

## **Head 117- Ministry of Highways**

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### **1. Financial Statements**

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#### **1.1 Qualified Audit Opinion**

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Audit of financial statements of the Ministry of Highways as at 31 December 2021, comprising statement of financial position as at 31 December 2021, financial performance statement and cash flow statement for the year ended 31 December 2021 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 15 June 2022 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 18 July 2022. 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, except for the effects of the matters described in the Paragraph 1.6 of this report, financial statements give a true and fair view of the financial position of the Ministry of Highways as at 31 December 2021 and its financial performance and cash flow for the year ended in accordance with Generally Accepted Accounting principles.

#### **1.2 Basis for Qualified Audit Opinion**

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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**

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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**

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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**

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

- (a) The financial statements are consistent with the previous year,
- (b) The recommendations which I made regarding the financial statements of the previous year had been implemented.

## 1.6 Comments on Financial Statements

### 1.6.1 Statement of Financial Position

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
According to the Asset Management Circular No. 01/2017 dated 28 June 2017, the capital expenditure incurred under the development of infrastructure object No. 2506 of the Ministry of Highways, had not been classified under assets and accounted in the year under review.	It was further informed to act according to the instructions received after discussing with the Department of National Budget and the Department of Public Accounts.	Capital expenditure should be classified and accounted under assets as per circular provisions.

## 2. Financial review

### 2.1 Expenditure Management

<b>Audit observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) The entire net provisional value of Rs.16,564.17 million allocated for 13 objects of the Ministry had been saved without utilizing any amount.	<p>The entire net provisional value allocated for 13 objects had been saved without utilizing any amount due to the following matters.</p> <ul style="list-style-type: none"><li>• Non-incurrence of expenses as expected.</li><li>• Control of purchases based on decisions of the Cabinet of Ministers.</li><li>• Not directing to staff training programmes due to the Covid pandemic.</li><li>• Due to delays in the procurement process, savings of provisions allocated to the object.</li><li>• Delay in payments due to delay in opening a bank account for the new project.</li><li>• Non-submission of bills as expected.</li><li>• Department of External Resources has not signed the loan agreement.</li><li>• Not receiving adequate imprest.</li></ul>	Expenditure estimates should be prepared with a proper forecast.

- (b) A variance ranging from 25 per cent to 35,000 per cent was prevailed between initial expenditure estimates and revised expenditure estimates.
- The variance ranging from 25 per cent to 35,000 per cent was prevailed between initial expenditure estimates and revised expenditure estimates due to the following factors:
- Expenditure estimates of the year should be prepared with a proper forecast without making regular revisions.
- COVID 19 pandemic situation
  - Abnormal rise in market prices.
  - Unexpected expenses arising.
  - Not incurring expected expenses.
  - Provisions were not sufficient to meet the expenses as the requested provisions were not approved sufficiently.
  - No need for foreign funding as contracts were awarded for payment from local funds.
  - Inadequacy of approved provision to cover overheads.
  - Lack of provision to pay for construction works due to non-receipt of requested provisions.
  - Increase in salaries and other overheads due to appointment of Project Consultancy Unit staff during the year.
  - Inability to award the tender due to non-completion of resettlement process of 41 families.
  - Inadequate budget allocation to pay outstanding bills.
  - Non-receipt of requested provisions to account unaccounted expenses despite payments were made in the year 2020.
  - Existence of outstanding bills for payment.
  - Additional provision has been requested due to increase in payable value of bills in land acquisition.
  - Inadequate budgetary provision to meet 100 percent of the project's foreign component due to appreciation of US dollar and new volatility issues.
  - Non-receipt of provisions

requested for Environmental Impact Assessment Study, Initial Study, Surveys and Project Management Unit.

- Not providing budgetary provisions for the fees charged at the opening of the loan account.
- No provision has been made in the budget for making payments related to the initial activities of the project.
- Completing initiated work items and prioritizing urgent work.

(c) Estimates had been prepared without a proper forecasting in relation to 72 objects for which aggregated net provisional value amounting to Rs.209,634.33 million being made. As a result, aggregated net provisional value amounting to Rs.122,762.98 million ranging from 25 per cent to 99 per cent had been saved.

Due to the following factors, the net provisions ranging from 25 percent to 99 percent had been saved relating to the objects for which provisions being made.

- Non-incurrence of expenses as expected.
- Controlling purchases.
- Having given provisions more than required.
- Covid 19 pandemic situation and bad weather.
- Non-arising of tax liability as planned.
- Non-utilization of the provision completely since the value issued by the Valuation Department for land compensation being less than the estimated value.
- Even though interim payment certificates have been submitted for payment, they have not been accounted as they have not been included in the disbursement report of the Department of External Resources.
- Non-receipt of expected bills and non-receipt of sufficient imprest.
- Deciding to terminate the contract and award new contracts due to slow progress of one contractor.
- Not doing consulting payment as planned.

Expenditure estimates should be prepared with proper forecasting.

- Delay in recruitment of staff for asset management project.
  - Causing delays in the procurement process.
  - Insufficient imprest for outstanding bills.
- (d) Provisions amounting to Rs. 117.2 million had been obtained through supplementary estimates for the object No. 117-2-4-54-2506 and out of that 83 percent which amounted to Rs. 97.20 million had been saved without incurring expenses.
- An agreement has been signed with the University of Peradeniya to prepare the environmental study report of the Project and the relevant field inspection activities could not be carried out properly due to the Covid pandemic situation. Also, approval was not received for the staff required to establish the project management unit related to the tunnel project and therefore, it was not possible to carry out the planned administrative expenses. Accordingly, provisions were saved.
- Budget estimates should be prepared only for accurately identified expenditure requirements.
- (e) Out of additional provisions amounting to Rs.2,138.26 million obtained under transfers as per the Financial Regulation 66/69 relevant to 8 objects, 100 per cent of provisions had been saved without incurring expenses within that object. Further, out of additional provisions with a total value of Rs.5,948 million obtained under transfers relevant to 8 objects, a sum of Rs.4,197.48 million had not been utilized and as a result, 50 per cent to 96 per cent of provisions had been saved.
- Out of additional provisions obtained under transfers as per the Financial Regulation 66/69 relevant to 8 objects, 100 per cent of provisions had been saved without incurring expenses within that object due to following matters.
- Not being able to achieve the expected progress due to the Covid-19 situation.
  - Even though interim payment certificates have been submitted for payment, they have not been accounted as they have not been included in the disbursement report of the Department of External Resources.
  - Non-receipt of sufficient imprest.
- Same as above.
- (f) Out of provisions amounting to Rs.51.38 million allocated for 5
- It was transferred to other objects due to the following matters.
- Absence of foreign travel due to
- Same as above.

objects for which budgetary provisions being made by the Ministry, 100 per cent of provisions had been transferred to other objects through Financial Regulation 66/69 without incurring expenses for the relevant objects.

the Covid-19 pandemic.

- Not incurring expected expenses.
- Foreign funds were not required as the contracts were awarded to be paid with local funds.

## 2.2 Entering into Liabilities and Commitments

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
Since action had not been taken to check liability registers regularly and settle as per Financial Regulation 214, the total value of unsettled liabilities and commitments as at 31 December 2021 was amounted to Rs.41,871.23 million.	Even though liability registers are checked regularly and a report on outstanding bills at the end of each month and imprest request letters are submitted to the Treasury Operations Department, due to non-receipt of sufficient imprest and foreign interim payment certificates submitted to the Department of External Resources for payment not being paid and accounted, outstanding bills remained to be paid and accounted as at 31.12.2021.	Should comply with the Financial Regulation 214.

## 2.3 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.

Observation	Non-compliance	Comments of the Chief Accounting Officer	Recommendation
References to Laws, Rules and Regulations			
(a) Financial Regulation No.104(4) of the Democratic Socialist Republic of Sri Lanka	Even though a full report on vehicle accidents should be submitted within 03 months after the accidents occurred, the relevant full reports regarding 5 accidents that occurred in the Ministry	Agreed with the audit observations.	Should comply with Financial Regulations.

during the year had not been submitted to the Auditor General even by 31 December 2021.

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| <p>(b) Paragraph 02 (ii) of the Asset Management Circular No. 02/2017 dated 21 December 2017</p> | <p>Although action should have been taken to register the vehicles in the name of the Ministry to which the functions and tasks have been assigned since the Ministry in which the vehicles were registered had been dissolved, action had not been taken in accordance with the circular instructions regarding 23 vehicles not transferred to the Ministry.</p> | <p>It is impractical to change the registered name of the vehicles every time the name of the Ministry changes during the recent time periods. Except for two vehicles owned by the Ministry, the registered name of the vehicles mainly includes the highways' name. The remaining two vehicles have been referred for taking over under this Ministry name.</p> | <p>Should comply with circular instructions.</p> |
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**3. Operational review**

**3.1 Not Achieving Expected Outcome**

The following observations are made.

<b>Audit observation</b> -----	<b>Comments of the Chief Accounting Officer</b> -----	<b>Recommendation</b> -----
<p>(a) Although a sum of Rs.117.2 million has been allocated according to the estimate in the year 2021 under the Kandy Tunnel Construction Project, it had been planned to prepare and complete the environmental impact assessment report according to the revised action plan. However, according to the annual performance report, only 82 percent of the work had been completed by incurring a sum of Rs. 17.99 million by the end of the year under review.</p>	<p>An agreement has been signed with the University of Peradeniya to prepare the environmental study report of the Project and the relevant field inspection activities could not be carried out properly due to the Covid pandemic situation. Also, approval was not received for the staff required to establish the project management unit related to the tunnel project and therefore, it was not possible to carry out the planned administrative expenses.</p>	<p>Necessary action should be taken to achieve the targeted progress.</p>



- (b) Even though a sum of Rs.75 million has been allocated through the estimates to rehabilitate 18 km under the Rehabilitation of the Road Corridor from Deniyaya to Rakwana Project, as per the revised action plan, 1 percent of it had been planned to be constructed in the year under review. However, only 0.03 percent of the construction had been completed at a cost of Rs.5.9 million.
- The bidding for the project to commence in the first quarter of the year 2022 was conducted last year (2021). Accordingly, the approval of the financial donor agency to open the financial bids for the relevant procurement process was requested on 16 December 2021, but the relevant approval was given to us on 24 February 2022. Accordingly, the award of the contract was delayed.
- Necessary action should be taken to achieve the targeted physical progress.
- (c) According to the revised action plan of the year 2021, the Road Maintenance Trust Fund had planned to achieve 100 percent physical targets related to the maintenance of 12,224 km of national highways, nearly 4,254 bridges and 12 flyovers. But during the year under review, sand sealing of 61.68 km covering 7 provinces and sand sealing of 15.85 km in the Western Province only had been done.
- Out of the road system with 12,225 km, except for the roads that have been handed over and expected to be handed over to the various projects and the roads of which the surface in good condition, sand-sealing, pothole covering, and asphalt coating were carried out for the selected parts of the remaining roads under the periodic maintenance, and that amount in the year 2021 was 93.38 km.
- Roads expected to be maintained during the year should be classified and clearly identified.
- (d) The action plan of the year 2021 had been revised several times during the year under review and was last revised on 04 March 2022 and submitted. Accordingly, the targets had been re-established in accordance with the progress stated in the performance report. Accordingly, a large percentage of the money allocated through the annual estimate had been saved without utilizing for the relevant activities.
- Due to the Covid 19 pandemic situation, the economic recession, the entire amount of budgetary provision allocated for each project had not been utilized and depending on the progress achieved, the amount of unused budgetary provision had been transferred to the projects of which the performance was at a high level. Further, despite the high physical performance of the foreign-funded projects, the financial progress showed low
- The annual action plan should not be revised from time to time corresponding to the achieved targets.

values due to the delays in reporting and accounting the interim loan payments related to those projects to the Treasury. Based on these facts, the annual provisions allocated to the projects were revised and therefore, revised action plan was prepared correspondingly at the end of the year.

**3.2 Foreign Funded Projects**  
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**3.2.1 Integrated Road Investment Program**  
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The following observations are made.

<b>Audit observation</b> -----	<b>Comments of the Chief Accounting Officer</b> -----	<b>Recommendation</b> -----
<p>(a) According to the updated Facility Administration Manual dated 16 December 2021, the road rehabilitation works of 248 km of National Roads and 3,108 km of rural roads in the Southern, Central, Sabaragamuwa, North Western and North Central Provinces and Kalutara District in the Western Province were expected to be rehabilitated during the period of the Program. However, rehabilitation of 27.43 km length of 4 National Roads and 2,062.96 km length of 537 rural roads had only been completed and handed over to the respective agencies as at 31 December 2021 after lapse of 06 years from the date of commencement of the activities of the Program.</p>	<p>Reasons for not enabling to complete the planned length are,</p> <ul style="list-style-type: none"> <li>• Delays in procurement due to reasons beyond the control of Project Management unit such as reestablishment of procurement committees due to government changes and cabinet reshuffle in 2015, 2018, 2019 and 2020.</li> <li>• Termination of contract in execution due to lack of performance.</li> <li>• Court enjoining orders.</li> <li>• Changes in priority of government’s development policy resulted in change in already identified roads under the program.</li> <li>• Due to Covid-19, the performance of contractors was severely affected.</li> </ul>	<p>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.</p>

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| <p>(b) Even though it had been planned to rehabilitate 423.11 km of national roads under 09 abandoned contract packages, 06 contract packages with a length of 278.11 km had only been awarded as at 31 December 2021 and even the bidding process had not been completed for the rest of 03 contract packages.</p>  | <p>The answer is not clear.</p>   | <p>Necessary action should be taken to achieve the expected target of the program.</p>  |
| <p>(c) Out of the awarded Road Management Contracts (RMC) excluding the recently awarded RMC 06 and RMC 07 contract packages, all four contracts under the RMC 01 contract package had reported a low progress even below 50 percent as at 31 December 2021.</p>   | <p>Covid 19 pandemic situation, shortage of cement, blasting materials and entire construction materials across the country, adverse weather impact and due to several landslides occurred on the road section the road had to be completely closed for several weeks to ensure the safety of road users and carry out reconstruction work. Due to those reasons, low progress had been reported.</p>   | <p>Necessary action should be taken to achieve the expected target of the program.</p>  |
| <p>(d) Out of 12 abandoned contract packages, balance works of 6 contract packages had been re awarded to carry out through this program as at 31 December 2021 and the value of the re awarded contracts had been increased by Rs.4,808.8 million when compared with the original contract price. Therefore, due to poor project management, the government had to bear additional costs.</p> | <p>As the contractors could not restart the suspended work and achieve reasonable progress, the contracts had to be terminated. Subsequently, contracts had been awarded to complete the balance works of 06 contracts. Bid prices of these new contracts are higher than the original contracts as the prices of materials have gone up with time. However, the difference between the bid prices will have to be recovered from the Contractors of the terminated contract, through the Employer's claim.</p> | <p>Necessary action should be taken to achieve the expected target of the program and formal action should be taken against poor contractors.</p> |
| <p>(e) As per the terms and conditions in the settlement agreement signed to complete the balance works of 04 terminated contract packages through the 100,000 km Rural Road Development Program, the balance works had been agreed to be completed within 15 months from the</p>  | <p>Although the contractors' company has started work on all the packages, due to the Covid-19 pandemic in the country, the imposition of travel restrictions, calling staff for service intermittently, the shortage of</p>  | <p>Same as above.</p>   |

date of signing the agreement. Even though it had passed about 18 months as at 31 January 2022 from the date of signing the agreement, very low progress in between 11 to 29 percent only had been reported in these packages. Low progress in rehabilitation activities could lead to unnecessary increase in the cost of the program and will be an additional burden on the government.

raw materials in the market due to the high demand for construction materials and due to non-availability of spare parts in the market to repair the defects in construction machines and factories supplying materials, the performance level of the above contract packages have not been able to maintain as planned.

(f) A settlement agreement had been signed to complete the balance work of 04 terminated contract packages with the same failed contractor through the 100,000 km Rural Road Development program and also reviewed that the value of such contracts had been increased by Rs.417.6 million when compared with the original contract price. Accordingly, an improper financial benefit had been given to the failed contractor by providing the opportunity for the relevant contractor to continue the contract through another project.

It was allowed the same Contractor to continue the works under 100,000 km Rural Road Development Program as the Contractor has agreed to withdraw the court cases and repay the unrecovered advances from the interim payment certificates.

Necessary actions should be taken to complete the construction without further delay and additional costs and formal action should be taken against poor contractors.

(g) Even though it had passed nearly 03 years from the date of termination of the contracts, out of 12 terminated contract packages the Program had not taken any action to complete the balance works of 02 contract packages namely G1 and KL 02.

The KL2 contractor has obtained an injunction against rebidding, which remains in force until up-to-date. The G 1 contractor has also appealed to the Supreme Court and the Supreme Court has ordered both parties to "maintain the status quo". Accordingly, since the Supreme Court case is active, this G1 package also cannot be re-tendered.

Same as above.

(h) Interest and commitment charges amounting to Rs.45.54 million had been paid uneconomically to the Lending Agency on undisbursed proceeds of the loan during the year under review and accumulated interest and commitment charges were Rs.1,516.79 million as at 31 December 2021.

According to the loan agreement "the borrower shall pay a commitment fee of 0.15 percent per annum. However, if the performance of the Project is good, the performance of commitment fees can be minimized and can be kept

According to the basic plans of the project, the expected tasks should be carried out in the maximum manner and the entire loan amount expected to be disbursed should

within the commitment charges allocated for the program. be utilized.

- (i) According to the Sub clause 14.6 of the Particular Condition of Contract, the minimum amount of Interim Payment Certificate to be submitted by the contractor was 1.5 per cent of the value of the contract. However, 62 instances were observed where evaluation of Interim Payment Certificates under 22 packages below than the required threshold during the year under review. Under the covid-19 pandemic, due to restrictions on the deployment of employees, bad weather, difficulties in procuring raw materials, the scheduled performance was not reached and the client has agreed to relax this clause and make payments in the payment of interim certificates in order to maintain the cash flow of the contractors. It is required to adhere with the thresholds stipulated in the conditions of contract in order to minimize the costs, time and undue favours for the contractors.
- (j) Even though the Performance Securities should be provided by the contractors at their own cost, a separate pay item had been made in the Bill of Quantities to be able to claim to the contractors in contrary to the Sub clause 4.2 of the General Condition of the Contract. Accordingly, a sum of Rs.556.38 million had been paid to reimburse the cost of performance securities as at 31 December 2021. Further, actions had not been taken to recover that amount from the contractors even up to 31 December 2021. In Northern and Eastern provinces and other upcoming contracts, these items are removed from the BOQ. Action should be taken to recover the loss incurred for the program.

- (k) As per the Sub clause 108.4 of the Specifications to the Contracts, even though the laboratory equipment and furniture of the main and field laboratories shall be reverted to the contractor at the end of the Program, a sum of Rs.615.22 million had been paid by the program under a lump sum payment for those items as at 31 December 2021. Accordingly, these unusual contract terms had allowed the contractors to obtain undue benefits.
- If the Road Development Authority needs any furniture, laboratories and survey equipment in future, conditions will be adjusted to suit that situation. However, these items are mostly in unusable or outdated condition at the end of the Contract, after using it for more than 2-3 years.
- As a general practice, the assets are retained by the employer. Therefore, the cost of the contract under this program is required to be minimized compared with the other contracts.
- (l) Even though according to the settlement agreement between the Road Development Authority and the Contractor relevant to the re-awarded contract packages under the 100,000 km Rural Road Development Program, both parties agreed to recover the mobilization advances, the unrecovered mobilization advances as at 31 December 2021 relevant to those packages were amounted to Rs.963.26 million.
- According to the instructions and terms stated in the contract agreement related to the Integrated Road Investment Project and the settlement agreement for the balance work, regarding how the advance amount paid will be reimbursed, action is being taken to reimburse the advance amount paid through the bills submitted by the contracting company for the work items.
- Action should be taken to recover the outstanding balances.
- (m) Unrecovered amount of the mobilization advances relevant to 06 re-awarded contract packages as at 31 December 2021 was amounted to Rs.1,453.09 million. Further, unrecovered mobilization advances amount of Rs.377.07 million related to 02 terminated contract packages could be an additional cost to the program.
- The contractors have obtained court injunction and an appeal to prevent the encashment of advance guarantees for these contracts. The court cases are going on and Road Development Authority will be able to recover advance payments only after conclusion of court proceedings.
- Same as above.

- (n) As at 31 December 2021, 43 disputes had been referred to the Dispute Adjudication Board and out of that, the initial cost claim of the disputes that the Dispute Adjudication Board decisions were favorable to the contractor was amounted to Rs.1,698.73 million. However, payments had not been made by the Program in this regard as at 31 December 2021 except for G1 package which amounted Rs.107.72 million.
- Payments had been made for the claims for which Notice of Dissatisfaction being issued by the Employer and for retained money and regarding the claims for which Notice of Dissatisfaction being issued by the Contractor, shall be settled through another arbitral mechanism by them.
- Contractors should act according to the terms and conditions and minimize disputes.

### 3.2.2 Second Integrated Road Investment Program

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 The following observations are made.

Audit observation -----	Comments of the Chief Accounting Officer -----	Recommendation -----
(a) The road rehabilitation works of 417.75 km of 36 national roads and 3338.87 km of 1349 rural roads in Northern, Eastern, Uva and Western Provinces were expected to be rehabilitated by the program according to the Facility Administration Manual issued in April 2021. But rehabilitation works of 11.61 km of 01 national road and 595.66 km of 149 rural roads had only been completed and handed over to respective agencies as at 31 December 2021.	The Facility Administration Manual was prepared at the early stage of the loan agreement and only the expected dates had been estimated. But the actual road rehabilitation program is in line with the project procurement plan and approved actual dates.	Necessary action should be taken to achieve intended targets of the program.
(b) The action had not been taken by the program to encash the performance guarantees with the value of Rs. 690.74 million relevant to 03 terminated contract packages even by the end of the year under review.	As court orders have been obtained and proceedings are ongoing, recovery of termination money and claims will be possible only after completion of those legal proceedings.	Actions should be taken to recover the loss incurred for the program.
(c) Even though the lending agency had instructed to recover mobilization advance and refund to the lending agency related to the terminated contracts, the Program had failed to recover the outstanding mobilization	Same as above.	Actions should be taken to recover the loss incurred for the program.

advances amount of Rs.560.14 million related to 03 terminated contract packages in Uva Province. Accordingly, the total unrecovered mobilization advances in contracts awarded by the Program as at 31 December 2021 was Rs.13,922.63 million.

- (d) According to Sub-clause 14.9 of the General Conditions of Contract, 50 percent of the retention amount can be paid to the contractor after the issue of the taking over certificate and the remaining 50 percent can be released after the expiry of the defect notification period or by substituting a bond. However, it was observed that the total retention amounting to 772.66 million of 06 contract packages had been released to the contractors though taking over certificates had not been issued. Many contractors asked for release of retention money on bank guarantee to overcome cash flow problem due to Covid and other issues. Therefore, approval of the Cabinet of Ministers was obtained with the considerations of Asian Development Bank and Treasury to release the retention money on a bank guarantee after deducting 100 percent of retention money. It is required to adhere with the thresholds stipulated in the conditions of contract in order to minimize the costs, time and undue favours for the contractors.
- (e) According to the Sub-Clause 15.3 of the General Conditions of Contract, the engineer should determine the value of the works, goods and any other sums due to the contractor as soon as practicable after issue a notice of termination. However, value at termination of 03 terminated contract packages in Uva Province had not been calculated by the employer even after a lapse of more than 10 months as at 31 December 2021 after issuing of Notice of Termination. Even though it is required to get joint measurement to prepare value of completed works by the Contractor at termination of a contract, the contractor did not attend the joint examination and did not submit the documents related to the termination. Hence, the Engineer himself had to carry out all the surveys, engineering plans, measurements etc. to prepare the value at termination. However at present, the value at termination had completed by the Engineer and details can be submitted. Value at termination should be completed before the rebidding process is started.
- (f) The net increase in the contract values against engineering estimate had ranged from 10.33 percent to 33.21 percent of the seven rebid contract packages in Uva province which had already been awarded as at 31 The Engineer's Estimate are prepared using HSR and not practicable to apply to estimate of rural roads cost. A formal mechanism required for that has not been prepared. Engineer's Estimates should be realistic as per conditions stipulated in the Procurement Guideline.



December 2021.

- (g) The Program had included a special Clause under 1.6 in Section 03 of the bidding documents to enable the lowest substantially responsive bidder to allow more than one contract contrary to the Standard Bidding conditions of the Government Procurement Guideline. Therefore, due to having to award the relevant contracts to another bidder who is not the least responsive bidder, an additional cost of Rs.66.75 million had been incurred by the program only from awarded contract packages in Uva province.
- The project has experience with many contractors who have been awarded several contracts having to terminate contracts halfway due to poor performance. Further, severe public complaints and inconveniences had been faced due to the already terminated contracts. Therefore, awarding only one contract to a bidder minimizes the risk of project failure.
- The conditions stipulated in the Procurement Guideline should be strictly followed to curtail the uneconomical cost to the Program.
- (h) Since the lowest substantially responsive bidder could not be allowed more than one contract, it had been decided to rebid remaining two contract packages without awarding contracts and those procurement activities had not been done even as at the audited date, 31 March 2022. So, it was observed that these unusual bidding conditions had directly affected the entire performance of the contracts adversely.
- Steps have already been taken to invite bids again. The recommendation of the Technical Evaluation Committee has been obtained for the bid document. Bids are invited without the objection of the Asian Development Bank and the approval of the Ministry Procurement Committee.
- The conditions of the contracts should be deeply reviewed in the early stage to avoid unusual delays and cost overruns to the Program.
- (i) Using unusual bidding conditions had directly affected to the smooth functioning of procurement activities on rebidding of terminated road rehabilitation contracts. Further, during the period of road rehabilitation works under the Program, there is already a pay item for routine maintenance of those roads under 103.2 (2) of the Particular Condition. Despite this, due to the delay in rebidding and awarding the 03 terminated contract packages in Uva province, awarding of the 04 additional contract packages with a value of Rs.66.26 million for required emergency maintenance works to
- The additional cost incurred for maintenance of such roads will be recovered from the terminated contract packages of those roads.
- The value at termination should be ascertained efficiently to ease the rebidding process and bidding should be reprocessed under accepted contract conditions to curtail unnecessary delays and costs.

maintain those roads under minimum running condition, was observed as an additional and uneconomical cost to the Program.

- (j) According to Section 7.9.2 of the Procurement Manual, if the lowest evaluated responsive bid exceeds the engineer's estimates by a substantial margin, the Procurement Entity should consider new bids or negotiate with the bidder to reduce prices. However, even negotiated bid prices were significantly higher than Engineer's Estimates and varied in between 32.8 per cent to 39.7 per cent in Northern Province contract packages. Hence it was observed that the Engineer's Estimates were not prepared in a realistic manner or the price negotiations were not conducted in a proper manner.
- The Engineer's Estimate are prepared using HSR and not practicable to apply to estimate of rural roads cost. A formal mechanism required for that has not been prepared.
- Engineer's Estimate should be realistic as per conditions stipulated in the Procurement Guideline.
- (k) A particular contractor was become substantially responsive in 08 contract packages and as per the evaluation of the Technical Evaluation Committee, the required Average Annual Construction Turnover (AACTO) for 08 respective contract packages were Rs.23,200 million. But the bidder's available Average Annual Construction Turnover was Rs. 22,700 million only. However, procurement committees had decided to award the entire 08 packages in Northern province to that contractor by considering the Project Director's recommendation based on the delay in rebidding without considering the above critical criteria. Even though the original contract period had ended by 96 per cent of the entire 141 roads in the 08 contact packages, 06 roads had not even been commenced and the physical progress of 84 roads had remained below 75 per cent as at 31 December 2021.
- The Project Management Unit and Technical Evaluation Committee noted that the risk of awarding the entire 08 contract packages to the particular contractor is very low and it was found beneficial compared to going for rebidding.
- The bidding conditions should be strictly followed without change to avoid undue favouration to some contractors only.

- (l) According to the Sub clause 14.6 of the Particular Condition of Contract, the minimum amount of Interim Payment Certificate to be submitted by the contractor was 1.5 per cent of the accepted value of the contract. However, 266 instances were observed where evaluation of Interim Payment Certificates under 49 packages below than the required threshold during the year under review.
- In order to avoid adverse effects on the cash flow of contractors in difficult adverse conditions especially in case of Covid pandemic and shortage of materials, the employer has recommended to relax the clause regarding minimum value of an interim payment certificate for payment.
- It is required to adhere with the thresholds stipulated in the conditions of contract in order to minimize the costs, time and undue favours for the contractors.
- (m) As per Sub-Clause 14.7 of the General Conditions of Contract, the Employer shall pay the amount certified in each Interim Payment Certificate within 56 days. But if payment is not received as mentioned, the Contractor shall be entitled to finance charges on the amount not paid during the delay period in accordance with sub-clause 14.8. Accordingly, payment delays ranging from 01 to 68 days beyond the due date were observed in 36 interim payment certificates during the year under review.
- Any contractor has not claimed interest for delays in payment.
- It is required to adhere with the thresholds stipulated in the conditions of contract in order to minimize the potential unnecessary costs.
- (n) Although the Performance Securities should be provided by the contactors at their own cost, it was observed that a separate pay item had been made in the Bill of Quantities to be able to claim to the contractors in contrary to the Sub Clause 4.2 of the General Condition of the Contract. Accordingly, a sum of Rs.85.64 million had been paid to the contractors in Uva Province to reimburse the cost of Performance Securities as at 31 December 2021.
- In Northern and Eastern provinces and other upcoming contracts, these items are removed from the BOQ.
- Action should be taken to recover the loss incurred for the program.
- (o) Although the Engineer estimates, bid documents and Bill of quantities should be properly evaluated by the Procurement Committee and
- According to the Asian Development Bank's procurement guidelines, this difference has not exceeded
- Same as above.

Technical Evaluation Committee as per Sub Clause 2.4 and 2.6 of the Government Procurement Guidelines, due to rate discrepancies and wrong interpretation of items in Engineer estimates, bid documents and Bill of quantities in contrary to those guidelines, a loss of Rs.48.2 million had been incurred by the program as at 31 December 2021 in respect of 02 contract packages.

the competitive unit (rate) ranging limit and cannot be reviewed or reduced.

- (p) Although all laboratories, furniture and survey equipment will be reverted to the contractor at the end of the Program as per Sub clauses 108.4 and 120.7 of the Conditions of the Contracts, a sum of Rs. 932.98 million and Rs. 16.23 million had been paid as a lump sum for laboratory, furniture and survey equipment respectively as at 31 December 2021. Thus it may indicate that unusual contract conditions may lead to undue benefits to the contractors.
- In future contracts, action will be taken to avoid using such items in BOQ after contract awarding. Also, although impractical, a request will be made to ADB to modify their bid evaluation guidelines to allow for negotiation of individual items.
- As a general practice, the assets are retained by the employer. Therefore, the cost of the contract under this program is required to be minimized compared with the other contracts.
- (q) As per the Construction Industry Development Act No.33 of 2014, every foreign contractor prior to engage in any identified construction work in Sri Lanka should obtain a temporary registration as a contractor with Construction Industry Development Authority (CIDA). However, it was revealed to audit that 09 contractors had not complied with the requirement of the Construction Industry Development Authority.
- Procurement will be done in accordance with Asian Development Bank's procurement guidelines as agreed by both parties in the loan agreement. There, this registration with CIDA cannot be a criterion for rejection of bids.
- The contracts should be awarded in accordance with the provisions of the Construction Industry Development Act No. 33 of 2014.
- (r) As per the Procurement Guidelines 2006, when bidding as a joint venture, all parties to the joint venture shall be jointly and severally liable for the performance of their obligations under the contract and shall submit a written declaration as per Clause 5.3.7 (b).
- If the contractor's performance during the contract is poor, the employer will contact the JV partner and can terminate the contract if it is a violation of the contract condition.
- Action should be taken in accordance with the Procurement Guideline.

But it was not observed in audit that the contractors gave such a written statement along with the technical bids.

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| (s) Commitment charges amounting to Rs. 126.78 million had been paid uneconomically to the Lending Agency on undisbursed proceeds of the loan during the year under review and accumulated commitment charges were Rs.576.30 million as at 31 December 2021.  | If the performance of the Project is good, commitment fees can be minimized and can be kept within the commitment charges allocated in the loan.  | According to the basic plans of the project, the expected tasks should be carried out in the maximum manner and the entire loan amount expected to be disbursed should be utilized. |
| (t) As per the Public Contract Act No.3 of 1987, the bidders of public contracts which value over Rs.5 million should register under Public Contract Act before collecting the Bidding Documents and also should get the contract registration after the contract is awarded. However, it was observed that the Project had not considered that requirement when evaluating the technical bids of respective bidders. | According to the Asian Development Bank guidelines, the contractors had been selected as contracting companies registered in an Asian Development Bank member country and not black listed by Asian Development Bank. | The bidders and awarded contract should be registered under Public Contract Act.  |

### 3.2.3 Extension of Southern Expressway Project- General

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 The following observations are made.

<b>Audit observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
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(a) Although 04 service areas were mentioned in the feasibility study report, only 26,475 square meters of land on the right side and 33,373 square meters of land on the left side of the Gatamana area had been acquired. However, the construction of service areas had not been estimated at any stage of the Extension of Southern Expressway Project and no BOQ provisions had been made. Accordingly, after the 46 km of the Southern Expressway there were no any service area is available for the expressway users. Therefore, servicing	According to the contract agreement, provision has not been made to prepare a service area. Thus, the necessary steps have not been taken. In this regard, the Ministry has requested the Exim Bank of China, which has provided loan assistance, to provide additional financial facilities. Since a good response has not been received, alternative measures should	Required provisions should be get arranged for the construction of service areas for the Extension of Southern Expressway Project.

the public when they are travelling for 176 km from Welipanna to Hambanthota was in a problematic situation. be taken for that.

- (b) In Sections 3 and 4 of the Extension of Southern Expressway 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 test reports, as observed during the physical inspection, the smoothness in some parts of the Expressway was not adequate to maintain the good running condition of motor vehicles. In the technical research report by the Planning Division of the Road Development Authority, that value was between 0.5 and 1.5, which is a very good level. Necessary arrangements should be made to ensure the running condition of the vehicles when preparing the technical specifications.
- (c) In contrary to the Sub Clause 4.2 of the General Condition of the Contract which states that Performance Securities should be provided by the contactors at their own cost, separate pay items had been included in the Bill of Quantities of road rehabilitation works to be able to the contractors to state the cost of providing performance securities. Accordingly, a sum of Rs.1,078.64 million had been paid additionally to the contractors for 04 stages to reimburse the cost of Performance Securities obtained by the contractors. An item will not be included for the reimbursement of performance securities in future contract offers. Action should be taken to recover the loss incurred for the program.
- (d) Even though the land acquisition process started in the year 2014 and a sum of Rs.28.28 million for the stage 2 and 3 as at 31 December 2020 and a sum of Rs.34.28 million for stage 1 and 4 as at 31 December 2021 had been paid as incentives for officers to expedite the process, it was observed that the land acquisition process had not been completed. According to the plans prepared for each road section of the Project, traces were submitted from time to time, and accordingly the land acquisition process had to be started in each period. Accordingly, traces for additional acquisitions relevant to the field in addition to the carriageway were issued until the year 2021. Action should be taken to complete the land acquisition process expeditiously.

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| <p>(e) Compensation amounting to Rs.21.94 million for 468 lots of land and delayed interest amounting to Rs. 211.56 million for 2113 lots are still to be paid as at 31 December 2021. Further, 3,593 lots out of the total 12,894 lots of land which was a low percentage of 27.87 percent only had been registered under the Road Development Authority as per sub-section No. 44 of the Land Acquisition Act as at 31 December 2021.</p> | <p>According to the plans prepared for each road section of the Project, traces were submitted from time to time, and accordingly the land acquisition process had to be started in each period. Accordingly, traces for additional acquisitions relevant to the field in addition to the carriageway were issued until the year 2021.</p> | <p>Same as above.</p> |
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### 3.2.4 Extension of Southern Expressway Project- Section 01

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The following observations are made.

<b>Audit observation</b> -----	<b>Comments of the Chief Accounting Officer</b> -----	<b>Recommendation</b> -----
<p>(a) According to the Sub clause 2 of the loan agreement for the Contract, the borrower shall pay semi-annually to the lender a commitment fee on the undrawn and uncanceled balance of the loan facility. However, the project had not made provisions for commitment charges against remaining balance of loan amount of US dollars 19.51 million for civil works and Chinese Yuan (Renminbi) 65.56 million for Supervision Consultancy as at 31 December 2021. However, commitment charges amounting to Rs.666.22 million had been paid by the Department of External Resources for the period from January 2016 to January 2021.</p>	<p>As per loan agreements, debt services payable are handled by the General Treasury. Accordingly, action has been taken to get the provisions approved from the Ministry and accounted the loan interest payments of Rs.528,947,408 informed by the General Treasury and stated in the annual accounts as at 31 December 2017. But the loan interest payments and commitment fees for the coming years have not been informed by the Treasury.</p>	<p>According to the basic plans, the expected tasks should be carried out in the maximum manner and the entire loan amount expected to be disbursed should be utilized in future projects.</p>
<p>(b) The loan availability period expired on 25 October 2020 and since payments for civil works had not been completed during the loan availability period, a payment of Rs.4,045 million had been made on 30 December 2021 through government funds and payment for civil works had not been completed even up to 31 December 2021. Accordingly, delay</p>	<p>The defect notification period of the Project ended on 08.11.2020 and the performance certificate should be issued within 28 days from the expiry of the defect notification period. Then the contractor should submit the final bill. Therefore, it was not</p>	<p>According to the basic plans, the expected tasks should be carried out in the maximum manner within the specific time limit in future projects.</p>

in settlement of final payment for construction may be a burden to the Government of Sri Lanka.

possible to complete the payment for the civil works before the end of the loan availability period. Further, the government requested to obtain the remaining foreign loan amount before the expiry of this loan period, and the request was rejected by the China Exim Bank.

(c) Due to the importation of vehicles by the contractor without having the prior approval from the employer, the Project had denied the contractor's entitlement for custom duty concession for 04 Toyota fortuna vehicles, 1 Mercedes Benz van and 10 Pickups for the use of transportation of officers. However, later on the Project had to reimburse excise duty of Rs.91.74 million paid for 02 Toyota fortuna vehicles and 10 Pickups to the contractor and also paid Rs.27.55 million as interest for delayed payment based on a decision of the Dispute Adjudicatory board on 23 April 2018. As a result of the Dispute Adjudicatory board's decision which made favorably to the contractor, an additional cost of Rs.119.3 million had been incurred by the Project.

According to Sub-section 20.2 of the Contract Agreement, the Dispute Adjudicatory board was established and the relevant payments were made according to the decisions of the Disputes Adjudicatory board and the Amicable Settlement Committee.

Importation of vehicles should be done as per circulars and management decisions should be taken timely to minimize additional costs such as interest for delayed payment.

(d) Even though as per the Sub-Clause 20.6 of the General Conditions of Contract, arbitration may be commenced prior to or after completion of the contract works, a particular time period has not been specified even in the Particular Conditions of the Contract to commence the arbitration after the issuance of notice of dissatisfaction. Therefore, 6 disputes claims amounting Rs. 3,066.7 million are still open for arbitration after issuance of Notices of Dissatisfaction and the entitlement for the contractor could not be finalized even after expiry of 14 months from the completion of defect notification period of the Project.

According to Sub-section 20.5 of the contract agreement, after the decision of the Dispute Adjudicatory board, after 56 days from the notice of dissatisfaction being given by one party, the relevant party can refer the dispute to arbitration. But specific time has not been given for that. Therefore, as per clause 14.12 of the contract payment, a written discharge letter has not been issued by the contract so far.

Arrangements should be made to settle the disputes expeditiously and to obtain discharge letter.



Accordingly, the discharge letter had not been issued by the contractor even up to 31 December 2021.

### 3.2.5 Extension of Southern Expressway Project- Section 02

The following observation is made.

Audit observation -----	Comments of the Chief Accounting Officer -----	Recommendation -----
According to Section 21.4 of the Particular Conditions of the contract, equipment, machinery, vehicles, materials, all accessories and all other consumables to be used in the civil works, imported by the contractor will be exempt from customs duties and those items should be re-exported at the end of the Project by the contractor. However, the defect notification period of the Project had also been completed on 24 February 2021, it was observed that imported items under 02 invoices only out of 66 invoices had been re-exported as at 31 December 2021.	The former Project Director has held a special discussion with the Director General, Sri Lanka Customs on 8 March 2022 to expedite the process of issuing the relevant taxes by the Sri Lanka Customs. Accordingly, the Sri Lanka Customs has completed the issuance of the relevant taxes and the contract company is paying the relevant taxes.	Arrangements should be made to complete the re-export process or pay the relevant taxes.

### 3.2.6 Extension of Southern Expressway Project- Section 04

The following observations are made.

Audit observation -----	Comments of the Chief Accounting Officer -----	Recommendation -----
(a) Even though according to the Sub-Clause 20.6 of the General Conditions of Contract, arbitration may be commenced prior to or after the completion of the works, a particular time period has not been specified even in the Particular Conditions of the Contract to commence the arbitration after the issuance of notice of dissatisfaction. Therefore, three (03) disputes claims amounting to Rs. 509.05 million are still open for arbitration after issuance of Notices of	Notices of Dissatisfaction were issued by the Contractor to the decisions provided by it for the 3 claims submitted by the Contractor to the Dispute Adjudication Board. According to the terms of the contract, although the settlement should be made by arbitration, the contractor had not notified that the arbitration had been initiated until 31 December 2021. Therefore, the contractor has not submitted a written discharge.	A specific time limit for commencing arbitration after issuing a notice of dissatisfaction should be included into the Particular Conditions.

Dissatisfaction and the entitlement for the contractor could not be finalized even after expiry of 2 years from the completion of defect notification period of the Project. Hence, the contractor had not issued the letter of Discharge as per the Sub Clause 14.12 of Conditions of contract up to the 31 December 2021.

- (b) The re-exportable items amounting to US \$ 1,415,215 relating to 31 permits had been transferred to Colombo Port City Development Project in the year 2018. However, any confirmation received from that Project Director related to the necessity of such items and evidence for the receipt of those assets had not been made available for the audit.
- Several goods were transferred to the Colombo Port City Development Project with the required approval and a request was made on 26 January 2021 to submit the necessary documents to prove the same, but it has not yet been received. It will be made available as soon as the documents are received.
- A confirmation should be obtained regarding the necessity of such goods and for the receipt of those goods.
- (c) According to the Sub clause 2 (2.7) of the loan agreement for the Contract, as stated in the Clause 2.2, the borrower shall pay semi-annually to the lender a commitment fee on the undrawn and uncanceled balance of the loan facility. However, the project had not made provisions for commitment charges against remaining balance of loan amount of US dollars 116 million for civil works as at 31 December 2021. However, commitment charges amounting to Rs.430.96 million had been paid by the Department of External Resources on the undrawn loan amount for the period from March 2016 to March 2021.
- Even though development proposals were submitted for the remaining loan amount of US dollars 116 million, the lending agency had not accepted it. Therefore, the savings of U.S. dollars 116 million is not disclosed at the beginning of the contract and if so, the contract does not specify how to act.
- According to the basic plans, the expected tasks should be carried out in the maximum manner and the entire loan amount expected to be disbursed should be utilized in future projects.

### 3.2.7 Central Expressway Project- Section 01

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The following observations are made.

<b>Audit observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
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(a) Due to inability of paying for the expenses incurred under the construction of Package 07 and Package 04 of Northern Expressway by the China Metallurgical Group Corporation (MCC)- the Contractor of the Project, the approval of the Cabinet of Ministers had been granted for the contract of Central Expressway Section I at a cost of Rs. 158,386 million under the Cabinet Decision No: 15/1021/602/040 dated 16 July 2015 in contrary to the Procurement Guidelines.	Prior to the awarding of the contract for Section 1 of the Central Expressway, the Cabinet Decision No. 15/1021/602/040 dated 16 July 2015 was obtained based on a recommended report by the Cabinet Sub-Committee on Economic Affairs appointed in consultation with the General Treasury and accordingly, the contract for Section 1 of the Expressway Project has been formally awarded.	Contracts should be awarded as per the provisions of the Procurement Guidelines.
(b) The Economic Feasibility Study was done for whole sections of the Central Expressway Project simultaneously. When preparing it, it had been assumed the construction period of the Project from 2016 to 2020 and an operation period from 2020 to 2046. As per the analysis, the estimated total cost of the Project was Rs.483.32 billion and the total benefit was Rs.683.38 billion. Accordingly, the Net Present Value of the Project was Rs.200.06 billion. Although this Project was considered as economically feasible, it cannot be disregarded in audit that there may be a risk that this prediction could be changed due to construction delays of the Project as per the Risk Assessment of the Economic Feasibility Analysis Report.	Since the economic feasibility study is a basic document for starting a project, it is impossible to disregard the changes in the expected benefits and goals based on the development activities that commence with this road as a main factor due to the changing government policies and changing economic conditions after the construction of this road.	Action should be taken to minimize the construction delays in the Project.

- (c) The Attorney General addressed to Director General of the Department of External Resources in his letter dated 02 October 2018 has requested to amend especially the clauses 8.1 and 8.4 pertaining to Waiver of Immunity and Governing Law respectively of the draft loan agreement. However, the lending agency (EXIM Bank) had not accepted the proposed amendments and the agreement had been signed by both parties as proposed in the draft agreement without such amendments.
- According to the Cabinet Memorandum submitted by the Prime Minister then, the Cabinet had approved the award of this contract to MCC Company. Accordingly, for the awarding of this contract, after taking into account the observations indicated by the Attorney General, after reaching agreement by the Ministry of Finance and the Department of External Resources of the General Treasury, the contract agreement had been entered.
- The conditions mentioned should be revised properly in future loan agreements.
- (d) Construction progress
- (i) The contract of Package 01 from Kadawatha to Kossinna was signed on 20 June 2016 and the commencement of work was delayed until 15 September 2020. Further, the expected completion date of the contract will be 14 March 2023. Even though 15 months had elapsed since the commencement date as at 31 December 2021, the actual physical progress is only 15.07 per cent out of the target of 30.53 per cent.
- It was not possible to achieve the targeted progress due to the impact of Covid-19, bad weather, problems in contacting the relevant parties in land acquisition, shortage of raw materials, difficulties in transporting various materials imported by the contractor from foreign countries, and public protests.
- Action should be taken to expedite construction contracts to achieve the expected progress.
- (ii) The contract of Package 02 from Kossinna to Meerigama was signed on 04 August 2015 and the commencement of work was delayed until 15 September 2020. Further, the expected completion date of the contract will be 14 September 2024. Even though 15 months had elapsed since the commencement date as at 31 December 2021, the actual physical progress is only 20.54 per cent out of the target of 30.46 per cent.
- Same as above.
- Same as above.

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| (iii) The funds for the civil work of the Project are providing by EXIM bank of China as a loan signed on 21 March 2019. But loan proceeds had not been started until 31 December 2021. As a result of this delay, the price fluctuations of package 01 and package 02 have to be paid to the contractor as at 31 December 2021 which was amounted to Rs.470.62 million.  | Same as above.  | Same as above.   |
| (e) Although the contractor shall obtain performance security at his own cost for the proper performance of the contract as per the sub-clause 4.2 of the General Conditions of the contract, a separate pay item had been included in the Bill of Quantities contrary to the above requirement. Accordingly, an aggregate amount of Rs.805.43 million had been paid under that item and it was observed that it may result in an undue advantage for the contractor. | If this amount is not shown separately, it will be added to the values of other items and will be obtained from the contract price. Thus, if this amount is shown separately, the true condition of the construction cost has to be stated by the Contractor. Therefore, the reasonableness of those prices can be determined by comparing those prices with similar contracts and it is useful to know the true cost of those prices in evaluating the prices of future contracts and preparing engineering estimates. | Action should be taken to recover the loss incurred for the Project. |
| (f) Although according to paragraph 9.3 of the Management Services Circular No.01/2019 dated 05 March 2019, Project Steering Committee should be met at least once in two months, it was observed that the Steering committee had met only on 30 November 2021 during the year under review.  | Due to the Covid situation in the country, it was unable to hold the Project Steering Committee meetings in due time as per the circular.   | Action should be taken as per circular provisions.                   |

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| <p>(g) As per time schedule of the project, land acquisitions should be done in the initial stage of the Project. Although the Land Acquisition Specialists should have to be recruited as Project Monitoring Unit staff, two specialists had been recruited under the Consultant's staff and a sum of Rs. 6,399,250 had been paid. Further, it was observed that the Project has to incur an extra cost, because an extra amount of 10 percent is being charged as overhead cost on the payments made to the Consultant.</p>                            | <p>The facts of the query are correct. However, rather than appointing a full-time officer and paying monthly salary, it can be said that it is more economically effective to get the service only for the required time.</p>   | <p>Additional costs should be minimized by making relevant recruitments under the staff of the project management unit according to the service requirement.</p> |
| <p>(h) At the initial stage, the land acquisition process had been planned to complete on 15 December 2016 as per Project Time Schedule and incentives amounting to Rs. 30 million had been paid to the officers of the Ministry, Survey Department, Valuation Department and Divisional Secretariats to expedite and complete the land acquisition activities within 26 weeks. However, title of only 364 plot of lands had been transferred to the Road Development Authority under Section 44 of the Land Acquisition Act as at 31 December 2021.</p> | <p>This is a task to be done by the Divisional Secretaries and currently registration is being done for the rest of the plots expeditiously.</p>   | <p>Action should be taken to complete the land acquisition process expeditiously.</p>  |
| <p>(i) Out of 4,210 plots of private lands included in the total plots of 6,733 lands planned to be acquired as at 31 December 2021, title investigations for 89 private land plots had not been done even as at 31 December 2021, and the reasons for the delay were not revealed to the audit.</p>   | <p>Contacting the third party officials involved in land acquisition is a difficult task and since the landowners did not confirm the ownership and did not provide the relevant written evidence promptly, the acquisition process was delayed for 89 plots of land. This acquisition has been completed by the end of February 2022.</p> | <p>Same as above.</p>  |

- (j) The Project had proposed several structural changes to viaducts, culverts, etc., and forwarded them to Sri Lanka Land Development Corporation for further review after the public protests on constructions were raised due to the flooding effects experiencing in the last few years. Even though a comprehensive hydrology study had been done by the Sri Lanka Land Development Corporation for the overall Central Expressway in the year 2017 with a cost Rs.71 million, the evidence was not furnished to audit regarding the failures of the initial study or reasons for current amendments proposed to be implemented with the concurrence of that institute. Further, it had also not revealed the cost effect to the initial estimate from the current amendments.
- In the year 2020, when the contractor started the construction work of this Section I of the Central Expressway, the land was subject to changes due to the change of the previously proposed expressway, and due to the flood situation occurred again and according to the request of the local residents, the SLRDC inspected the site again and gave instructions for the required changes and changes in construction activities are currently underway.
- Changes should be made in the construction work considering the comprehensive hydrological study reports with relevant amendments.
- (k) Although the combined construction agreement had been signed for both packages on 18 August 2016, it was observed that the comprehensive Hydrology Study had been delayed until 2021. Thus audit observed that delays of those studies and implementation of the recommendations had directly affected the flood threats prevailed several past periods in the constructing area.
- The Project received the final report of this study in January 2022.
- The relevant reports should be obtained on time and accordingly the construction works should be expedited.
- (l) An agreement had been signed on 14 March 2017 with Sri Lanka Land Reclamation and Development Corporation (SLLDC) for a sum of Rs.4,528,800 to conduct a Hydrology Study for Pilot Road and a sum of Rs.2,000,000 had been paid as an advance payment on 24 July 2017. Although the contract period was 24 months and it was lapsed by more than 02 years as at 31 December 2021, the evidence was not revealed
- Comprehensive hydrological studies to study the impact caused by the construction of supply roads have been started in 2017 and are ongoing. The Project has not yet received the final report.
- The relevant reports should be obtained on time and accordingly the construction works should be expedited.

to the audit regarding that final report had been furnished to the Project and the entire cost of the Hydrology study

### 3.2.8 Central Expressway Project- Section 03

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 The following observations are made.

<b>Audit observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
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<p>(a) The period for acceptance of bid documents issued to AVIC-CHEC JV investors who has expressed its intention to submit proposals on Build, Operate and Transfer (BOT) and Engineering, Procurement and Construction (EPC) basis under Cabinet Decision No. CP/20/2072/319/021 dated 19 January 2021, had been extended till 20 January 2021. Later, considering the long delay in the implementation of this section, the approval had been granted under the Cabinet Decision No.21/1988/319/024-III/TBR dated 24 November 2021 to implement the construction of the section from 0+840 to 12+890 km out of the total 31.7 km through the Road Development Authority by the relevant works, services and goods directly or through subcontractors. However, as at 31 December 2021, 15 contract packages had been awarded out of the total contract with 17 contract packages. Accordingly, it was observed that this Project had been commenced in the year 2013 without a proper financial and construction plan.</p>	<p>Considering this long delay, since it was required not to delay this further, the Road Development Authority itself commenced the construction work of the first 12 km section in 2021 with the approval of the Cabinet of Ministers.</p>	<p>Every step should be taken to expedite construction.</p>
<p>(b) As per Circular No. 01/2019 of the Department of Management Services, there should be an agreement or guarantee regarding the lenders to obtain funds at the time of implementation of the Project. However, such process had not been</p>	<p>The Central Expressway Project- Section 03 had been planned to be constructed under Japanese loan assistance in 2016 and the Japanese Tokyo-Mitsubishi Bank had basically reached an agreement with the</p>	<p>Action should be taken as per circular provisions and every step should be taken to expedite the</p>



followed in Section III of the Central Expressway Project. As a result, the Project is still implementing without a lender for nearly 7 years. This situation will result in a huge increase in the cost of the Project due to price hikes and additional overheads.

Government of Sri Lanka construction. regarding the provision of the loan assistance. But in the subsequent compromise negotiations, the government could not reach a final conclusion on the loan agreement due to certain conditions that were unacceptable to the government.

(c) According to the basic plan, although the first gazette notification under Section 38 (a) was published on 05 February 2016, the land acquisition plan had been revised every year since the year 2016. However, the Project had failed to achieve even the revised targets.

The revised targets could not be fulfilled properly due to the following reasons.

Action should be taken to complete the land acquisition process expeditiously.

- Elapse of long time to decide whether to implement the Project or revise the plans due to political changes.
- Change of ministers and officers due to political changes.
- As land acquisition is a process carried out by several government institutes, priority was given to ongoing projects.
- Non-receipt of financial provisions as planned.
- Corona pandemic situation.

(d) Incentives amounting to Rs. 32.4 million had been paid to the officers of the Ministry, Survey Department, Valuation Department and officers at Divisional Secretariats as at 31 December 2021 to expedite and complete the land acquisition activities within 26 weeks. However, only 181 plot of lands had been registered under the Road Development Authority as per the Sub section 44 of the Land Acquisition Act by the Project even as at 31 December 2021.

Even though there has been a delay in the transfer due to the current pandemic situation, the divisional secretaries have been informed in writing to expedite the transfer process under section 44 for all the remaining plots.

Action should be taken to complete the land acquisition process expeditiously.

### 3.2.9 Central Expressway Project- Section 04

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 The following observations are made.

<b>Audit observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
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<p>(a) Even though approval had been granted to award the construction contract to Gazhoba institute in China under the Cabinet decision No. CP/16/2536/713/048-1/TBR dated 14 December 2016, it had been canceled by the Cabinet decision No. CP/20/0413/221/013 dated 05 March 2020. Then, the approval had been granted by the Cabinet Decision No. CP/21/0268/319/008 dated 22 February 2021 to award the construction contract to Roughton International Company. However, it had also been canceled due to lack of funds by the Cabinet Decision No. 22/0158/319/002-I dated 02 February 2022. Later, approval had been granted to call for technical and financial proposals from the AVIC–CHEC joint venture for the construction of the first 30 km based on planning, construction and financing, and to call for technical and financial proposals from local contractors to construct the section from 30+000 to 40+300 with local funds. Further, Cabinet appointed discussion committee had been appointed for civil work procurement and technical proposal evaluation and to submit recommendations relevant to the construction of the section from 0+000 to 30+000. However, the construction contract had not been awarded until 28 February 2022 and it was observed that the Project had been started without a proper financial and construction plan.</p>	<p>The procurement process for the years 2016 and 2020 has not been completed up to the award of the contract. Due to non-availability of funds in that procurement process, finalization of funding arrangements with relevant institutions remained a major problem for the award of the contract. As per the main plan, the original land acquisition process will continue until the compensation process is completed.</p>	<p>Every step should be taken to expedite the construction.</p>

- (b) As per Circular No. 01/2019 of the Department of Management Services, there should be an agreement or guarantee regarding the lenders to obtain funds at the time of implementation of the Project. However, such process had not been followed in Section IV of the Central Expressway Project. As a result, the Project is still implementing without a lender for nearly 5 years. This situation will result in a huge increase in the cost of the Project due to price hikes and additional overheads. Agreed. Action should be taken as per circular provisions and every step should be taken to expedite the construction.
- (c) According to the basic plan, although the first gazette notification under Section 38 (a) was published on 03 November 2016, the land acquisition plan had been revised every year since the year 2017. However, the Project had failed to achieve even the revised targets. Accordingly, the land acquisition process had not been properly planned from the beginning of the Project. Even though the process of land acquisition was planned basically, it is a multi-institutional task and therefore, if there is any delay in any one institute, it will affect the entire process. The Easter Sunday attack, the Covid-19 pandemic, trade union actions held in several institutions, public protests etc. had affected for the delay. The land acquisition process has been revised at several levels to suit the present situation. Action should be taken to complete the land acquisition process expeditiously.
- (d) Even though 3512 plots of land had already been acquired under Section 38(a) Gazette Notification as at 31 December 2021, the Project had failed to register any plot of land under Road Development Authority as per subsection 44 of the Land Acquisition Act even by the end of the year under review. Agreed. Same as above.
- (e) Most of the lands in Galewela and Dambulla are owned by the temples, shrines or people who have invaded and taken possession. However, apart from the Extraordinary Gazette No. 1864/54 Further discussions are being held with the relevant parties to resolve the unresolved problems. Same as above.

dated 30 May 2014, the owners of those lands had requested additional relief and a final decision on how to compensate them was not made until December 2021.

- |   |  |   |
|---|--|---|
| (f) Incentives amounting to Rs. 6.02 million had been paid to the officers of the Ministry, Survey Department, Valuation Department and officers at Divisional Secretariats to expedite and complete the land acquisition activities within 26 weeks. However, out of 3512 plots of land, inquiries had been made under Section 9(1) for 2645 plots of land and notices had been issued under Section 10(1) for 2018 plots of land. Accordingly, the progress of land acquisition was still slow. | Most of the land acquisition work is done through the Divisional Secretariats and was conducted with limited staff due to the Covid 19 pandemic situation.   | Same as above.  |
| (g) Even though the Project Management Unit was commenced in the year 2016, the civil works of the Project had not been started even by the end of 28 February 2022 due to poor planning of priority projects. However, a sum of Rs.448.87 million had been incurred on the Project Management Unit up to 31 December 2021.   | According to the government policy plan, this Project has been identified as a major project and it has been decided to start in 2016 as a priority project. However, the proponent had not set up a funding mechanism for the 2016 and 2020 procurement process. Therefore, a new procurement process is being carried on for 2022. | Every step should be taken to expedite the construction.                                |
| (h) The Project had recruited two Management Assistants exceeding the approved staff of the Department of Management Services and had paid a sum of Rs.5,448,093 as salaries and allowances up to 31 December 2021.   | As per the approval of the Department of Management Services, the professional qualifications and educational qualifications of these two management assistants will be evaluated and arrangements will be made for them to be placed in the most suitable position in the staff.  | Action should be taken to fulfill the service requirement only from the approved cadre. |

### 3.2.10 New Bridge Construction Project over the Kelani River

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The following observations are made.

<b>Audit observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
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(a) For the year 2021, the amount allocated for the expenditure from local funds and for expenditure from foreign funds of the Project was amounted to Rs. 15,460 million and the expenditure incurred from that amount was Rs. 10,195 million. Accordingly, it is observed that Rs.5,265 million which is 34 percent of the allocated money has been underutilized.	Due to the Covid-19 pandemic, the contract period of the contract packages 1 and 2 had to be extended and therefore, this money could not be utilized.	Plans should be prepared in a way that the allocations for the year can be used to the maximum extent. Attention should be paid to prepare estimates more discreetly which enable to reduce the pressure on the government budget or to utilize the allocated provisions.
(b) The amount to be paid for the interim payment Certificate No.50 submitted by the contractor for the work done from 01 November to 30 November 2021 in relation to the contract package 02 of the Project was amounted to Rs. 97.8 million, and the amount to be paid by the Project was accounted as Rs. 135 million. Thus, over allocation made for the said bill was Rs. 37.23 million and it had not been corrected in the accounts of the year under review.	Since the bills issued by the contractors for the work completed up to 31.12.2021 had not been received by the end of the accounting year, estimates were obtained from the contractors to account the amount outstanding. As the interim payment Certificate No.50 was forwarded to us for payment after submission of accounts, it was not able to correct that amount during the year under review.	Steps should be taken to bring the bills in due time and to account those transactions within the same year.

### 3.2.11 Transport Project Preparatory Facility

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The following observations are made.

<b>Audit observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
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(a) The date of authorization for issuing financial statements of any organization is very important and a mandatory requirement. However,	By omission the date of approval was not mentioned in the financial statements.	The date of approval should be properly mentioned in the financial statements.

the relevant officials had approved the financial statements of the Transport Project Preparatory Facility Project by signing without a date as at 31 December 2021.

- |   |  |  |
|---|--|--|
| (b) Even though the Ministry of Highways had requested approval from the Treasury for the project proposal for the consultancy services for conceptual study, pre-feasibility study, preliminary and detailed engineering designs of the Expressway Development Project which was originally planned to be implemented under this Project, the Treasury had rejected to grant the approval as at the balance sheet date stating this study and its results were not recognized as a priority. Accordingly, the correct condition of the project and the effect on its going concern had not been disclosed as at the date of issuing the financial statements of the Project in accordance with the Sri Lanka Public Sector Accounting Standard No. 01. | Since the Project activities are still ongoing, there is no problem with maintaining the going concern concept of the Project as stated in Sri Lanka Public Sector Accounting Standard No. 01. | Financial statements of the Project should disclose to the users the facts arising in relation to the survival of the Project up to the expected period. |
| (c) Three consultancy activities with a value of Rs. 361.53 million included in the Port Access Elevated Highway Project being constructed under the South Asia Sub-Regional Economic Cooperation have been completed as at 31 December 2021 according to the progress report of the Project, it was observed that the value of such projects was still in the work-in-progress account.  | Agreed.  | Values of consultancy services should be capitalized.  |
| (d) A proper system had not been established to identify the amount to be capitalized to the road component from the loans obtained for the three sub-components of roads, railways and ports. Therefore, the audit was unable to verify the accuracy of the loan balance of Rs.422.65 million  | Agreed.  | A proper system should be established to identify the amount to be capitalized from the loan amount of the Project.                                      |

and interest of Rs.6.47 million stated in the financial statements of the Project as at 31 December 2021.

### 3.2.12 Reconstruction of 25 Bridges Project

The following observation is made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
For the payment of compensation for the Major Bridges Construction Project, which is being implemented under this project management unit, a sum of Rs.10.01 million had been paid by the Reconstruction of 25 Bridges Project in the year 2018. However, this payment has not yet been recovered from the relevant project and an approval for this payment has also not yet been obtained by the Project.	Agreed. Necessary measures will be taken to prevent such omissions in the future.	Payments should be made after obtaining proper approval for transfer of object.

### 3.2.13 Widening and Improvement of Roads and Bridges in Central and Uva Provinces

The following observations are made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
(a) It was observed that out of foreign loan provision for the year under review, a sum of Rs.1,711.18 million equivalent to 20 percent had not been utilized by the Project. However, another Rs.600 million rupees had been accounted by the Project, but that amount had not been accounted by the Treasury Operations Department for the relevant year.	Even though the Project has spent a sum of Rs.7,389.57 million as contract cost, the expenditure accounted by the Treasury Operations Department for the relevant year was Rs.6,788.82 million. Therefore, the Project was able to account only Rs.6,788.82 million as the provision utilized. Thus, the provision of Rs.1,711.18 million is shown as unutilized.	Provisions relevant to the year should be utilized within the year itself.
(b) According to Sub-section 9.3 of the Management Circular No. 01/2019 dated 15 March 2019, the Secretary to the Line Ministry should ensure that the Project Steering Committee	Due to the regulations to limit the spread of the Covid-19 pandemic in the country, the Project Steering Committee has not been able to convene.	Project Steering Committees should be held as per the circular.

meets at least once in every two months. However, it was observed that any Project Steering Committee meeting had not been held during the year under review.

### 3.2.14 Design and Construction of the Kohuwala and Gatambe Flyovers Project

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 The following observations are made.

<b>Audit observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
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(a) According to the monthly expenditure report of the Project, Rs.1,528 million equivalent to 35 percent of the foreign loan provision and Rs.40.62 million equivalent to 57 percent of the allocation from government funds remained unutilized by the Project as at 31 December 2021.	Agreed.	Provisions for the year should be utilized within the year itself or the estimates should be revised.
(b) According to the expenditure statement of the Project for the year under review, the total loan provision was amounted to Rs.4,670 million, and out of that, only Rs.2,637 million had been utilized. The progress report submitted shows that a sum of Rs.2,637 million has been spent out of Rs.4,270 million and the expected performance targets have been achieved. Accordingly, it was observed that the expected physical target for the year and the funding allocation are not compatible with each other.	<p>The official commencement of the Project took place on 16 August 2021 and the financial allocation for this purpose had been given based on the financial requirements notified by us in the year 2019. Therefore, it is informed that all the expenses have been obtained through rapid project progress and since the Road Development Authority cannot influence the decisions taken by the Government of Sri Lanka,</p> <p>(i) Making requests for budgetary allocations of 2019</p> <p>(ii) Entering into new loan agreement after obtaining Cabinet approval</p> <p>(iii) Commencement of work as per that agreement has also been legally done by the Road Development Authority.</p>	Comparable facts should be properly stated while presenting the information.



- (c) The relevant officers had not signed 14 journal vouchers with a value of Rs.6,082 million as prepared and checked and even the Accountant had not signed for certification. This was observed as a serious control weakness. However, only 15 journal vouchers had been prepared during the financial year under review.
- Due to the Covid-19 situation in the year 2021, duties had to be performed through the online system. Therefore, the file containing the journal entries could not be certified due to some omission. However, accuracy of the figures in those documents are certified. It was noted to take necessary measures to prevent such omissions in future.
- Journal vouchers should be checked, certified and approved by the relevant responsible officers and acted with professional care.

### 3.2.15 Southern Road Connectivity Project

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 The following observations are made.

<b>Audit observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
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<p>(a) According to the revised scope of the Project, it was planned to implement 40.2 km of road construction activities in the national road network in Colombo and Kalutara district under 05 packages. However, the construction works of packages 1, 2 and 4 had been completed after a delay of 248, 534 and 689 days respectively. The rehabilitation work of package 05 had been commenced on 29 February 2020 and though it was planned to be completed by 30 November 2021, according to the initial work plan, physical progress was only 59 percent as at 31 December 2021. However, delay charges amounting to Rs. 31.95 million recovered through 15 interim payment certificates submitted under the contract Package 01 on 19 June 2017 had been released to the contractor on 10 October 2019. Further, delay charges of Rs. 14.18 million recovered under contract packages 04 had been reported as a liability in the financial statements as at 31 December 2021 with the aim of future repayment.</p>	<p>Delay in payment of compensation for land acquisitions, inability to deploy utility services such as telephone, electricity and water pipes within the specified period and some changes in the works to be done in the contract packages were the reasons.</p>	<p>Steps should be taken to complete the road rehabilitation works within the scheduled dates.</p>

<p>(b) It had been planned by the Project, to acquire 8,499 plots of land including 1562 plots of crown land and compensation amounting to Rs.8,418 million had been awarded under Section 17 of the Land Acquisition Act. Further, as per the decisions of the Land Acquisition and Resettlement Committee, another additional compensation of Rs.3,210 million had been given. Also, due to the delay in compensation payments, interest on compensation amounting to Rs.649 million had been paid as at 31 December 2021. However, any plot of land had not been registered under Section 44 of the Land Acquisition Act in the name of the Road Development Authority even as at 31 December 2021.</p>	<p>Payments were made according to the amount of money received to pay for land acquisitions and compensation payments are being made for the rest of the plots before interest payments. Payment of compensation should be completed before interest is paid and interest payments were made to a certain extent from the money received at the end of 2021. The registration work for those plots of land under Section 44 of the Land Acquisition Act is being done at the level of the Divisional Secretariats.</p>	<p>Payment of compensation for land and registration under Section 44 in the name of Road Development Authority should be expedited.</p>
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### 3.2.16 Transport Connectivity and Assets Management Project

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The following observations are made

Audit observation	Comments of the Chief Accounting Officer	Recommendation
<p>(a) Even though it had been agreed by the World Bank to provide a loan amounting to USD 125 million on 29 September 2017, due to the restructuring of the scope of the Project, the loan amount had been revised up to USD 16 million on 15 August 2018, and up to USD 9 million which was Rs. 1,305 million on 06 May 2020. However, only USD 1.41 million or 16 percent of the revised credit facility of USD 9 million had been utilized as at 31 December 2021, which is the end of a period of 4 years and 3 months.</p>	<p>Due to revision of the loan agreement in 2020 and the spread of Covid, the approval of the Department of Management Services for special staff for the Project was delayed until June 2020. Further, due to the government's policy on import restriction, the importation of equipment and vehicles required for the Project was delayed until the end of 2021.</p>	<p>As the loan agreement is scheduled to expire on 31 March 2023, measures should be taken to expedite the project activities.</p>

<p>(b) Both the Transport Connectivity and Assets Management Project and the Climate Resilience Improvement Project are operating in the same building and the annual building rent of Rs.5.68 million had been shared equally between the two projects up to 31 December 2020. However, the total building rent for the year 2021, which is Rs. 5.68 million, had paid only by the Transport Connectivity and Assets Management Project. Even though the Climate Resilience Improvement Project had been carried out in this building until 30 June 2021, the building rent up to that time had not been shared between the two projects. Further, it was observed that the Project had not taken any action to reduce the rent by transferring the additional space of the building to the owner.</p>	<p>Since inception, office rental costs have been shared between the Climate Resilience Improvement Project (CRIP) and the Transport Connectivity and Asset Management Project (TCAMP). Due to the completion of the project in April 2021, the Climate Resilience Improvement Project (CRIP) has not received sufficient funds from January 2021 onwards. In such circumstances, some essential expenditure has been incurred by the Transport Connectivity and Asset Management Project. Further, due to the security of the equipment and documents used by TCAMP and CRIP, the single entrance cannot be shared with another entity.</p>	<p>Steps should be taken to prevent unnecessary rent payments.</p>
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**3.2.17 Port Access Elevated Highway Project**

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The following observations are made

<b>Audit observation</b> -----	<b>Comments of the Chief Accounting Officer</b> -----	<b>Recommendation</b> -----
<p>(a) The Port Access Elevated Highway Project had been commenced in the year 2016 and the loan agreement of this Project had been signed on 17 January 2019. As at 31 December 2021 which had elapsed 827 days after the commencement of the Project, the overall civil work progress of the Project was only 23 percent. Further, out of the 13 activities with a value of Rs. 39,303 million included in the action plan of the Project for the year 2019, 7 main activities with a value of Rs. 38,605 million had been delayed to commence by almost 2 to 24 months as at 31 December 2021. Therefore, it was observed that there is a high risk of</p>	<p>Agreed.</p>	<p>Steps should be taken to complete the delayed works expeditiously to complete the Project by the target dates.</p>

completing the construction work of the Project on the target dates.

- |  |  |  |
|--|--|--|
| <p>(b) According to the performance report of the consultants for the month of December 2021, the total number of design plans to be submitted by the contractor as at 31 December 2021 was 918. However, the actual number of design plans completed by the contractor was 633. Accordingly, 285 design plans representing 31 percent had not been completed by the contractor by the due date. Further, the completion of capping beam design and decks designs was very slow and the progress reported as at 31 December 2021 was observed as 14 percent and 23 percent respectively.</p> | <p>According to the progress report of the consultants for the month of December 2021, the total number of plans to be provided by the contractor for the entire Project is 930. According to the forth revised program of the contractor, the number of plans to be submitted by the end of December 2021 is 918. Accordingly, the expected 285 plans which is 31 percent had not been completed by the end of December 2021.</p> | <p>Construction contracts should be expedited to achieve the expected progress.</p>                            |
| <p>(c) In the year 2021, the Treasury had given an allocation of Rs. 19,393 million for the use of foreign loan amount in the Port Access Elevated Highway Project. However, due to the slow progress of the Project, 77 percent of the above allocation amounting to Rs. 14,891 million had not been utilized. Further, it was also observed that 73 percent or Rs. 4,302 million of the provision allocated for these activities for the previous year had not been utilized by the Project due to the slow progress.</p>  | <p>Agreed.</p>   | <p>Necessary steps should be taken to use the funds of the Project efficiently and achieve the objectives.</p> |

### 3.3 Locally Funded Projects

The following observation is made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
<p>It had been planned to complete the development of 30,000 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.</p>	<p>Covid-19 pandemic situation, imposition of travel restrictions, non-availability of adequate imprests on time, shortage of raw materials in the market and due to non-availability of spare parts in the market to repair the</p>	<p>Construction contracts should be expedited to achieve the expected progress.</p>

However, out of that, only 4363 roads covering 5,153.19 km had been developed. Accordingly, the performance of this Project was at a low level of about 17.1 percent.

defects in construction machines and factories supplying materials, the performance was at a low level.

### 3.4 Asset Management

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The following observations are made.

<b>Audit observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
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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, 07 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 the disposal process had also been completed and therefore, those vehicles were not used for running. But it has been decided to repair and use 03 vehicles for future requirements as new vehicles would not be imported for a long time.	Actions should be taken to strengthen the internal control system related to vehicles.
(b) The Ministry owned vehicle bearing No. KQ-0690 with a value of Rs.16 million had been handed over temporarily to Maga Neguma Road Construction Equipment Company since 18 November 2020 and until 31 December 2021, action had not been taken to transfer that vehicle to the above company or to acquire to the Ministry.	At present, the above company has been informed to hand over the said vehicle to the Ministry.	Same as above.
(c) During the year under review, 07 vehicles with a total value of Rs.84.6 million had been given to the State Ministry of Rural Roads and Other Infrastructure and a vehicle valued at Rs.2.35 million to the State Ministry of Community Police Services. However, 12 vehicles obtained from the Road Development Authority had not been utilized.	After the State Ministry of Rural Roads and Other Infrastructure became a separate Ministry, arrangements were made to transfer the ownership of the vehicles that were assigned to the duties of that Ministry through transfer documents. Arrangements have been made to hand over a motor	Same as above.

vehicle identified for disposal to the State Ministry of Community Police Services for repair and use. As the Ministry has limited vehicles in running condition, several vehicles from the Road Development Authority have been used for official purposes.

### 3.5 Security Deposits of the Public Officers

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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.	Agreed.	Should comply with Financial Regulations.

### 3.6 Losses and Damages

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The following observation is made.

Audit observation -----	Comments of the Chief Accounting Officer -----	Recommendation -----
Even though in the statement of write-off included in the financial statements submitted, a value of Rs.26,473 in respect of a vehicle accident which had been over a year and an aggregate value of Rs. 124,200 in respect of three accidents which occurred during the year had been reported as losses and waivers carried forward as at 31 December 2021, action had not been taken to recover these balances or do anything else appropriate.	The amount of Rs.26,473 in relation to one of the accidents mentioned in the audit query, has already been written off from the books. Out of the amount stated in respect of three accidents occurred during the year, a sum of Rs.61,560 has been recovered from the insurance and Rs.10,500 has been written off from the books.	Action should be taken to cover damages and losses in a timely manner or write off from books.

### 3.7 Informal Transactions

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The following observation is made.

<b>Audit observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
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<p>According to the Supplement No. 32 issued on 15 March 2017 for the Procurement Guidelines 2006, the maximum limit that can be paid to members of the Procurement Committees and related Technical Evaluation Committees in any quarter should not exceed the basic salary of that officer for that quarter. However, in contrary to that, a sum of Rs. 4.42 million had been paid to 12 officers relevant to the year 2021 during the year under review exceeding those limits. After the inquiry in this regard by the audit, 11 of the above officials had made repayments of Rs. 10.04 million to the Ministry. Accordingly, it cannot be disregarded in the audit that there is a risk that the relevant officers may have been paid exceeding the limit even in the year 2020 and the accuracy of the amount refunded by these officers as stated above was also not verified in audit. Further, although according to the Procurement Guidelines, the amount obtained by the officers over the limit should be paid to the institution where the officer is currently employed, it was not revealed to audit the reasons for crediting the relevant repayments to a project under the Ministry of Highways by the above officers.</p>	<p>Out of the said overpayments, 11 officials have made repayments according to the amendment 32 of the Procurement Guidelines and the rest of the overpayments will be recovered promptly and the necessary arrangements will be made to report the credit details.</p>	<p>Payments shall be made to the members of the Procurement Committees and related Technical Evaluation Committees as per the provisions of the Procurement Guidelines 2006.</p>

#### 4. Sustainable Development

##### 4.1 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 had been stated in the Annual Performance Report. However, a progress had not been specified relevant to those indicators.	Action will be taken to state in more detail the annual goals and the progress in achieving those goals in the annual performance reports prepared for the next year.	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

The composition of the staff of the Ministry as at the last day of the accounting year is stated below.

Audit observation	Comments of the Chief Accounting Officer	Recommendation																								
<table border="1"> <thead> <tr> <th style="text-align: center;">Employee type</th> <th style="text-align: center;">Approved cadre</th> <th style="text-align: center;">Actual cadre</th> <th style="text-align: center;">Vacancy/Excess</th> </tr> </thead> <tbody> <tr> <td>Senior level</td> <td style="text-align: center;">30</td> <td style="text-align: center;">25</td> <td style="text-align: center;">05</td> </tr> <tr> <td>Tertiary level</td> <td style="text-align: center;">04</td> <td style="text-align: center;">01</td> <td style="text-align: center;">03</td> </tr> <tr> <td>Secondary level</td> <td style="text-align: center;">249</td> <td style="text-align: center;">148</td> <td style="text-align: center;">101</td> </tr> <tr> <td>Primary level</td> <td style="text-align: center;"><u>28</u></td> <td style="text-align: center;"><u>19</u></td> <td style="text-align: center;"><u>09</u></td> </tr> <tr> <td>Total</td> <td style="text-align: center;"><u>311</u></td> <td style="text-align: center;"><u>193</u></td> <td style="text-align: center;"><u>118</u></td> </tr> </tbody> </table>	Employee type	Approved cadre	Actual cadre	Vacancy/Excess	Senior level	30	25	05	Tertiary level	04	01	03	Secondary level	249	148	101	Primary level	<u>28</u>	<u>19</u>	<u>09</u>	Total	<u>311</u>	<u>193</u>	<u>118</u>	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. As it is not possible to retain all these officers in the Ministry, they have been assigned to the regional offices of the Road Development Authority near their places of residence. So far, those officers have been released periodically and the number of officers remaining is only 71.	Action should be taken to revise the approved cadre as per the actual staff requirement of the Ministry and fill the relevant vacancies accordingly.
Employee type	Approved cadre	Actual cadre	Vacancy/Excess																							
Senior level	30	25	05																							
Tertiary level	04	01	03																							
Secondary level	249	148	101																							
Primary level	<u>28</u>	<u>19</u>	<u>09</u>																							
Total	<u>311</u>	<u>193</u>	<u>118</u>																							



(a) Even though there were 101 vacancies of Development Officers, a secondary level post, the Ministry had released 73 Development Officers who had been recruited to the Ministry for the duties of the Regional Offices of the Road Development Authority which are not directly related to the role of the Ministry. A sum of Rs.39.96 million had been paid to those officers during the year under review by the Ministry. Further, 24 officers recruited to the Road Development Authority 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 Department of Management Services to reduce this approved cadre number, it has now been possible to reduce that number to 210. Further, even though requests have been made to the Department of Management Services to suppress 55 Development Officer positions by making adjustments based on the requirement of the Ministry, approval has not been received so far. Therefore, on the request of the officials, when transferring to other institutions, the officials working in the regional offices have been released without a successor and re-assignment will not be made for those offices.

In order to carry out the general administrative activities of the Ministry, based on the service requirement of this Ministry as there are not enough government officials for Drivers, Office Assistants service, and other vacancies, 08 Management Assistants, 02 Drivers and 10 Office Assistants of the Road Development Authority have been temporarily assigned. An Office Assistant and an Office Labourer being paid a combined annual salary by this Ministry have been temporarily assigned to the State Ministry of Rural Roads and Other Infrastructure, and in the future, arrangements will be made to permanently

assign those workers to the above Ministry under the approval of the Director General of Combined Services.

Further, due to the fact that there is no driver in this Ministry close to the residence of the new Additional Secretary (Development) and the number of Driver vacancies in the Ministry is 07, a driver from the previous workplace of that officer which is the Ministry of Local Government, Economic Promotion, Power and Energy, Environmental Affairs, Water Supply and Drainage and Tourism, was temporarily released to this Ministry for a period of 06 months and then again released to this Ministry for a period of 01 year from 01.07.2021. Accordingly, the above Driver is currently working in this Ministry.

- (b) During the year under review, an Office Assistant and an Office Labourer being paid a combined annual salary of Rs.936,575 by the Ministry had been temporarily assigned to the State Ministry of Rural Roads and Other Infrastructure, and a driver in the Ministry of Local Government, Economic Promotion, Power and Energy, Environmental affairs, Water Supply and Drainage and Tourism, had been temporarily attached to the Ministry of Highways.

Two employees being paid by this Ministry have been temporarily assigned to the State Ministry of Rural Roads and Other Infrastructure, and in the future, under the approval of the Director General of Combined Services, arrangements will be made to permanently assign those employees to the above Ministry.

Same as above.

Further, due to the fact that there is no driver in this Ministry close to the residence of the new

Additional Secretary (Development) and the number of Driver vacancies in the Ministry is 07, a driver from the previous workplace of that officer which is the Ministry of Local Government, Economic Promotion, Power and Energy, Environmental Affairs, Water Supply and Drainage and Tourism, was temporarily released to this Ministry for a period of 06 months and then again released to this Ministry for a period of 01 year from 01.07.2021. Accordingly, the above Driver is currently working in this Ministry

## 5.2. Lack of Proper Planning of Human Resource Development

The following observations are made.

Audit observation	Comments of the Chief Accounting Officer	Recommendation
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(a) For the year under review, 192 hours of training period under 25 major training programs had been planned for officers at various levels of the staff. However, only one officer had participated in a 12-hour training program during the year. Accordingly, the human resource development plan had not been implemented properly.	It was not possible to hold training programs due to the intermittent closure of the institution due to the ongoing Covid pandemic situation throughout the year 2021, the difficulties in bringing lecturers due to those conditions and the temporary suspension of training programs by training institutions.	Based on the current situation, training programs should be conducted using media such as zoom technology.
(b) According to Section 03 of Public Administration Circular No. 02/2018 dated 24 January 2018, the skills of each officer had not been separately identified for human resource development and a suitable system had not been prepared for that.	Considering the responsibilities assigned to the entire staff working in the Ministry and recognizing the existing skills of the officers, steps have already been taken to carry out activities such as transferring of subjects.	Action should be taken as per circular provisions.