

## **OPEC Funded Road Network Development Project - 2023**

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The audit of financial statements of the OPEC Funded Road Network 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 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 Transport and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project.

The objectives of the Project are to constitute as integral part of Sri Lanka's Development policy Framework and improve the road network connectivity to meet the demands of the transport sector by upgrading 202 kilometres of national roads as well as the reconstruction and widening of bridges in the Western, North Western, Central, Southern and Sabaragamuwa Provinces. As per the Loan Agreement, the estimated total cost of the Project was US\$ 62.46 million equivalent to Rs. 7,121.32 million and out of that US\$ 40 million equivalent to Rs. 4,560 million was agreed to be financed by OPEC Fund for International Development. The balance amount of Rs. 2,561.32 million is expected to be financed by the Government of Sri Lanka.

The Project had commenced its activities on 16 January 2013 and scheduled to be completed by 31 December 2016. However, the date of completion of the activities of the Project had been extended up to 02 February 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 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 / Audit Issue   | Amount<br>Rs.<br>Million | Response of the Management   | Auditor's<br>Recommendations   |
|-----|---|--------------------------|--|--|
| (a) | The provisions had not been made in the financial statements for the compensation payable to landowners for 2,038 lots of land as per the Sri Lanka | 21.50                    | The compensation for land plots intended for acquisition is determined by the Valuation Department. Upon finalizing the amounts, Divisional Secretaries prepare vouchers based on their calculations. The project office | Action should be taken to made provisions in the financial statements as per SLPSAS and special attention should be paid and written instructions should be issued in the review |

| Public Accounting No.08.  | Sector Standards |  | cannot estimate an amount to make a provision for the land plots to be acquired in the future.   | carried out in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018. |
|---|------------------|--|--|--|
| (b) The provision had not been made in the financial statements for interest to be paid to the landowners on delay in compensation payments of 2,521 lots as per the Sri Lanka Public Sector Accounting Standards No. 08.   | 75.00            | The necessary rectifications will be done in the next financial statements.  | -do-   |  |
| (c) The amount had been temporary financed by the Road Development Authority as at 31 December 2023 was included as Equity in the financial statements for over ten years. Further, the details regarding the approval for the above financing had not been furnished to the audit. | 70.84            | The funds released from RDA were part of a loan taken from the National Savings Bank, DFCC Bank, and Bank of Ceylon during 2014, 2018, and 2019, respectively. All details regarding the approval for the above financing are available at the Road Development Authority. | The temporary financing should be given under proper approval and written instructions should be issued in the review carried out in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018.     |  |
| (d) The payment of compensation by the Line Ministry during the year 2016, had been shown as equity in the financial statements as at 31 December 2023. However, the approval for the above expenditure had not been furnished to audit.  | 16.12            | This was not paid by the Line Ministry. They have released imprest to make compensation payments. Therefore, it should be included in the GOSL funds component under equity in the financial statements. This will be rectified in the next financial statements.          | The government contribution should be given under proper approval and written instructions should be issued in the review carried out in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018. |  |

## 2.2 Non Compliance with Laws, Rules and Regulations

| No  | Reference to the Laws Rules and Regulations    | Non Compliance/Audit Issue  | Response of the Management   | Auditor's Recommendations   |
|-----|--|---|--|---|
| (a) | Financial Regulation 571                       | Any action had not taken to release the retention money to the surveyors amounting to Rs.0.1 million since 2017.  | The two surveys were not completed as stipulated in the contract agreement. Therefore, completion certificates were not issued. Necessary actions will be taken to find out possibility of writing back this amount during year 2024.  | Inquiries should be made before their transfers to the revenue as per the Financial Regulations and written instructions should be issued in the review carried out in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018.        |
| (b) | Sub clauses 128 of Conditions of the Contracts | The laboratory equipment and furnishings shall revert to the contractor at the date of issuing of the taking over certificate. However, the Project had paid a sum of Rs.6 million as a lump sum for field laboratory equipment as at 31 December 2023 in relation to the Reconstruction of Bridge No. 4/2 in Orugodawatta – Abathale road. Therefore those unfavorable contract conditions may lead to undue benefits to the contractors and overrun the project cost. | According to the condition of contract Laboratory and survey items are back to Contractor at the end of the project. However, bids are invited under competitive nature and prices are quoted mainly considering depreciation value of the items. It is revealed when compare the quoted bid price of the bidders. | 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. |

**3. Physical Performance**  
**3.1 Physical progress of the activities of the Project**

**(i) Land Acquisition**

| Component        | Activity              | As at 31 December 2023              |                         | Delay/<br>Audit Issue   | Reasons for<br>delays   |
|------------------|-----------------------|-------------------------------------|-------------------------|---|---|
|                  |                       | Expected<br>physical<br>performance | Performance<br>achieved |   |   |
|                  |                       | Plots                               | Plots                   |   |   |
| Land acquisition | Title transfer to RDA | 2772                                | 147                     | According to the information furnished to the audit, 2,772 plots of lands were expected to be acquired by the project and compensation of Rs.245.13 million for 730 plots of lands and cost of Rs.58.24 million delayed interest for 155 plots of lands had been paid as at 31 December 2023. However, the Road Development Authority had acquired only the possession of 147 plots of land as at 31 December 2023 as per sub-clause 44 of the Land Acquisition Act and it represented only 7.8 per cent of the entire private lands to be acquired by the Project. | Delay in land acquisition activities due to poor supervision. |

**Response of the Management** Progress of Sec. 44 registration is 7.8 per cent as at 13.12.2023. It has been informed relevant DSs office to expedite Sec. 44 registration and progress is monitoring continually.

**Auditor's Recommendations** Maximum effort should be taken to achieve intended targets of the Project within the time frame and written instructions should be issued in the review carried out in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018.

| (ii)<br>Component                 | Civil Works<br>Activity                | As at 31 December 2023   |                                       | Delay/<br>Audit Issue   | Reasons for delays                                  |
|-----------------------------------|--|--|---------------------------------------|---|---|
|                                   |  | Expected<br>physical<br>performance<br>Percentage  | Performance<br>achieved<br>Percentage |   |   |
| Civil Works                       | Reconstruction and widening of bridges | 97   | 55 to 74                              | Even though elapsed the original contract period for the packages RDA/MFAP/ICB/OFID-1/09 and RDA/MFAP/ICB/OFID-1/10 on 16 January 2024 and 02 February 2024, both packages had achieved only 55 per cent and 74 per cent physical progress respectively as at 31 December 2023. As per the progress reports, the construction issues directly affected those delays and the actions taken by the Project to solve those issues had not been furnished to audit. | Delay in awarding of contract and poor supervision. |
| <b>Response of the Management</b> |  | The construction activities of two bridges were delayed due to the delay in pipe laying, water leaks and deplorable condition of the existing pipes of NWS & DB. |                                       |   |   |
| <b>Auditor's Recommendations</b>  |  | Maximum effort should be taken to achieve intended targets of the Project within the time frame.   |                                       |   |   |

### 3.2 Contract Administration

| No  | Audit Issue  | Response of the Management  | Auditor's Recommendation   |
|-----|--|---|--|
| (a) | As per the clause 4.2 of general conditions of contract (FIDIC-1999), the contractor shall obtain the Performance Security at his own cost. However, the project had included a pay item No. 119.2(1) in the Bill of Quantities and a sum of Rs.1.75 million had been paid for the cost of Performance Securities incurred by the contractors without amending the General Condition by a Special Condition of the contract. | However, action has already been taken not to include this pay item in future contract. | The conditions of the contract should be carefully reviewed and written instructions should be issued in the review carried out in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018. |

- (b) As per the BOQ of two packages civil works valued at Rs.38.66 million had been estimated mainly for removing of existing structures, construction of gabion retaining walls, office for the engineers, operatives for the engineers and laboratories etc. However any payment had not been made for those items up to the last interim payment certificate paid for the month of December 2023. Although the physical progress of those contracts as at 31 December 2023 was 55 per cent and 74 per cent respectively, the reasons were not furnished to audit regarding the stagnation of those pay items without any progress even at that date.
- Bids are invited for the contract Package RDA/MFAP/ICB/OFID-01/09 and RDA/MFAP/ICB/OFID-01/10 separately for the reconstruction of Bridge No. 4/1 and the widening of Bridge No. 3/1 on Orugodawatta – Ambatale Road, respectively. However, both contracts were awarded to one contractor, and only one office and one laboratory under bill No. 01 are utilized for both constructions. Hence, some items in Bill No. 01 of Bridge No. 3/1 are not utilized which is savings for the government. Further, when progressing with the two projects, most items related to construction are now utilized, and only a few remain due to site conditions.
- The BOQ items should be reviewed carefully and written instructions should be issued in the review carried out in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018.
- (c) The maintenance works of Rehabilitation and improvement of (A005) Peradeniya – Badulla – Chenkaladi road section had not been done by the contractor. Therefore the Road Development Authority had to incur a sum of Rs.7.71 million for the rectification and maintenance of above road. Although the expenses due to RDA had been accrued since 2019, the Project could be able to recover only Rs. 0.70 million from the contractor as at end of the year under review. Although action should be taken by the Project to recover the outstanding balance from the contractor by encashing the guarantees, the project allowed the contractor to settle that amount in 10 installments and it couldn't be verified in the audit that the basis of these concessions given to the contractor by the Project.
- Contractor has requested to settle the due payments in 10 installments and matter was referred to Director General, RDA and deduction is in progress as approved by DG, RDA.
- The contractor's obligations should be carefully reviewed according to conditions of the contract and immediate actions should be taken to recover those outstanding balances from the contractor.

### 3.3 Underutilized Resources

| <b>Audit Issue</b>  | <b>Response of the Management</b>   | <b>Auditor's Recommendation</b>                           |
|---|---|---|
| The allocation amounting to Rs.500.29 million and Rs.39.35 million had been provided under foreign loan and GOSL component respectively during the year under review. However, foreign loan allocation of Rs.5.79 million and GOSL allocation of Rs.3.84 million had not been utilized by the project during the year under review. | Disbursements from the loan have been accounted based on Report of the Department of State Accounts. Therefore, project had shown Rs. 419.07 Mn in the Financial Statement. The balance amount of Rs. 75.43 Mn was unaccounted and we have shown as foreign aid receivable in Financial Statement. Local fund utilization reduced since no imprest received as requested. | Action should be taken to utilize loan funds effectively. |