

Head 117- Ministry of Highways

1. Financial Statements

1.1 Unqualified Audit Opinion

Audit of financial statements of the Ministry of Highways as at 31 December 2020, comprising statement of financial position as at 31 December 2020, financial performance statement and cash flow statement for the year ended 31 December 2020 was carried out under my directions in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with National Audit Act No 19 of 2018. A summary report containing my comments and observations on the financial statements of the Ministry of Highways was issued to the Chief Accounting Officer on 25 June 2021 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. Annual Detailed Management Audit Report relevant to the Ministry in terms of Section 11 (2) of the Audit Act was issued to the Chief Accounting Officer on 09 July 2021. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, financial statements give a true and fair view of the financial position of the Ministry of Highways as at 31 December 2020 and its financial performance and cash flow for the year ended 31 December 2020 in accordance with Generally Accepted Accounting principles.

1.2 Basis for Unqualified Audit 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.

1.3 Responsibility of the Chief Accounting Officer and the Accounting Officer on the Financial Statements

Chief Accounting officer is responsible for the preparation and fair presentation of these financial statement in accordance with Sri Lanka generally accepted accounting principles and provisions of the Section 38 of National Audit Act No. 19 of 2018 and for such internal control as determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In terms of Section 16 (1) of the National Audit Act No. 19 of 2018, the Ministry shall maintain proper books and records of its income, expenses, assets and liabilities in order to prepare annual and periodic financial statements.

In terms of Sub section 38 (1) (c) of the National Audit Act, the Chief Accounting Officer shall ensure that an effective internal control system is developed and maintained for the financial control of the Ministry and shall periodically review the effectiveness of the system and make any necessary changes to keep the system running effectively.

1.4 Auditor's Responsibility in Audit of 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 General summary 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 internal control of the Ministry.
- Evaluate the 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.
- 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.

1.5 Report on other legal requirements

I declare the followings, in terms of Section 6 (1)(d) of the National Audit Act No 19 of 2018.

- (a) Even though financial statements had been submitted under the Ministry of Highways, Road Development and Petroleum Resources Development in the previous year, financial statements for the year under review were submitted under the Ministry of Highways. Accordingly, it cannot be stated that the financial statements are consistent with the previous year.
- (b) The recommendations made regarding the financial statements of the previous year relevant to the Highways Division had been implemented in the financial statements of the year under review.

2. Financial review

2.1 Expenditure Management

Audit observations revealed with regard to the preparation of annual budget estimates, transferring provisions, obtaining provisions through supplementary budget estimates and utilization, utilization of provisions and savings, were stated below.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
(a) Due to weaknesses in preparing estimates of the Ministry, a variance ranging from 25 per cent to 1750 per cent was prevailed between initial expenditure estimates and revised expenditure estimates.	It had affected 17 reasons for the variance between initial expenditure estimates and revised expenditure estimates such as COVID 19 pandemic situation, non-generation of expenditure as expected, unforeseen expenditure, prolonged closure of ministers' quarters, unforeseen expense incurred for changing and fixing ministry nameplates, approval of provisions than requested and under-approval of provisions.	Expenditure estimates of the year should be prepared with a proper forecast without making regular revisions.
(b) Estimates had been prepared without proper forecasting relevant to 17 objects for which aggregated net provisional	Reasons such as COVID 19 pandemic situation, not arising expenditure as expected, prolonged closure of ministers' quarters, not accounting interim	Expenditure estimates should be prepared with proper forecasting.

value amounting to Rs.29.63 million being made and as a result, aggregated net provisional value amounting to Rs.14.43 million ranging from 25 per cent to 72 per cent had been saved.

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| <p>(c) Out of provisions amounting to Rs.51,575.99 million allocated for 20 objects for which budgetary provisions made by the Ministry, provisions amounting to Rs.45,388.06 million from 50 per cent to 100 per cent had been transferred to other objects through Financial Regulation 66/69 without incurring expenses for the relevant objects.</p> | <p>Reasons such as COVID 19 pandemic situation, not arising expected expenditure, closure of ministers' quarters, not incurring repairs, no provision required as decided to pay contracts and consulting services through bank loans, allocations approved exceeding the requested amount and inadequacy of allocations had affected for this.</p> | <p>Budget estimates should be prepared only for accurately identified expenditure requirements.</p> |
| <p>(d) Out of additional provisions with a total value of Rs.22,838.64 million obtained under transfers as per the Financial Regulation 66/69 relevant to 17 objects, a sum of Rs.19,296.68 had not been utilized and as a result, 50 per cent to 100 per cent of provisions had been saved .</p> | <p>Reasons such as expected bills not being presented for payment on time, not incurring expenses as expected, paid IPCs not taking in to accounts, not receiving sufficient imprest, and delay in completion of works due to COVID 19 pandemic had affected.</p> | <p>Same as above</p> |

2.2 Entering into Liabilities and Commitments

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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<p>(a) Since action had not been taken to check liability registers regularly and settle as per F.R. 214, the total</p>	<p>Unsettled liabilities amounting to Rs.6,477 million had been saved due to non-receipt of the correct amount of imprest funds on time which were</p>	<p>Should comply with the Financial Regulation 214.</p>

value of unsettled liabilities due annually from the Treasury. and commitments as at 31 December 2020 was amounted to Rs.6,477 million.

- (b) Even though as per the Financial Regulation 94 and Public Accounts Circular No. 255/2017 dated 21 April, 2017, except where otherwise provided for, no liability shall be entered exceeding provisions in annual estimates, liabilities had been made up to Rs.91.5 million exceeding the total provision.
- It was noted not to make such mistakes in the future.
- Action should be taken as per the Financial Regulation 94 and Public Accounts Circular No. 255/2017 dated 21 April, 2017.

2.3 Deposits

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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Even though as per the Financial Regulation 571(3), money held in suspense in a deposit account pending receipts of particulars, should be credited to the proper account or to revenue, under the circumstances, or refunded as soon as possible, deposits of the Ministry with an aggregated value of Rs.310,719 between 2 to 5 years and deposits amounting to Rs.25,000 over 5 years had been retained in the general deposits account even as at 31 December 2020.	It had been transferred to Government Revenue in January 2021 with the recommendation of the Project Director.	Action should be taken to settle without delay as per the Financial Regulations.

2.4 Non-compliance with laws, rules and regulations

The instances of non-compliance with the provisions of the laws, rules and regulations observed during sampled audit tests were given below.

References to Laws, Rules and Regulations	Observation Non-compliance	Comments of the Chief Accounting Officer	Recommendation
(a) Financial Regulation No.760 of the Democratic Socialist Republic of Sri Lanka	Action had not been taken in accordance with financial regulations with regard to deficiencies and surpluses revealed in the annual stock verification.	Relevant divisions had been informed through letters regarding deficiencies and surpluses revealed in the reports of annual stock verification.	Should comply with Financial Regulations.
(b) Paragraph 02 (ii) of the Asset Management Circular No. 02/2017 dated 21 December 2017	Although action should have been taken to register the vehicles in the name of the new Ministry when the Ministry was transferred, action had not been taken in accordance with the circular instructions regarding 25 vehicles of the Ministry.	It was noted to act accordingly in the future.	Should comply with circular instructions.

2.5 Imprest Balance

The following observations are made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
(a) According to the detailed consolidated trial balance of the Ministry, imprest received from the treasury was amounted to Rs.53,516,251,279 and the imprest settled to the treasury was amounted to Rs.2,137,785,708. Accordingly, even though imprest received should be Rs.51,378,465,571 in the statement of financial performance, it had been stated as Rs.53,516,251,279.	As per your instructions, it was noted to deduct the value of imprest settled to the treasury from the imprest received from the treasury and include as imprest received in the Statement of Financial Performance in future.	The value of imprest received from the treasury should be properly stated.

- (b) Even though in the statement of financial performance adverse imprest balance as at 31 December 2020 should be Rs.174,921,023,403, it had been stated as an adverse balance of Rs.172,779,963,645 which was less than Rs.2,141,059,758.
- In future, action will be taken to depict the value of imprest received from the treasury by reducing imprest settled to the treasury in the statement of financial performance.
- Statement of financial performance should be prepared in terms of the circular.

3. Operational review

3.1 Not Achieving Expected Outcome

The following observations are made.

Audit observation -----	Comments of the Chief Accounting Officer -----	Recommendation -----
(a) According to the revised action plan for the year 2020, it had been planned to achieve 100 per cent of physical targets relevant to maintenance activities of national highways with an extent of 12,225 kilometers, nearly 4,254 bridges, and 12 flyovers by the Road Maintenance Trust Fund. However, sand sealing of 307 kilometers covering 07 provinces only had been done during the year under review.	In the year 2020, sand sealing, covering cracks, laying asphalt had been carried out under periodic maintenance on selected sections of roads with 307 kilometers.	The roads expected to be maintained during the year should be classified and identified precisely.
(b) According to the revised action plan, out of the 8 activities of the Traffic Management Project, only the improvement of the road signal system at the Pannipitiya flyover junction, the preparation of the Pannipitiya pedestrian crossing and the preparation of the pedestrian crossing near the University of Kelaniya were implemented.	All of the above projects were delayed due to the COVID-19 pandemic periods in the first quarter of 2020, due to production delays and non-receipt of TLS devices from China.	Necessary action should be taken to achieve the targeted physical progress.
(c) Although it had been planned to acquire 347 plots of land and resettle 330 families during the year 2020 under the Elevated Highway Project from New Kelani Bridge to Athurugiriya via Rajagiriya, only 97 lots of land had been	The pandemic situation across the country had led to the inability to achieve the expected physical progress in the year 2020.	Necessary action should be taken to achieve the targeted physical progress.

acquired and no one had been resettled. Further, out of the expenditure amounting to Rs.75.95 million incurred on this project during the year under review, a sum of Rs.69.84 million had been spent on the Project Management Unit.

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| (d) The performance level of the programme could not be measured as the physical targets had not been decided under the Road widening and Improvement Programme as per the action plan. | Due to the COVID 19 pandemic in 2020, contractors were unable to carry out construction works as usual. | The physical targets to be achieved during the year should be determined precisely. |
| (e) Under the programme of Reconstruction/ repair of damaged/ dilapidated bridges on National Highways, only 19 out of 50 bridges to be rehabilitated during the year under review had been completed. | It is informed that due to the lack of funds received and the pandemic situation, the progress of the construction works has been reduced. | Necessary action should be taken to achieve the targeted physical progress. |

3.2 Foreign Funded Projects

3.2.1 Second Integrated Road Investment Program

The following observations are made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
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(a) Even though according to the initial plan of the program, it had been expected to rehabilitate 340 km of 27 national roads and 3400 km of 1405 rural roads in the Northern, Eastern, Uva and Western provinces under 53 packages, contracts were awarded only for the rehabilitation of 319.96 km of 27 national roads and 3,313.16 km of 1,349 rural roads as at 31 December 2020.	Agreed.	Necessary action should be taken to adhere to the initial plan of the program and to achieve the targets with the time limit.
(b) Out of the rehabilitation works awarded, 13 rural roads with a total length of 25.05 km had been completed and handed over to the Road Development Authority as at 31 December 2020. Further, out of the remaining roads currently being	Agreed.	Necessary action should be taken to achieve the expected target of the program.

rehabilitated, only 39.97 km of national roads and 731.62 km of rural roads had been completed as at 31 December 2020. Accordingly, the progress of the awarded national and rural roads was only 21.93 per cent of their length.

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| <p>(c) During the year under review, commitment charges amounting to Rs.243.48 million had been paid uneconomically to the Donor Agency on the unutilized amount of loans and the cumulative commitment charges as at 31 December 2020 was amounted to Rs.449.51 million.</p> | <p>According to the agreement, it was charged by the Asian Development Bank.</p> | <p>Action should be taken to utilize the expected total loan amount in a planned manner.</p> |
| <p>(d) According to the Construction Industry Development Act No. 33 of 2014, every foreign contractor must obtain a temporary registration with the Construction Industry Development Authority as a contractor before engaging in identified construction work in Sri Lanka. However, despite these requirements, the project had awarded contracts to 09 contractors.</p> | <p>The Asian Bank Guidelines do not contain these conditions and the contractors had been registered separately with the Construction and Industrial Development Authority.</p> | <p>Contracts should be awarded in accordance with the provisions of the Construction Industry Development Act No. 33 of 2014.</p> |
| <p>(e) According to the specific contract conditions of the program, the minimum value of the interim payment certificate to be submitted by the contractor should be 1.5 percent of the accepted contract value. However, 259 interim payment certificates with a value less than the minimum limit had been evaluated during the year under review.</p> | <p>Required performance was not reached due to COVID 19 pandemic, bad weather, difficulties in procuring the raw material and the client had agreed to pay a minimum value of less than 1.5% of the contract value when paying interim payment certificates for maintaining the cash flow of the contractors.</p> | <p>The contract terms must be adhered to minimize costs, time and unnecessary benefits of contractors.</p> |
| <p>(f) Although the contractors were required to provide performance guarantees at their own expense, obtaining performance guarantees was included as a separate pay item in the Bill of Quantities of the contract and a sum of Rs.85.64 million had been paid for that.</p> | <p>The pay item of providing cost of performance guarantees had been removed in the Bill of Quantities of contract packages in Western, Eastern and Northern Provinces.</p> | <p>Action should be taken to recover the loss incurred for the program.</p> |

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| (g) Due to misinterpretation of pay items and due to discrepancies in charges between engineering estimates, bidding documents and bill of quantities, a loss of Rs.48.2 million had been incurred to the Project as at 31 December 2020 relevant to 02 contract packages. | According to the Asian Development Bank's procurement guidelines, this change does not exceed the changing limit of competitive units (rates) and thus cannot be reviewed or reduced. | Action should be taken to recover the loss incurred for the program. |
| (h) Even though all the laboratories, furniture and survey equipment had been returned to the contractor at the end of the Project as per the terms of the contract, a sum of Rs.609 million had already been paid for that, providing an additional benefit to the contractors. | The residual value of these assets are deducted from the contract amount. It will also make it problematic for the Road Development Authority to stockpile obsolete and unusable items if they are taken over by the Road Development Authority. | Action should be taken to amend unfavorable contract terms. |
| (i) It had been added 06 new roads to rehabilitate in the Eastern Province and the project has not disclosed to the audit whether it has obtained the concurrence of the Asian Development Bank and the Department of National Planning in this regard and the awarding and approval strategy of those contracts. | Newly added roads in the Eastern Province had been submitted to the Asian Development Bank for approval. | The scope should be changed only after the concurrence of the lending agency and the Department of National Planning. |
| (j) According to the information submitted to the audit, although the contractors were required to commence civil works immediately upon awarding the contract packages, the commencement of civil works on 37 packages had been delayed by 30 to 203 days from the date of awarding the contracts and the reasons for such delay were not explained to the audit. | In cases where the contractor is unable to comply with the contract program, the engineer of the contract acts according to the terms of the contract. | Steps should be taken to commence civil works immediately after the contract is awarded. |
| (k) According to the Facility Administration Manual of the Project and the Paragraph 9 of the Management Services Circular No. 01/2019 of 05 March 2019, the Project Steering Committee and the Provincial Coordinating Committees should be | Project Steering and Coordinating Committees are active in all provinces and hold regular meetings, which have been disrupted since March 2020 due to the COVID pandemic. | All steering committees should be held with an optimal quorum. |

held at least quarterly. However, neither of these committees had held with an optimal quorum.

- (l) Even though according to the Public Contracts Act No. 3 of 1987, it has to be registered for government contracts exceeding Rs.5 million as per the Act, that requirement had not been considered by the Project when evaluating the technical bids of relevant bidders. It had been considered whether registered under the Public Contract Act No. 03 of 1987 and this was not considered as an ineligibility as per the Asian Development Bank guidelines. Bidders and the awarding contract should be registered in accordance with the Public Contracts Act.
- (m) Even though according to the Section 5.3.13 (a) (i) of the Procurement Guidelines 2006, the value of bid security should be 1 to 2 per cent of the estimated contract value, the value of bid securities provided by the bidders did not comply with the above requirement of the guideline. Further, according to the Subsection 7.8.4 (b) of the Guidelines, insufficient bid security is a major deviation for rejection and hence the accuracy of the bid evaluation process was problematic during the audit. The value of bid security ranges from 1 per cent to 2 per cent of the estimated value and contractors were informed to pay a specific bid security amount. All bidders have provided securities in accordance with the bid file. If there is a change in the time or price of the security, 7 days has been given to resubmit. Sufficient bid securities should be obtained from bidders in accordance with the Procurement Guidelines.
- (n) As at 31 December 2020, there were 70 vacancies in the program and these vacancies mainly consist of essential posts such as Senior Engineer, Coordinating Engineer, Project Engineer, Project Accountant, etc., which have a direct impact on the performance of the Project. The Second Integrated Road Investment Program is an extension of the Integrated Road Investment Program itself, and allocations had been provided under the same object for both projects. The officers involved in the procurement, engineering, financial and administrative duties of the Integrated Road Investment Program also work in the Second Integrated Road Investment Program and the operation of the project had not been interrupted. Vacancies in the program should be filled as needed to maximize performance.

3.2.2 Integrated Road Investment Program

The following observations are made.

Audit observation -----	Comments of the Chief Accounting Officer -----	Recommendation -----
(a) Even though it was expected to rehabilitate 218.19 km of National Highways and 3,106.10 km of rural roads in Southern, Central, Sabaragamuwa, North Western, North Central Provinces and the Kalutara District of the Western Province, contracts for 104.13 km of national roads only had been awarded as at 31 December 2020.	The contract agreements of 12 packages, which had a poor performance in the Integrated Road Investment Program, had been terminated and out of them, contracts were awarded for 5 packages in the year 2020.	Necessary action should be taken to work in accordance with the initial plan of the program and to fulfill the targets with the time limit.
(b) As at 31 December 2020, rehabilitation work of 2,203.87 km of rural roads in the Southern, Sabaragamuwa, Central, North Central and North Western Provinces and in the Kalutara District of the Western Province had been completed and handed over to the Road Development Authority. Further, rehabilitation of 1,000.43 km of rural roads relevant to 12 contract packages had been abandoned as at 31 December 2020.	It was decided to terminate 12 contract packages that continue to perform poorly.	Necessary action should be taken to achieve the expected target of the program.
(c) Out of the 12 abandoned contract packages, the remaining works of 05 contract packages had been re-awarded during the year under review to carry out through these projects and the value of the re-awarded contracts had been increased by Rs. 5,007 million when compared with the initial contract price. Due to this poor project management, the government had to incur additional costs.	This is mainly due to the poor project management of the contractor and the commencement of road construction work in the respective areas, which has led to a huge increase in the cost of construction materials.	Necessary action should be taken to achieve the expected target of the program and formal action should be taken against weak project operations units.
(d) An agreement had been signed during the year under review to complete the remaining work of the 04 abandoned contracts through 100,000 km of rural road development program and the	Existing price fluctuations are also taken into account and higher prices may be offered when entrusting this work to another contractor.	Steps should be taken to complete the construction without further delay and additional cost and

- value of those contracts had been increased by Rs. 580.14 million when compared with the initial contract price. Accordingly, undue financial benefit had been given to the same failed contractor by providing the opportunity to carry out this contract through another similar project.
- Since the procurement process also takes a lot of time, there is no undue financial benefit in awarding to this contractor. formal action should be taken against the weak project operational units.
- (e) Out of the 12 abandoned contract packages, 03 contract packages had been completed in the year 2019 and any step had not been taken to continue the remaining work up to 31 December 2020. It had been informed the contractor on a number of occasions to continue work of one package only and action will be taken in this regard in the future. Necessary action should be taken to achieve the expected target of the program.
- (f) Action had not been taken to recover performance bonds with a value of Rs.2,668.47 million relevant to the 12 contract packages abandoned by the program, even by the end of the year under review. The contractors had obtained court orders to stop it. Action should be taken to recover outstanding money.
- (g) During the year under review, commitment charges amounting to Rs.290.81 million had been paid uneconomically to the Donor Agency on the unutilized amount of loans and the cumulative commitment charges amounting to Rs.1,471.26 million had been paid as at 31 December 2020. Commitment charges are charged as per the agreement and it is not possible to utilize the loan at once. The loan agreements have been concluded even before the agreed time period. Action should be taken to implement the expected tasks in optimum manner as per the initial plans of the project, and to utilize the total loan amount expected to be disbursed.
- (h) The project had failed to recover mobilization advances amounting to Rs.1,830 million receivable relevant to 08 terminated contract packages. Accordingly, the total unrecovered mobilization advance relevant to 12 packages including 04 abandoned packages was amounted to Rs. 2,793 million as at 31 December 2020. The contractors have obtained court orders. Action should be taken to recover outstanding money.
- (i) A cost of Rs.158.2 million had been borne as at 31 December 2020 by other 02 active contract packages for the completion of the emergency work related to the 05 contract packages. Emergency work had been completed by assigning to 02 active contractors and the payments made had been included in the Action should be taken to recover the additional expenses from the relevant contractors.

abandoned in the North Western Province in the year 2019 and for making the roads motor able condition.

3.2.3 Extension of Southern Expressway Project- General

The following observations are made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
(a) After the 46 km stretch of the Southern Expressway, there is no service area for expressway users. Therefore, providing services to passengers travelling 176 km from Welipenna to Hambantota was in a problematic situation.	The bank was informed. But the EXIM Bank of China has refused to fund the second service area.	Required provisions should be get arranged for the construction of service areas for the Southern Expressway Extension Project.
(b) In Sections 3 and 4 of the Southern Expressway Extension Project, the International Roughness Index of the Expressway is expected to be in the range of 1.5 - 2.3 m / km. Even though those indicators have been achieved as per technical tests, the smoothness in some parts of the Expressway was not adequate to maintain the good running condition of motor vehicles.	There is no problem with accepting IRI measurements on the expressway according to the specification.	Necessary arrangements should be made to ensure the running condition of the vehicles when preparing the technical specifications.

3.2.4 Extension of Southern Expressway Project- Section 01

The following observations are made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
(a) Although the defect notification period and the loan period ended on 08 November 2020, based on the decision dated 10 November 2020, it had been commenced to construct a partial interchange at a cost of Rs.459.8 million in the Kapuduwa area, which was not identified as a construction area of an interchange in the Feasibility Study Report. If this interchange had been identified at the planning stage, the cost of this could have been minimized.	Subsequent construction of this interchange without identifying at the planning stage, did not incur additional costs.	All requirements should be considered in future project planning.

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| <p>(b) Due to the change in the scope of construction of the new interchange even after the defect notification period, an additional cost of Rs.21.38 million for consultancy services and Rs.17.05 million for project management had to be incurred up to 31 December 2020. Budgetary provision or any financial arrangement had not been made for this construction for the year 2021.</p> | <p>Agreed.</p> | <p>Required financial provisions should be arranged to complete the construction within the expected time.</p> |
| <p>(c) Due to ambiguous interpretations of the contract documents and the engineering instructions provided to the contractor, the specifications of the concrete class used for piling and non-piling structural work have changed. As a result, an additional payment of Rs.129.11 million had to be made to the contractor as an interest payment due to increase in costs and delay or deferral of payment as per the decision of the Dispute Adjudication Board.</p> | <p>This payment was made under the decision of the Dispute Adjudication Board established under Clause No. 20.2 of the Contract Agreement and the Amicable Settlement Procedure under Contract Condition No. 20.5.</p> | <p>Project management and supervision should be carried out in a precise manner.</p> |
| <p>(d) Even though the facility buildings had been constructed on a permanent basis at a cost of Rs. 185 million, an initial plan for the intended use of those buildings had not been decided. Further, a proper plan for the expected utilization of those buildings at the end of the project had not been prepared even by the audited date of 05 February 2021.</p> | <p>It has been planned to use these buildings for the Expressway Operation, Maintenance and Management Division.</p> | <p>When constructing permanent buildings for the project activities, there should be an initial plan of the intended use of those buildings at the end of the project.</p> |
| <p>(e) Even though the defect notification period of the Project ended on 08 November 2020, the re-exporting process relevant to tax free imports of equipment, machinery, vehicles, materials, accessories and unused re-exportable goods imported under 447 invoices until the audited date of 03 February 2021 with a value of U.S. \$ 35,868,363, had not been completed.</p> | <p>Goods related to 5 invoices have been re-exported. The contractor has requested the approval to dispose the goods related to the rest of invoices locally after paying the due tax. Relevant applications have already been submitted to the Fiscal Policy Department of the Ministry of Finance.</p> | <p>Action should be taken to complete the re-exporting process.</p> |

3.2.5 Extension of Southern Expressway Project- Section 02

The following observations are made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
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(a) At the time of opening of the Expressway to the general public, a sum of Rs.100.83 million had been incurred for the construction of a temporary interchange at the Bedigama area which was not identified as a construction area of an interchange in the Feasibility Study Report.	As the construction of the new Bedigama Interchange will take more time, the approval of the Secretary to the Ministry of Roads and Highways was obtained for the construction of a temporary interchange at Bedigama to serve the road users.	All requirements should be considered in future project planning.
(b) The contractor had obtain extraordinary benefits by retaining equipment with a value of U.S. \$ 10,363,385 without re-exporting or paying taxes. These equipment had been imported by the Section 03 of the Extension of Southern Expressway Project and to be re-exported at the end of this Project.	The Contractor was able to regain the lost progress of the Southern Expressway Project – Section 02 by utilizing the equipment and machinery imported for Section 03 of the Southern Expressway Project.	Action should be taken to complete the re-exporting process or to pay the relevant taxes.

3.2.6 Extension of Southern Expressway Project- Section 03

The following observation is made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
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Even though the contractor had to remove the remaining garbage, debris and waste material of temporary work from the site until the performance certificate was received, the iron straps and beams used for the temporary bridge used for the constructions across the Walawe River had not been removed, causing blockage to flow river water.	At the District Coordinating Committee meeting, the public requested to keep the temporary bridge over the Walawe River.	Action should be taken to remove the debris so that it does not block the flow of water in the river.

3.2.7 Extension of Southern Expressway Project- Section 04

The following observations are made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
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(a) Even though buildings valued at Rs.106 million had been constructed on a permanent basis for the Project, an initial plan for the intended use of those buildings at the end of the Project, had not been prepared. Although the Project Director proposed to use the premises as a Capacity Building Center of the Road Development Authority on 19 October 2019, the Board of Directors had not approved it even by the audited date, 08 January 2021.	Buildings have been used for various purposes of the Road Development Authority. The remaining buildings have been earmarked for the establishment of a Capacity Development Center for the Road Development Authority and the approval process is underway.	When constructing permanent buildings for the project activities, there should be an initial plan of the intended use of those buildings at the end of the project.
(b) There were 03 dispute claims of the Project amounting to Rs.509 million still open for arbitration. Although 06 months had expired after the end of the defect liability period of the Project, the contractor's claim could not be finalized.	Notices of dissatisfaction had been issued by the contractor for two of the three disputed claims about a year ago. The notice of dissatisfaction for one dispute claim was made on 13 October 2020.	After issuing a notice of dissatisfaction, a specific time limit should be included in the Specific conditions for the commencement of the arbitration.
(c) Even though a sum of Rs.1,873,300 has been spent for the construction of two additional weighbridges for toll gates at Mattala and Magampura interchanges under a variance order, they have not been used even up to the audited date of 06 January 2021 despite about 10 months had elapsed after the construction.	Two weighbridges were constructed at the Mattala and Magampura interchanges due to the proximity of the airport and the port, which necessitated the inspection of heavier vehicles.	Action should be taken to utilize all the constructions.
(d) Even though a sum of Rs.3,000 million had been allocated for construction of a Bus and Rail Transit Terminal, no action had been taken to build the terminal. The relevant proposal had been rescinded and included in a revised Bill of Quantities for the purpose of using	Since the Urban Development Authority had not given its approval for the construction of this railway and bus terminal, it was not implemented and the money was saved at the end of the Project without spending for any other purpose.	Bill of Quantities should be properly evaluated.

the savings for another activity of the project.

3.2.8 Central Expressway Project- Section 03

The following observation is made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
Civil works contracts had not been awarded since the year 2013 and up-to-date and a sum of Rs. 833.83 million had been incurred up to 31 December of the year under review for the Project Management Unit.	A sum of Rs.222 million, Rs.51 million and Rs.560 million had been paid for the project management units of Section I, Section II and Section III of the Central Expressway respectively.	Every step should be taken to expedite construction.

3.2.9 Central Expressway Project- Section 04

The following observation is made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
While not having a funding agency from the year 2016 up-to-date and no civil work contract being awarded, a sum of Rs.352.72 million had been spent for the project management unit.	A sum of Rs.252.8 million for salaries and wages, Rs.52.1 million for vehicle maintenance, Rs.9.4 million for land acquisition, Rs.10.73 million for building rent and maintenance and Rs.27.7 million for utility expenses such as electricity, water and telephone, had been paid.	Every step should be taken to expedite construction.

3.2.10 Outer Circular Expressway Project- Phase III

The following observations are made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
(a) Sixty four items with a value of Rs.2,506 million included in bills of quantities had not been implemented entirely and other 11 items with a value of Rs.3,721 million had been done less than 50 percent. Also, the	Various reasons had affected for these changes.	When estimating the total cost, all costs should be taken into account and done as accurately as possible.

actual cost of some of the other items estimated had been changed from 51 percent to 2,353 per cent.

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| <p>(b) When 85 percent of the construction work of the expressway had been completed, the road was suddenly opened to the public on 09 November 2019. Due to the expiration of the loan agreement of this Project on 03 December 2019, the remaining construction work of the Project could not be completed and the outstanding money amounting to Rs.965 million payable to the construction company could not be settled.</p> | <p>According to the estimate of consultants for balance work, the physical progress was 95.6 percent as at 30 November 2019.</p> | <p>When implementing project plans, every step should be taken to complete the construction work within the loan agreement period.</p> |
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3.2.11 Port Access Elevated Highway Project

 The following observation is made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
<p>This Project had been commenced in 2016 and the loan agreement had been signed on 17 January 2019. Even though this Project is scheduled for completion in 2025, several major tasks had been delayed by more than a year at the commencement of the Project. The awarding of the road construction contracts had taken place on 30 August 2019, 08 months after the signing of the loan agreement. Although the expected progress as at 31 December 2020 was 53 per cent, only 23 per cent had been achieved. Further, 08 tasks planned to be commenced from Rs10,382 million had not been commenced during the year under review. As a result, 73 per cent of the allocation for foreign loans amounting to Rs.5,858 million for the year 2020 could not be used.</p>	<p>The preparation of designs and bid documents and bidding process of the Project had been implemented under the ADB Technical Assistance Loan namely Transport Project Preparatory Facility (TPPF) commenced in October 2016. The main reason for construction delays was the poor performance of the contractor.</p>	<p>Action should be taken to expedite delayed construction contracts to achieve the expected progress and plans should be prepared and implemented so that the funds allocated from the annual budget can be fully utilized.</p>

3.2.12 Southern Road Connectivity Project

The following observation is made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
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After the commencement of Road construction work at a cost of Rs.3,064 million under the Package 2 of this Project, initial construction work had been changed by introducing variable orders amounting to Rs.1,573 million or 51 per cent of the total cost. Although variable orders were later introduced and the original construction work was modified, the necessary approvals had not been obtained under Section 8.13.4 of the Procurement Guidelines 2006.	Necessary approvals have been obtained for increased cost through variation orders under the Package 2 of this Project.	Necessary approvals should be obtained in accordance with the Procurement Guidelines.

3.2.13 Padeniya Anuradhapura Road Improvement Project

The following observation is made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
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The winding up accounts of the Project of which constructions had been completed on 30 November 2012, had been prepared as at 31 December 2020, and the required provisions for further expenditure of Rs. 9.6 million to be borne for land acquisition had not been made in the winding up accounts.	At the time of preparation of the financial statements of the Project as at 31 December 2020, the Regional Offices were asked whether the relevant land compensation and interest were to be paid, but as the relevant amount could not be found, it was not possible to indicate whether there were any further expenses to be incurred in the financial statements prepared as at 31 December 2020.	Provisions required for further expenses for land acquisition should be stated in those winding up accounts.

3.2.14 Landslide Disaster Protection Project of the National Road Network

 The following observations are made.

Audit observation -----	Comments of the Chief Accounting Officer -----	Recommendation -----
(a) During the implementation of the Project, vehicles procured by the contractors, buildings constructed as operating offices, and computer equipment, office equipment, electrical equipment and operating equipment valued at Rs.369.6 million had been included in the cost of civil works itself and had not been recognized and accounted separately from the principal work in progress.	The project will be completed in the year 2021 and the final accounts are already being prepared for the audit. Action will be taken to account that value accordingly.	Relevant non-current assets should be accounted separately.
(b) Maintenance equipment valued at Rs.23.08 million purchased by the Project for the operation of a maintenance unit, had been stored in various places due to the unit not being started to date.	The Landslide Management Unit established at Badulla 2nd Mile Post by this Project, handed over the relevant equipment to the Provincial Director (Uva) and to the Executive Engineer, Badulla of the Road Development Authority.	Maintenance equipment should be used for the relevant purposes.

3.3 Locally Funded Projects

 The following observation is made.

Audit observation -----	Comments of the Chief Accounting Officer -----	Recommendation -----
It had been planned to complete the development of 15,000 km of roads during the year under review through the Project initiated with the objective of developing 100,000 km of alternative roads and rural roads to increase accessibility to the National Highways and Expressway Network. However, out of that, only 852 roads covering 1,070 km had been developed. Accordingly, the performance of this Project was at a low level of about 7.1 percent.	Due to shortage of raw materials, shortage of machinery, delays in payment, Corona pandemic, by the end of the year 2020, about 1070 km of construction work has been completed and about 4,518 works are in progress.	Construction contracts should be expedited to achieve the expected progress.

3.4 Asset Management

The following observations are made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
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(a) Although as per the National Budget Circular No.07/2019 dated 04 December 2019 issued by the name of Management of Public Expenditure and Maintenance of Financial Discipline, it had been stated that every effort should be taken to utilize available resources of expenditure units to avoid idle cost, out of the vehicles possessed by the Ministry, 11 vehicles in a usable condition had been parked unsafely without being used for several years.	It had been identified 06 vehicles belonging to the Ministry for disposal and they were not used for running. One of the vehicles was taken for disposal on 10 January 2021. Actions were taken to dispose other vehicles, but it was later decided to repair and use the vehicles for future requirements as new vehicles would not be imported for a long time. Accordingly, the approval of the Secretary to the Treasury has been sought to repair and use the vehicles effectively.	Action should be taken to strengthen the internal control system related to property, plant and equipment.
(b) The Ministry owned vehicle bearing No. KQ-0690 with a value of Rs.16 million had been handed over to Maga Neguma Road Construction Equipment Company since 18 November 2020.	The vehicle was handed over to the relevant company for repair and use as it is not suitable to park the vehicle idle as the provisions of the Ministry were limited for the significant major repairs required to bring the vehicle into operation.	Same as above.
(c) Even though 102 items of office equipment valued at Rs.3,379,991 had been given to the State Ministry of Rural Roads and Other Infrastructure during the year under review, action had not been taken to remove those assets from the books.	The relevant valuation committees had been appointed and as per the recommendation of the committee, office equipment valued at Rs.2,515,881 had been transferred to the State Ministry of Rural Roads and Other Infrastructure by the order issued on 23 April 2021. It is kindly informed that it will be deducted from the books in the future upon receiving the order receipt.	Same as above.

3.5 Security Deposits of the Public Officers

The following observation is made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
According to the Financial Regulation 880 (i) and the Public Officers (Security) Ordinance (Cap.612), only 02 of the officers required to furnish security deposits in the Ministry, have furnished security deposits.	According to the Financial Regulation 880 (i) and the Public Officers (Security) Ordinance (Cap.612), 02 officers of this Ministry, have furnished security deposits.	Should comply with Financial Regulations.

4. Preparation for the Targets of Achieving the Sustainable Development Goals

The following observations is made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
Programmes to be implemented to achieve the Sustainable Development Goals had not been included in the Annual Programme. But targets and indicators relevant to 03 Sustainable Development Goals only had been stated in the Annual Performance Report and a progress had not been specified relevant to those indicators.	Annual Performance Report indicates specifically the physical progress of the development projects implemented to achieve the goals and related targets and indicators identified in the year 2020.	In order to achieve the sustainable development goals of the annual programme, the programs that need to be implemented should be specified and properly evaluated to achieve them.

5. Human Resource Management

5.1. Expenditure for Attached Staff, Actual Staff and Personal Salaries

Audit observation	Comments of the Chief Accounting Officer	Recommendation
Even though there were 100 vacancies of Development Officers, a secondary level post, the Ministry had released 79 Development Officers who had been recruited to the Ministry for the duties of the Regional Offices of the Road Development Authority which are not	Based on a policy decision of the Government, 365 Development Officers had been assigned to this Ministry in the year 2013 and the cadre approval had been obtained for that.	Action should be taken to revise the approved cadre as per the actual staff requirement of the Ministry and fill the relevant vacancies accordingly.

directly related to the role of the Ministry. A sum of Rs.43,813,443 had been paid to those officers during the year under review by the Ministry. Further, 28 officers recruited to the Road Development Authority and 02 officers from projects had been released to the Ministry during the year under review. Accordingly, the cadre had been approved without a proper evaluation regarding the service requirements and disregarding the service requirement recommendations.

Due to repeated requests from the Management Services Department to reduce this number, it has now been possible to reduce that number to 220.

5.2. Lack of Proper Planning of Human Resource Development

Audit observation	Comments of the Chief Accounting Officer	Recommendation
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<p>Even though it had been planned to implement 30 major training programmes for the year under review, only 03 out of 196 officers in the cadre had been participated for 03 programs mentioned in the plan during the year under review.</p>	<p>Due to the unexpected outbreak of the COVID-19 pandemic in the country during the year 2020, the expected training plan for that year could not be implemented properly as the officers could not be assembled, brought in, etc.</p>	<p>In preparing the annual training plan, the estimated cost of each training programme, the number of officers participating, and the duration of the programme, should be accurately planned.</p>