

Integrated Road Investment Program (iRoad) - 2024

The audit of financial statements of the Integrated Road Investment Program for the year ended 31 December 2024 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 4.03 Article IV of the Loan Agreements No. 3171-SRI (SF) dated 05 November 2014, the Loan Agreement No. 3221-SRI and 3222 SRI (SF) dated 28 May 2015, the Loan Agreement No. 3325-SRI and 3326 SRI (SF) dated 11 December 2015 and Loan Agreement No. 3610-SRI dated 15 December 2017 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comments and observations which I consider should be reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, the Ministry of Higher Education & Highways, presently the Ministry of Transport, Highways, Ports and Civil Aviation is the Executing Agency and Road Development Authority is the Implementing Agency of the Program. The objective of the Program is to enhance the road accessibility between rural communities and socio economic centres. The long term impact is to increase transport efficiency of national and provincial roads. As per the Loan Agreements, the estimated total cost of the Program was US\$ 906 million equivalent to Rs.117,780 million and out of that US\$ 800 million equivalent to Rs.104,000 million was agreed to be financed by Asian Development Bank. The balance amount of Rs.13,780 million is expected to be financed by the Government of Sri Lanka. The donor had released USD 557 million out of USD 800 million under four tranches according to their regular disbursement method and the processing was withheld as a result of the macroeconomic crisis. Later, it was decided to provide further USD 60 million under tranche 4 of Second Integrated Road Investment Programme to carry out the critical works of the already commenced and incomplete road section and settle the payments of previous work done in both iRoad and Second iRoad programs. The Program had commenced its activities on 01 June 2014 and scheduled to be completed by 31 March 2025.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the section 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Program as at 31 December 2024 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 Program'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

	Accounting Deficiency	Amount Rs.million	Response of Management	the Auditor's Recommendation
(a)	According to the paragraph 07 of the Sri Lanka Public Sector Accounting Standard No.01, the transactions and events should be recognized in the financial statements of the period which they relate. However, no provision had been made for the values of 02 Interim payment certificates amounting to Rs.31.62 million relates to the year under review. As a result, the work in progress shown in the financial statements had been understated by similar amount.	31.62	Paid and recorded in 2025 books of accounts	Adhere to the SLPSAS.
(b)	According to the paragraph 27 of the Sri Lanka Public Sector Accounting Standard No.01, the financial position in the financial statements should be fairly presented. However, the retention of Rs. 282.16 million shown under the current liabilities had also been included as payable to civil work contractors. As a result, the work in progress shown in the financial statements of the year under review had been overstated by similar amount.	282.16	The retention incorrectly recorded as a provision in the payable to civil works contractors have been rectified by Journal Entry No. JE/25/33.	Adhere to the SLPSAS.
(c)	According to paragraph 27 of the Sri Lanka Public Sector Accounting Standard 01, the financial position in the Financial Statements should be fairly presented. However, the provision for unrecovered mobilization advances of Rs. 2,083.87 million had also been	2,083.87	Provision for doubtful recoveries on outstanding mobilization advance of the Terminated contracts had been made as per the Audit observations in the previous year's.	Adhere to the SLPSAS.

stated as payable to contractors. As a result, the payable to contractors had been overstated by the similar amount.

- | | | | | |
|-----|--|----------|---|--|
| (d) | According to the paragraph 27 of the Sri Lanka Public Sector Accounting Standard No.01, the financial position in the financial statements should be fairly presented. However, the cost claims amounting to Rs.122.36 million shown under the current liabilities had also been accounted as delay interest payable. Hence, the work in progress shown in the financial statements had been overstated by similar amount. | 122.36 | The cost claim amounting to Rs. 122.36 Mn. incorrectly recorded as a provision in the payable to civil works contractors have been rectified by Journal Entry No. JE/25/34. | Adhere to the SLPSAS. |
| (e) | As per paragraph 22 (a) of the Sri Lanka Public Sector Accounting Standard 08, the provision should be recognized only for the present obligation. However, a provision of Rs.1,129.93 million had been made for cost claim which were rejected by the Engineer. Hence, the work in progress shown in the financial statements had been overstated by similar amount. | 1,129.93 | The cost claims which were rejected by the Engineer incorrectly recorded as a provision in the payable to civil works contractors have been rectified by Journal Entry No. JE/25/35 | Adhere to the SLPSAS. |
| (f) | The work in progress balance as per the statement of financial position was Rs.26,767.80 million and as per the notes to the financial statements, it was Rs.28,776.60 million. Hence, a difference of Rs.2008.80 million was observed between two balances. | 2,008.80 | In notes to the Financial Statements Rs. 2,008.80 million of civil works recorded under WIP. | The Accountant should ensure the accuracy of the financial statements before signing the financial statements. |
| (g) | Without ascertain the certainty of present obligations a provision for DAB elements and arbitration claims | 3,176.89 | Details of DAB and Arbitration claims will be submitted to the audit within | The Accountant should ensure the accuracy of the financial statements |

amounting to Rs. 3,176.89 million had been shown in the statement of financial position as at 31 December 2024. As a result, the work in progress had been overstated by similar amount.

two weeks

before signing the financial statements.

- | | | |
|--|---|------------------------------|
| <p>(h) As per paragraph 43(a) of the Sri Lanka Public Sector Accounting Standards 05, assets and liabilities for each statement of financial position should be translated at the closing foreign exchange rate of the date of the statement of financial position. However, the Program had not calculated and adjusted or disclosed parity adjustment relating to the foreign loan of the program in the statement of financial position as per above requirement.</p> | <p>- As per the instructions given by the Director General, Department of State Accounts, adjusting the parity variance in the Project Financial Statements is not necessary.</p> | <p>Adhere to the SLPSAS.</p> |
|--|---|------------------------------|

2.2 Non Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non Compliance	Response of the Management	Auditor's Recommendation
(a) Public Finance Circular No. 01/2020 dated 28 February 2020.	The report regarding the board of survey conducted by Programme with provincial reports should be submitted to the Auditor General before 15 June of ensuing year. However, the relevant report for the year under review had been submitted to the audit on 09.07.2025.	Board of Survey has been completed and the report will be submitted before 27.06.2025.	Board of survey should be done as per the circular.
(b) Section 38(1)(e) of the National	Although the Chief Accounting Officer and Accounting Officer	Road rehabilitation & Improvement entire works have been completed and all the	Action should be taken to answer all audit queries

Audit No.19 of 2018.	Act	should ensure that all audit queries be answered within the specific time as required by the Auditor-General, answers were provided for two queries issued on 27 March 2025 and 12 December 2024 with a delay from 82 to 166 days.	Provincial iRoad offices were closed down and most of the Engineering staff also resigned from RDA. As such Extension of time until 09.07.2025 is requested by letter No. MOH/HWY/ACC18/2022/13(v-i) dated 20.06.2025.	without delay. Instructions should be given, emphasizing the requirement as per the provisions of Section 38(1)(e) of the National Audit Act No. 19 of 2018.
(c)	Section 9.3 of the Management Service Circular No. 01/2019 dated 05 March 2019	The Steering Committee of the Project should be met at least once in two months. However, only one meeting had been conducted during the year under review.	Two meetings of the steering committee on 02.08.2024 and 08.11.2024 had been conducted.	The Chief Accounting Officer should ensure that steering committee meetings are conducted in accordance with the relevant circulars.
(d)	Management Audit circular No DMA/01/2019 dated 12 January 2019	Project Internal Audit Review Committee should be established and at least 04 meetings should be conducted annually. However, only one meeting had been conducted from the year under review.	Post of the Internal Auditor of iRoad Program abolished by the Management Service Department by its letter dated 04.03.2024. Therefore, internal audit function of the Program had not been performed properly.	The Chief Accounting Officer should ensure that Internal Audit Review committee meetings are held in accordance with the relevant circulars

3. Physical Performance

3.1 Physical progress of the activities of the Project

(a) Road Length

Component	Activity	As at 31 December 2024		Audit Issue	Reasons for delays	
		Expected physical performance km	Performance achieved km			
Completion of rehabilitation works of	National Roads	400 km	178.19 km	The Program had only completed a length of 178.19 km of national roads and 2,870 km of	Most of the contractors suspended their	the poor
	Rural roads	3100 km	2870 km			

National and Rural roads.					rural roads even after performance of the lapsing 10 years as at contractors, delays 31 December 2024. It in contract was represented 45 per payments are cent and 93 per cent mainly affected to respectively. Although the poor progress. it was allocated Rs. 1,950 million as Project Management Expenses as per the Facility Administration Manual, it was observed that the Program had utilized a sum of Rs. 2,501.80 million even as at 31 December 2024.
---------------------------	--	--	--	--	--

Response of the Management	ADB granted allocation exceeding the allocated 1,950 million. However a request has been submitted to the Department of External Resources (ERD)
Auditor’s Recommendation	Project should prepare proper action plan and budget and responsibilities should be fixed accordingly. 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) Number of Roads

Component	Activity	As at 31 December 2024		Audit Issue	Reasons for delays
		Expected physical performance Nos	Performance achieved Nos		
Completion of rehabilitation works of Rural roads.	Road rehabilitation	735	604	604 rural roads only had been completed and 14 rural roads were transfer to critical works program of Second iRoad Program planned to be completed by the Program during the entire Program period. The progress of road handing over after rehabilitation up to	Most of the contractors suspended their works, poor performance of the contractors, delays in contract payments are mainly affected to the poor progress.

motorable condition as per the recommendation of the Public Expenditure Review Committee couldn't be verified due to relevant details were not being furnished to the audit.

Response of the Management Details will be submitted to the audit within two weeks

Auditor's Recommendation Should comply to the committee recommendations and an investigation should be conducted on non-compliance with committee recommendations

3.2 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
(a) The recoverability of Mobilization Advances amounting to Rs.4,192.92 million as at 31 December 2024 could be uncertain due to delays in payments to contractors and descope of the road rehabilitation contracts due to fund restrictions by the donor.	PMU carried out several discussions with the contractors to formulate a mechanism for the recovery of advances.	Immediate action should be taken to recover the advances.
(b) The Program has planned to rehabilitate rural roads and National roads under 53 contract packages. Out of these packages, the original contract sum had been increased in 11 packages due to various reasons. However, the accumulated increase in the contract sum of those contract packages were Rs.2,071.51 million. The effect of inefficient contract management on the price variations was mainly affected to this increase in contract sum and also to the extend Program period.	Agreed	Project should prepare and obtain approval for action plan and budget. Action should be taken to timely complete the contract to avoid additional cost.

3.3 Vehicle Utilization

Audit Issue	Response of the Management	Auditor's Recommendation
The Program had purchased 167 motor vehicles and 168 motor bicycles at a cost of Rs.1,499.58 million during 2015-2017 and	Since RDA vehicles were fully occupied , for engagement of road rehabilitation works	Investigation should be conducted to identified responsible

156 motor vehicles and 166 were already conducted in RMC & rebid officers for handed over to the Road Development contract packages under the mismanagement and Authority before completion of the road funds allocated from Tranche misuse the assets. rehabilitation works. The Program had to hire 4, fourteen (14) vehicles were 09 vehicles for the use of PMU and provincial hired in 2023 by following due procurement procedure and before issuing the National Budget Circular No.1/2024 dated 10 January 2024. Budget circular No. 01/2024. and a sum of Rs.9.82 million had been paid as The procurement process was based on vehicle suppliers registered in RDA for the year 2023. at 31 December 2024 as vehicle rent. Further, it was observed that accumulated vehicle hire charges amounting to Rs.89.06 million had to be incurred by the Program up to 31 December 2024.

3.4 Extraneous Payments made out of the project objectives

Audit Issue	Response of the Management	Auditor's Recommendation
(a) Accumulated commitment charges amounting to US \$ 1.45 million equalling to Rs. 248.27 million had been paid by the Program uneconomically to the Lending Agency on undisbursed proceeds of the loan as at 31 December 2024	By utilizing the tranches within the planned period, the Commitment Charge can be minimized.	Program should prepare proper action plan and budget and responsibilities should be fixed accordingly to minimise commitment charges.
(b) Although all laboratory, furniture and survey equipment will be reverted to the contractor at the end of the Program as per Sub clauses 108.4 of the Conditions of the Contracts, a sum of Rs. 397.77 million had been paid as a lump sum for laboratory, furniture and survey equipment relating 23 contact packages. Thus, it may indicate that unfavorable contract conditions may lead to undue benefits to the contractors.	RDA is currently in the possession of adequate quantities of Laboratory Equipment and space for storage of such equipment is also not available.	The special conditions of the contract should be carefully reviewed before enforcement.

3.5 Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
The road rehabilitation was withheld as a result of the macroeconomic crisis in the country. Later, it was decided to provide further USD 60 million under tranche 4 of Second Integrated Road Investment Programme to carry out the critical works of the already commenced and incomplete road sections and payment of previous work done relating to both iRoad and Second iRoad programmes under the approval of Cabinet of Ministers No. 23/1830/608/070-II dated 09 October 2023. Out of the fund received under tranche 4, a sum of Rs. 4,594.82 million had been paid for civil works and consultancy as at 31 December 2024. Under the above critical work programme commenced beginning of 2024, the rehabilitation works of 20 rural roads and 18 national roads only had been transferred to the critical works program out of the incomplete roads. Although the mobilization advances amounting to Rs. 4,192.93 million were outstanding as at 31 December 2024 regarding incomplete roads, an effective plan to recover those outstanding balances was not revealed to the audit.	Most of the contracts were de-scoped due to funding limitations. PMU carried out several discussions with the contractors to formulate a mechanism for the recovery of advances by way of setting off pending IPCs, Retention money etc. with the consent of the Contractors.	Immediate action should be taken to encash the bonds and formal inquiry should be conducted and loss should be recovered.

3.6 Matters in Contentious Nature

Audit Issue	Response of the Management	Auditor's Recommendation
(a) The Program had procured a web –based GIS information System in 2016 to establish a web based information portal to support physical and associated management works in the divisions of the Program. As per the financial statements the total cost incurred was Rs. 13.31 million. In additions to the above initial cost, the Program had paid Rs.10.33 million for annual software maintenance fee for 6 years from 2017 up to October 2022 and therefore, the cumulative cost incurred by the Program was Rs.23.64 million for the above system. However, the program had not extended the service	Actions have been taken to renew the service agreement for utilization of the web based GIS information system to assist the planning division of RDA. New proposal was obtained from GIS Solution (Pvt) Ltd in April 2025 and it is under consideration stage.	Formal inquiry should be conducted to identify the responsible parties.

agreement after 31 October 2022. Therefore, the audit in the view that the Project Director had discontinued the service agreement without proper authority and evaluation. Although it was planned to use this system to assist the Program and the Planning Division of the RDA, it couldn't be achieved due to the discontinuation of the service agreement. Therefore, it was observed that the entire cost incurred would be uneconomical to the Program.

(b) **Rehabilitation of Balangoda-Bowatta-kalthota road under iRoad Program**

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

- | | | |
|--|---|---|
| <p>(i) Although the Secretary of the Ministry of Highways had approved this rehabilitation work subject to the concurrence of the donor and the following of the procurement procedures, those concurrences were not obtained and it was observed that the constructions were awarded to the contractor without following the relevant procurement procedures.</p> | <p>The President instructed the Secretary to the Ministry of Highways to expedite the process to complete the work before the National Vesak Festival. Therefore, instructed to carry out by issuing Variation Orders to RMC / 04 Contractors. However all PDs are strictly advised to comply with procedure in future contractual/procurement matters.</p> | <p>Should comply with the Procurement Guideline and action should be taken on responsible officers for non-compliances.</p> |
| <p>(ii) As per the details furnished to the audit, a preliminary investigation was conducted by the Ministry and the relevant report was submitted by the Director General (Engineering) on 30 November 2023. However, the evidence was not revealed regarding further actions taken to obtain concurrence of the donor and formalize</p> | | <p>Formal inquiry should be conducted to identify the responsible parties.</p> |

the payment already made to relevant contractors.

- (c) The limitation of loan funds resulted in withheld payments to contractors due to the economic crisis prevailed in the country, and interest liability arose for the outstanding amounts payable to those contractors. Therefore, a memorandum was forwarded on 24 June 2024 to the Cabinet and obtained approval on 15 July 2024 to use a sum of Rs.4,100 million from domestic funds to settle the certified outstanding contract payments already received at that time to the PMU. The following observations are made during the investigation of the schedules of outstanding Interim Payment Certificates attached to the Cabinet memorandum.

- | | | |
|---|--|--|
| <p>(i) Although five IPCs amounting to Rs.166.20 million were approved by the Cabinet of Ministers to be paid from using domestic funds, contrary to above decision, it was paid to the contractors through loan funds (Loan No.3610) during the year under review.</p> | <p>Even though, these IPC amounts were included in the gap finance outstanding IPC schedule, corresponding amount were paid by utilizing the additional Loan fund of Rs 449 Mn allocated to the Loan 3610.</p> | <p>Project should prepare proper action plan and budget and responsibilities should be fixed accordingly. 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.</p> |
| <p>(ii) Although the IPC No.21 of the contract package No.KL3-R2 the payment had been made on 01 December 2023, it was included in the schedule of the Cabinet Memorandum to obtain the domestic funds.</p> | <p>Payment had not been made for IPC No. 21 of the Contract Package KL3-R2. Due amount had been set off against the recover the outstanding mobilization advance.</p> | <p>-do-</p> |
| <p>(iii) The differences of Rs. 49.58 million were observed in outstanding delay interest stated in schedules of Cabinet Memorandum and the schedule No.10.3 in the financial statements.</p> | <p>The Interest amounts were calculated for the Cabinet Memorandum based on paid IPCs, outstanding IPCs & IPCs amount on expected work done and delay</p> | <p>-do-</p> |

interest amounts stated in schedule of the financial statements includes paid IPCs' amounts and actual outstanding IPCs' amount as at 31.12.2024.

- | | | |
|--|---|---|
| <p>(d) Four contract packages planned to be rehabilitated under the Program were terminated due to the low progress of the contractor and those packages had been handed over to the same contractor under the Local Bank Funded Project. Although the outstanding Mobilization advances should be recovered from that contractor through the Local bank Funded Project was Rs.515.59 million, it was observed that the Program couldn't be able to recover those outstanding advances until 31 December 2024.</p> | <p>Outstanding Mob advance of Rs 515.59 relating to the contract packages handed over to Local Bank Funded Project to be recovered by encashment of active advance bonds.</p> | <p>Action should be taken to discuss with the relevant authorities to determine what measures could be taken to encash the bonds. Further, an investigation should be conducted to identify the compliance of the action taken to transfer the contracts to the LBF project without following the conditions of the contracts against the contractor.</p> |
|--|---|---|