public from the project could not be verified in Audit.	Agreed It is realized the importance of establishing KPIs for monitoring, and PMU will be informed to establish KPIs to monitor the project benefits. Further, it is necessary to monitor the benefits through the RDA, which maintains the road.	Project Director should identify the KPIs before commence the project.
(b) The rehabilitation works of 25.8 Km of the 04 national roads were expected to be carried out under 02 contract packages. Even though the Loan Agreement was signed on 26 June 2015, the rehabilitation works of 02 contract packages had been commenced after lapsed of 2 ½ years due to delay in the land acquisition process and the project cost had been overrun by Rs.645 million. The Project has already started the procurement process to reconstruct the Bridge No. 9/1 on Orugodawatta-Ambatale road which is not in the original scope of works with the balance allocation of the loan without completion of the balance works of the Kaduwela to Athurugiriya road. Further, the rehabilitation works 1.25 km of Walgama-Athurugiriya road under contract package -I has been subsequently deleted from the scope of works of the Project due to issues in the land acquisition process.	Agreed. The construction commenced on 29.01.2018 and 05.10.2017 for Package I and Package II, respectively. It has been decided to utilize the balance loan amount to improve Bridge No. 9/1 on Orugodawatta – Ambatale Road.	Project Director should assure with completing the initial scope of the Project.

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

Reference to the Laws Rules and Regulations	Audit Issue	Response of the Management	Auditor's Recommendation
(a) As per the Clause No. 8.13.4 of Government Procurement Guidelines	All professionals involve in preparation of bills of quantities must ensure that quantities included in the BOQ are as accurate as possible and allow not more than 5 percent to round off the quantity. However, the project was unable to identify the total quantities in the BOQ at the initial stage. Therefore, the project had subsequently issued variation orders for the B 174 Kaduwela – Athurugiriya Road. The project had made variation aggradation to Rs.453 million representing 43 percent of total cost of the contract.	The difference between the initial BOQ and the revised BOQ amounts to Rs.453 million (Rs.1,518 - 1,065 million). However, only 53 variation orders have been issued, amounting to Rs.45.8 million. The project cost has increased significantly for several other reasons. Firstly, the prolonged duration of the project, notably highlighted in Bill No. 01, has contributed to escalating expenses (Rs.72.3 million). Furthermore, the project has been impacted by substantial price escalations (Rs.119.5 million) due to economic crises. Additionally, there have been cost claims (Rs.239 million) raised due to the given EOTs.	PMU should follow procurement procedure before recommend the variation orders.
(b) Supplement 14 of the procurement manual	When comparing the items in the Engineer Estimate of the project and the items under the interim payment certificate No.55, it could be identified about 43 work items valued at Rs.247 million were not fully attended. Moreover to that 26 work items valued at Rs.27 million can be identified as exceeding the approved BOQ quantity limits. As a result of that, the total cost estimate of the project had not been prepared in accuracy manner.	Some items have exceeded the BOQ quantities. Generally, engineering estimates were prepared based on previous experiences and visual observations of the road. Some quantities of the items may vary due to unpredictable and unforeseen reasons at the initial stage:	Project Director should assure completeness of the necessary BOQ items and reasonable BOQ rates before sanction the BOQ.

### 3.3 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendations
(a) The loan agreement of the Project was signed on 26 June 2015 for US\$ 17 million and scheduled to be completed on 30 June 2019. However, due to delay in the construction activities of the Project, the loan closing date had been extended several times by the Funding Agency up to 10 May 2026. Although the loan repayment had been commenced in 2020, the Project was unable to disburse of US\$ 2.28 million representing 13 percent of the total loan facilities as at 31 December 2023.	<b>Agreed</b>  The project was delayed due to land acquisition delays. However, it has been decided to utilize the balance loan allocation to reconstruct Bridge No. 9/1 on Orugodawatta – Ambatale Road.	Project Director should complying with scope of the project.
(b) The Consultancy agreement of the Project was commenced on 08 March 2018 for Rs.147.79 million and original completion date was 28 July 2019. However, due to delay in the construction works of the Project, the consultancy fee had been revised up to Rs.299.36 million and Completion date had been extended several times up to 31 January 2023. The project had paid Rs.151.59 million representing 102.57 percent of the total cost of the consultancy contract due to delay in the completion of the project. Further, it was observed that, the poor performance of the contractor had been adversely affected to overrun the project cost.	<b>Agreed.</b>  As mentioned in item C (iv), the contract period was extended due to late site possession.  Accordingly, consultancy services were also extended for construction supervision with a minimum requirement of inputs.	Project Director should assure to avoid unnecessary delay and overrun of the Project.
(c) The contractor for the rehabilitation works of 9.5 km of Kaduwela – Athurugiriya road had been commenced on 29 January 2018 at a cost of Rs.1,065 million and scheduled to be completed on 28 July 2019. However, the period of contract had been extended by the project up to 29 August 2023 by granting of 841 days of time extension to the contractor. Further, it was observed that, the contractor had claimed Rs.311 million relating to cost	<b>Not Agreed.</b>  The contract was mainly delayed due to land acquisition delays. Further, utility shifting delays also significantly contributed to the delay.  According to the Engineer's evaluation, the contractor is entitled	Engineer should confirm before recommend the time extension, accuracy of the reasons and applicability of the price escalation as per conditions of contract.

of time extension of 841 days and project had approved that claim without considering contractor poor performance. It was a problematic issue in Audit.

(d) Even though the Package OFID-3/1 contractor interim payment certificates are released and submitted for the payment, the project had settled these payments with delay. As a result, the contractor had claimed interest of Rs.18 million for the delayed period. It was observed that, the delay in settlement of contractor payment had been affected to overrun the Project cost.

(e) As per the Sub clause 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 also shall revert to the contractor at the end of contract. However Project had paid a sum of Rs.18.5 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.

(f) As per the Clause No.42 of General condition of Contract (FIDIC – 1999) Contractor shall obtain the performance security at his own cost. However, a sum of Rs.11.79 million had been paid by the project for the cost of performance security.

to claim due to non-possession of the site.

**Agreed.**

DAB recommended paying prolongation costs, and there was no sufficient allocation available to pay the same, leading to a revision of the BOQ and a request for additional allocation to settle the payment, which led to additional time and cost.

Accordingly, there was a payment delay, and the contractor claimed delay payment charges as per clause 14.8 of the General Conditions of Contract.

**Agreed.**

The 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. Further, it can be assumed that the bid price was reduced due to this, as bids are invited in a competitive nature.

**Not Agreed.**

Pursuant to Clause 4.2 of the Conditions of Contract (COC), it is clearly stated that the contractor shall obtain a performance security

PMU should take necessary action to mitigate losses.

PMU should inform to the TEC to consider these matters while evaluating bidding documents.

PMU should inform to the TEC to consider these matters while evaluating bidding documents.



Further It was observed that the project had paid Rs.6.13 million over the BOQ amount of Rs.5.67 million to the contractor.

at their own cost if the amount and currencies are stated in the Appendix to the Tender. Contrary to the above, the amount is not stated in the Appendix to the Tender of the Tender Documents.

(g) Extension of time for 431 days had been approved by the TEC to the package RDA/MFAP/ICB/OFID-03/02 due to site possession delay. According to that, a sum of Rs.268 million had been paid by the Project for Prolongation and Preliminary general cost. Therefore It was observed that, the project cost had been increased by Rs.268 million.

**Agreed.**

Due to non-possession of the site as stipulated in the contract, the contractor is entitled to prolongation costs.

PMU should take actions to develop infrastructure before commence constructions.

(h) The objective of the Project is for upgrading, improvement and widening of 27 km of pre-selected national highways in the western province. As per the Contract Agreement, contract had been awarded to improve and rehabilitate B174 Kaduwela – Athurugiriya road section from 0+000 to 9+500 km. The section from 0+000 to 9+000 km had been taken over by the employer on 13 March 2023. However, it was observed that section from 9+000 to 9+500 had been abandoned and also Wele Junction and Athurugiriya Junction had not been completed by the Project. As a result, the objectives of the Project had not been achieved.

**Agreed.**

The last 500m (9+000km – 9+500km) road section of Kaduwela – Athurugiriya Road was not commenced due to land acquisition delays at Athurugiriya Junction.

Land for Athurugiriya Junction improvement was acquired during 1992, and no compensation was paid for the same. This situation was realized when starting LAQ works for Kaduwela – Athurugiriya Road (Present). The landowners protested and did not agree to give the site possession until the payment of the original acquisition was settled.

PMU should complete the project according to the scope of the project.

(i) As per the Engineer Estimate and contract awarded agreement 7169 tones asphalt concrete had been estimated to wearing course. However at the end of the Project 4,847.56 tones asphalt concrete had been actually used in wearing course, further section from 0+000 to 1+600km had not been concreted in asphalt wearing course.

**Agreed.**

The contractor programmed to complete asphalt concrete from 0+000km to 1+600km, but work was delayed due to water leaks from the existing pipes. However, after shifting the existing pipes, the road

PMU should take necessary action to mitigate losses and damages.

Due to that there were some scratches and damages were observed at site visited on 08.05.2024.

contractor did not commence asphalt laying due to a material shortage. This road section was completed nearly 6 years ago, and no basic failures were observed. Surface rectification can be done by applying a wearing course.

- (j) Although the contractor is responsible for coordination of required, relocation there were delays in shifting of utilities in Ceylon Electricity Board (CEB) and National Water supply and Drainage Board. Further pre arrangement to utility relocation had not been done, and some repairing work had been done by the contractor on the asphalt concrete. Moreover the project had paid Rs.106 million over the BOQ amount of Rs.46 million to the Ceylon Electricity Board for relocating of electricity poles of the KaduwelaAthrugiriya Road. it was a problematic issued in Audit.

**Agreed.**

Pre-arrangement with the utility is not possible until clear land acquisition. Usually, CEB requests to shift 10-12 poles at one time (one bay), and shifting does not start if a single building is available within the bay. Hence, it is necessary to clear all the buildings underneath the new trace of the CEB lines.

PMU should pre arrange infrastructure activities.

At the bidding stage, the amount under the PS Item is provided considering the cost involved with another similar project. Hence, there is a cost variation when calling for shifting poles from utility agencies (especially CEB) after the commencement of the road works.

### 3.4 Issues relating to the Land Acquisition

Audit Issue	Response of the Management	Auditor's Recommendations
(a) According to the information made available, it was scheduled to acquire 2,747 plots of land including 504 plots of land owned to the Government and the compensation amount of Rs.1,564 million had been paid under the Section 17 of the Land Acquisition Act. In addition, a sum of Rs.416.55 million had been paid as interest on delays in settlement of compensation up to 31 December 2023. However,	<b>Agreed.</b> The registration of acquired lands under Section 44 of the Land Acquisition Act is carried out by the relevant Divisional Secretariat (DSS). There is a delay in registration at the DS Office, and several reminders have been sent to complete the same. However, after the payment of compensation under Section 17,	Land acquisition process should be carried out with proper action plan.

only 411 plots of land had been registered under section 44 of the land acquisition act as at 31 December 2023.

there is no hindrance to construction works, and the said Section 44 registration does not affect the project progress.

- (b) Although the overall physical progress of roads had been stated as 100 percent as per the progress report, only 83 percent of land acquisition works of the Project had been completed as at 31 December 2023.

**Agreed.**

Land acquisition progress reaches 100 percent after the completion of Section 44 of the Land Acquisition Act. Project activity can be completed after compensation payment as per Section 17 of land acquisition. However, maximum effort will be taken to complete Section 44 through the Project Division.

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