

OPEC Funded Rehabilitation and Improvement of Western Province Road Development Project - 2024

The audit of financial statements of the OPEC Funded Rehabilitation and Improvement of Western Province Road Development Project for the year ended 31 December 2024 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provision in the loan agreement No 1662 P dated on 26 June 2015 entered into between the Democratic Socialist republic of Sri Lanka and OPEC. My comments and observations which I consider should be reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, the Ministry of Port, Shipping and Highways, presently the Ministry of Transport, Highways, Ports & Civil Aviation is the Executing Agency and Road Development Authority is the Implementing Agency of the Project.

The objective of the Project is to upgrading, improvement and widening of 27 Km of pre- selected international highways in the Western Province of Sri Lanka. The activities of the Project are implemented under two components namely Civil Work & Consultancy.

As per the Loan Agreement, the estimated total cost of the Project was US\$ 24.87 million equivalent to Rs.3,232.5 million and out of that US\$ 17 million equivalent to Rs.2,209.84 million was agreed to be financed by OPEC Fund for International Development. The balance amount of Rs.1,022.66 million is expected to be financed by the Government of Sri Lanka.

The Project had commenced its activities on 05 October 2017 and scheduled to be completed by 28 June 2019. However, the date of completion of the activities of the Project had been extended up to 10 May 2026

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the section 2.1 of my report the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2024 and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibilities of management and those charged with governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

1.6 Auditor's Responsibilities for the audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit.

I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Comments on Financial Statements

2.1 Accounting Deficiencies

Accounting Audit Issue	Deficiency / Amount Rs. million	Response of the Management	Auditor's Recommendations
The project had disclosed that the land acquisition works had been completed and the interest payments are in progress and as per the financial statements the accrued compensation was Rs.701,250. However, during the first three month of year 2025, the accrued compensation payment was Rs.14,957,207 and under provision for compensation payable was Rs.14,255,957.	14.25	In accordance with Section 150(b) of SLPSAS 01, Under the current activities of the project activities, we stated that “land acquisition works are completed”. This statement is based on the fact that approximately 99% of the compensation payments have been completed and all procedural steps required for compensation disbursement under the land acquisition process have been completed. While it is acknowledged that only 537 land plots have been registered to the end of financial year, and the remains are still in the registration process.	The Accountant should ensure compliance with Sri Lanka Public Sector Accounting Standards.

2.2 Non Compliance with Laws, Rules and Regulations

	Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
(a)	Sub clause 9.3 of the Management circular No 01/2019 dated 15 March 2019.	Only two Steering Committee meetings had been held during the year under review and it may badly affect to the progress of the project activities.	Due to the elections held in 2024 and resulting administrative delays, it was not possible to maintain a regular meeting schedule.	Circulars requirement should be followed.
(b)	Management Audit circular No DMA/01/2019 and	Any project Internal Audit Review committee meeting had	Necessary action will be taken to conduct the Audit Committee	Circulars requirement should be followed.

dated 12 January 2019. not been held by the Project for the year under review. Meetings in future by appointing an independent officer.

3. Physical Performance

3.1 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
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Rehabilitation/Improvement of B 174 Kaduwela Athurugiriya Road Section from (0+000km-9+500 km) and B 451 Walgama - Athurugiriya Road section from (0+000km-1+210km)

According to the Sub-clause 8.1 of the Conditions of Contract, the Engineer of the Project had confirmed the commencement date as 29 January 2018 and then the original date of completion revised as 28 July 2019 which was 18 months from the commencement date.

Moreover, according to the Sub-clause 2.1 of the Conditions of Contract, the employer shall give the contractor right of access to, and possession of all parts of the site within 07 days after commencing date.

Following observations were made in this regard.

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| (a) | (i) | The employer had failed to give the vacant possession in accordance with the above sub clause 2.1 and as per the Technical evaluation Committee report dated 01 January 2023, the entire site was not available to the | We acknowledge that full possession of the site could not be provided to the contractor as required under Sub-Clause 2.1 of the Conditions of Contract. This was primarily due to delays in the land acquisition process. These factors resulted | Land acquisition processes are executed in accordance with the land acquisition plan. |
|-----|-----|--|--|---|

contractor as of 05 February 2018, instead only some intermittent sections were available, where many out of the said sections were not in continuous nature. Therefore the contractor had to perform the work within the confined spacing at disruption and the delay had been occurred due to the incompleteness of the land acquisition process.

in disruptions and confined working conditions for the contractor.

- (ii) Accordingly, the Extension of Time (EOT) had been approved by the engineer of the Project in 03 instances for 795 days considering the Employer's failure to provide right access and possession of the site. Apart from that, in between 46 days had been approved due to Easter Sunday attack and Covid 19, However, 100 percent of the possession had been given in November 2020 by the Project. As a result, the contractor has submitted 05 claims of Rs1,939.01 million for Prolongation cost against EOT granted period and the Project had paid Rs.318.66 million as at 10 October 2024.

We acknowledge that full possession of the site could not be provided to the contractor as required under Sub-Clause 2.1 of the Conditions of Contract. This was primarily due to delays in the land acquisition process. These factors resulted in disruptions and confined working conditions for the contractor.

Land acquisition processes are executed in accordance with the land acquisition plan.

- (iii) Further, it was observed that the Prolongation cost had not been allowed under provisional sums as per the initial BOQ.

The revised BOQ, including this additional provision, was properly evaluated and approved through the internal

A formal inquiry should be conducted to ensure that the rights of the employer are upheld as per

However, in contradiction to that, the claim amount of Rs.318.66 million had been paid and it was shown under the value of work done in the IPCs. Due to that, the Project had paid Provisional Sum amount up to Rs.386.16 million as at 31 December 2024 by exceeding the allowed provisional sums of Rs.153.10 million in the initial BOQ.

approval process of the RDA.

Conditions of Contract (COC) while certifying IPCs.

- (iv) However, due to the under evaluation of the said claims, on 03 July 2024, a dispute adjudication board referral for Rs.1,581,612,295 had been submitted by the Contractor for Site overhead, cost of Disruption, Head office overhead, cost of Idling, cost of non-released retention, extended preliminaries with respect to the above mentioned delay period.

The contractor submitted a claim amounting to Rs.1,581,612,295, which includes several components such as site overheads, head office overheads, disruption costs, idling costs, and others. However, in the employer's view, these cost components are not fully substantiated or reflective of realistic valuations.

A formal inquiry should be conducted to ensure that the land acquisition processes are executed in accordance with the land acquisition plan and also that the rights of the employer are upheld as per Conditions of Contract (COC)

By the end of the year under review, a re-evaluation had been done by the Engineer/PMU as per the directions given by the Dispute Arbitration Board (DAB), and the re-evaluated amount was Rs.298,070,447 and both the contractor and the employer had sent the notice of dissatisfaction on DAB decision by January 2025.

As part of the Dispute Adjudication Board (DAB) process, the Engineer was requested to re-evaluate the claim following the DAB's decision dated 27 December 2024, which was not accepted by the Employer. This matter may proceed to amicable settlement or arbitration.

Accordingly the cost of the Project will be increased by Rs.298,070,447 unnecessarily, due to the incompleteness of land acquisition process within the planned time period.

- (b) Also, another claim (Dispute 5) had been raised with relevant to the current indices which were used for Interim Payment certificates No 43, 47 and 50. Under that, a claim of Rs.24,603,954 had been requested by the Contractor. and According to the DAB decision dated 30 September 2024 for Dispute 5 that the contractor is not entitled for any balance amount and interest charges as adjustment for changes in cost with regard to the IPC No 43, 47 and 50, and also the employer is not entitled to recover any amount as over paid amount with regard to the adjustment for changes in cost.
- The employer submitted a Notice of Dissatisfaction to preserve the right to recover overpayments certified under the same circumstances as the contractor's disallowed claim. This was necessary because the DAB decision did not accept either the contractor's claim or the employer's recovery request. Accepting the decision without objection would have prevented the employer from pursuing legitimate entitlements in any future arbitration or settlement proceedings.
- Project Director should take necessary actions to mitigate losses by coordinating the relevant staff efficiently and ensure that the rights of the employer are upheld as per Conditions of Contract (COC).
- However, both the contractor and the employer had sent the Notice of dissatisfaction by October 2024 to the DAB on above decision for the dispute no 5 and the notice of dissatisfaction of Employer was problematic for the audit.
- (c) Even though the Package No OFID-3/01 contractor interim payment certificates are released and submitted for the payment, the project had settled 05 interim payment certificates with a delay of 05 to 31 days from the due date. As a result, the contractor had claimed interest of Rs.20.07 million for the delayed period. It was observed that, the delay in settlement of contractor payment had been affected to overrun the Project cost.
- It was revised the B.O.Q. to match with the exceeded BOQ quantities. IPC payment was delayed until the donor concurrence for revised B.O.Q. is received and obtaining allocation for additional cost.
- Project Director should take necessary actions to mitigate losses by coordinating the relevant staff efficiently.

3.2 Idle/ Unutilized/ Underutilized Resources

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	The allocation of Rs.100 million and Rs.660 million had been provided under of foreign loan and GOSL component respectively during the year under review. However only amounting to Rs.45 million representing 45 percent of foreign loan allocation and Rs.625.8million representing 94.8 percent had been utilized by the Project.	It has been decided to commence Reconstruction of Bridge No. 9/1 during the year, but work was not commenced as anticipated due to unavoidable procurement delay.	Compliance with the disbursement plan and the action plan in order to prevent the incurrence of commitment charges.
(b)	The loan agreement of the Project was signed on 26 June 2015 for US\$ 17 million and scheduled to be completed on 30 June 2019. However, due to delay in the construction activities of the Project, the loan closing date had been extended several times by the Funding Agency up to 10 May 2026. Although the loan repayment had been commenced in 2020, the Project was unable to disburse of US\$ 2.13 million representing 12.5 percent of the total loan facilities as at 31 December 2024.	As explained in 1.2.2 (a) (i) Project was delayed due to land acquisition delay and financial crisis. Accordingly, the loan validity period extend to utilize balance loan allocation.	Compliance with the disbursement plan and the action plan in order to prevent the incurrence of commitment charges.

3.3 Issues Related to Human Resources Management

Cadre Position	No of Posts			Response of the Management	Auditor's Recommendation
	Approved	Actual As at 31 December 2024	No. of vacancies/ excess		
Internal Auditor	1	0	1	Post of Internal Auditor was not approved by the Management Services Department	The chief Accounting officer should ensure the availability of an effective internal audit process.

3.4 Issues relating to the Land Acquisition

Audit Issue	Response of the Management	Auditor's Recommendation
According to the information made available, it was scheduled to acquire 2747 plots of land including 506 plots of land owned to the government and the compensation amount of Rs.1682 million had been paid under Section 17 of the Land Acquisition Act. In addition, a sum of Rs.345 million had been paid as interest on delays in settlement of compensation up to 31 Decemberb2024. However, only 538 plots of land had been registered under Section 44 of the land acquisition act as at 31 December 2024 and 80.5 percent of the total Land plots had been remained to complete the Land Acquisition process. Hence the overall physical progress of improvement works of the three roads had been stated as 100 percent progress of the land acquisition works was 88.7 percent at the year under review.	The registration of land under section 44 is being carried out by the Divisional Secretariats. Even several request were made to the Divisional Secretariats to expedite the registration process, it was delayed due to the lack of resources available at Divisional Secretariats.	Land acquisition processes are executed in accordance with the land acquisition plan.