Saudi Funded Road Network Development Project - 2024

The audit of financial statements of the Saudi Funded Road Network Development Project 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. 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 and Urban Development is the Executing Agency and Road Development Authority is the Implementing Agency of the Project.

The objective of the Project is to rehabilitate and improve 131.5 km of 06 road sections in the Central, Eastern, Sabaragamuwa, Western and North Western provinces. As per the Loan Agreement, the estimated total cost of the Project was US$ 81.75 million equivalent to Rs.10,628 million and out of that US$ 60 million equivalent to Rs.7,800 million was agreed to be financed by Saudi Fund for Development. The balance amount of Rs.2,828 million is expected to be financed by the Government of Sri Lanka.

The Project had commenced its activities on 03 June 2013 and scheduled to be completed by 05 August 2020. However, the date of completion of the activities of the Project had been extended up to 31 May 2027.

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 Project 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 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

	Accounting Deficiency	Amount Rs.million	Response of the Management	Auditor's Recommendation
(a)	The accumulated interest paid on loan had not been accounted in the financial statements of the Project. As a result, foreign loan balance and work in progress in the financial statements had been understated by similar amount.	1,127.03	The borrowing cost amounting to Rs. 1,127.03 has not been accounted in accordance with the instructions stipulated in the Department of State Accounts Circular No. 4/2024 dated 27.03.2024. However, this matter has been disclosed under Note No. 09 of the Financial Statements for the year 2024.	Relevant details should be obtained from Treasury and Interest charges should be accounted as per SLPSAS.
(b)	As per paragraph 43(a) of the Sri Lanka Pubic Sector Accounting Standards 05, assets and liabilities for each statement of financial position should be translated at the closing	-	The exchange parity adjustment on foreign loans has not been carried out for the year 2024 in accordance with the instructions stipulated in the Department of State	The Accountant should ensure compliance with the relevant SLPSAS.

	foreign exchange rate of the date of the statement of financial position. However, the project had not adjusted or disclosed parity adjustment relating to the foreign loan of the project in the statement of financial position as per above requirement.		Accounts Circular No. 3/2024, dated 22.02.2024. However, this matter has been disclosed under Note No. 09 of the Financial Statements for the year 2024.	
(c)	The expenditure on compensation payments for land acquisition and delay interest on compensation payments amounting to Rs.228.19 million and Rs.102.87 million respectively had not been presented separately in the financial statements.	331.06	These amounts have been further classified under the respective Divisional Secretary’s Offices in the Financial Statements.	The Accountant should ensure compliance with the relevant SLPSAS.
(d)	According to the paragraph 100 of the Sri Lanka Public Sector Accounting Standard 08, unless the possibility of any outflow in settlement is remote, an entity should disclose for each class of contingent liability at the reporting date a brief description of the nature of the contingent liability. However the project had not been made any disclosure regarding compensation to be paid on	-	As the possibility of outflow in settlement of these obligations is considered remote, this has not been disclosed as a contingent liability in the Financial Statements	The Accountant should ensure compliance with the relevant SLPSAS.

the remaining 1054 lots during the year under review.

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)	Sub clause 9.3 of the Management Services Circular No 01/2019 dated 15 March 2019	The Project Steering Committee should meet at least once in two months. However, only two Steering Committee meetings had been conducted during the year under review.	Project Steering Committee meetings have not been arranged as per the Management Circular.	Circular instruction should be followed.
(b)	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, any project Internal Audit Review committee meeting had not been conducted for the year under review.	Internal Audit Review Committee meeting was not held due to non-availability of Internal Auditor.	Circular instruction should be followed.

3. Physical Performance

3.1 Physical Progress of the activities of the Project

Component	Activity	As at 31 December 2024		Audit Issue	Reasons for delays
		Expected physical performance	**Performance achieved**		
		Lots	**Lots**		
Land Acquisition	Tittle transfer to RDA	1411	40	Even though, 1,411 land lots acquired by the Project under section 38 (a) of the land acquisition act and total compensation for 357 lots amounting to Rs.228.13 million and delay interest for 296 lots amounting to Rs.97.03 million had been paid as at 31 December 2024. Further, the PMU had been able to obtain possession as per section 44 of the Land Acquisition Act only for 40 land lots by the end of the year under review due to valuation process couldn't be able to completed for the remaining lots under section 17 of the Act until the end of the year under review.	Delay in land acquisition activities due to poor supervision.

Response of the Management	Agreed. The section 44 registration being carried out by Divisional Secretariat office. Despite several reminders, progress of the registration is at minimum level.
Auditor's Recommendation	The project should ensure that land acquisition processes are executed in accordance with the land acquisition plan.

3.2 Contract Administration

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Although widening of bridge No:6/1 on Orugodawatta-Ambatale Road and widening of bridge No:4/3 on Orugodawatta-Ambatale Road were completed on 08 March 2022 and taken over by the project had not been handed over to RDA (Employer) until the end of the year under review.	Agreed. Arrangements have been made to hand over Bridge.	Project assets should be utilized effectively.
(b)	According to sub-clause 14.7 of the General Condition of the contract, the employeer shall pay the amount certified in each IPC within 56 days after the Engineer receives the documents and any delay in payment, the contractor is entitled to receive financing charges compounded monthly on the amount unpaid during the period of delay as per sub-clause 14.8 of the General Condition of the contract. However, a sum of Rs.67.78 million had been paid during the year under review (11.03.2024 and 29.06.2024) by the Project to the contractors on packages RDA/MFAP/ICB/SFD-2/02A and RDA/MFAP/ICB/SFD-2/03 with delay in payments to the contractor range 70 to 570 days. Although it was recommended by Auditor General to conduct a formal investigation on above matter from previous year audit reports, it was observed that the	As stated in the Audit Report, a significant portion of the interest was incurred due to delays in donor disbursements. For Package RDA/MFAP/ICB/SFD-2/02A, Rs. 38,665,957.46 was paid on account of delays in the approval of the Supplementary Agreement and donor payment delays. However, a committee will be appointed to carry out further investigations.	A formal investigation should be conducted regarding the delay and disciplinary actions should be taken as per Section 29 of Chapter XLV111 of the Establishment Code regarding losses incurred by the Government.

	payments had been made without implementing the recommendations of previous year audit report.		
(c)	According to Sub-clause 10.1 of the General Conditions of Contract, the works shall be taken over by the Employer when the works have been completed in accordance with the Contract. However, documentary evidence of taking over relating to A009 Kandy-Jaffna Road section from Katugastota to Alawathugoda (4+600km-15+570km), B541 Thampalagamam – Kinniya Road section from Thampalagamam to Surangal Junction and A001 Colombo-Kandy Road section from Peliyagoda to Kiribathgoda (5+860km-13+100km) had not been furnished to the audit.	The three roads mentioned in the Audit Report was completed latter part of the 2014 and handover the relevant Executive Engineer's office of RDA of the formal method and related maintenance works are being done by the Road Development Authority.	An effective documentation procedure should be followed.

3.3 Underutilized Resources

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	The Project had utilized only SAR 219.68 million equivalent to Rs.8,339.39 million from loan and Rs.748.70 million from local fund as at 31 December 2024 out of the total allocation of Rs.10,628.00 million equivalent to SAR 225.00 million for the project period of more than ten years commencing from June 2013. Although, the initial closing date of	It was decided to reconstruct Bridge No. 4/1 on the same road. Bids were invited for the reconstruction of Bridge No. 4/1; however, the award of the contract was delayed due to an appeal against the award decision. In the meantime, the scope of works was revised	Project should prepare proper action plan and budget and responsibilities should be fixed accordingly.

	project was 31 December 2016, it was observed that SAR 5.32 million had remained as unutilized even as at 31 December 2024.	owing to the removal of existing NWSDB pipes.	
(b)	The allocation made in the budget for the year under review was Rs.241.79 million and out of it, the Project had only utilized Rs.189.06 million during the year under review. Therefore, there was a saving of Rs.52.73 million or 21.8 percent as at 31 December 2024. Since it was observed that the budgeted allocation has not utilized an effective manner by the PMU.	According to the given allocation Rs. 241.79 Mn, it has been spent Rs.189.06 Mn. There is a saving due to non-commencement of Bridge No. 4/1 on Orugodawatta – Ambatale Road due to procurement delay.	Project should prepare proper action plan and budget and responsibilities should be fixed accordingly.

3.4 Progress of the Land Acquisition

Audit Issue	Response of the Management	Auditor's Recommendation
It was observed that the Project had not maintained a proper database regarding the land acquisition process and therefore, the extend of lands, the land lots to be paid compensation and compensation amount, the land lots to be acquired, the land lots to be paid delay interest and delay interst amount couldn't be verified in the audit.	The project has provided summarized data table including all requested information for the year and cumulative amounts for the audit for verification purpose	Action should be taken to maintain a proper database regarding the all details of land acquisitions 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.

3.5 Cadre Management

Audit Issue	Response of the Management	Auditor's Recommendation
According to the letter No. DMS/7777/MFAP dated 16 March 2024 issued by the Department of Management Services, the approved cadre for the Miscellaneous Foreign Aided Projects up to 31 December 2024 was 26 posts. However, it was observed that one Senior Engineer had been recruited beyond the approved cadre. Further, an Administrative officer, two Stenographers/Typists, an Office Aid and an Office Labour had been recruited without the approval of the Department of Management Services	It was approved 06 additional posts by Management Service Department letter No. DMS/7777/MFAP dated 2025.03.06	Approval should be taken before recruit additional cadre