Second Integrated Road Investment Program (Second iRoad) - 2024

The audit of financial statements of the Second Integrated Road Investment Program for the year ended 31 December 2024 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 4.03 Article IV of the Loan Agreements No. 3579 SRI and No. 3580 SRI (COL) dated 22 November 2017, Loan Agreement No. 3851 SRI dated 13 November 2019, No. 4067 SRI dated 28 May 2021 and No. 4384 SRI dated 28 November 2023 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comments and observations which I consider should be reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Program, the Ministry of Higher Education & Highways, presently the Ministry of Transport, Highways, Ports and Civil Aviation is the Executing Agency and Road Development Authority is the Implementing Agency of the Program. The objective of the Program is to enhance the road accessibility between rural communities and socio economics centres. The long term impact is to increase transport efficiency of national and provincial roads. As per the Loan Agreement, the estimated total cost of the Program was US$ 1,084.60 million equivalent to Rs.165,185 million and out of that US$ 900 million equivalent to Rs.137,070 million was agreed to be financed by Asian Development Bank. The balance amount of Rs.28,115 million is expected to be financed by the Government of Sri Lanka. The donor had released USD 500 million out of USD 900 million under three tranches according to their regular disbursement method and the processing was withheld as a result of the macroeconomic crisis. Later, it was decided to provide further USD 60 million under tranche 4 of this Programme to carry out the critical works of the already commenced and incomplete road section and settle the payments of previous work done in both iRoad and Second iRoad programs. The Program had commenced its activities on 20 July 2018 and scheduled to be completed by 31 March 2027.

1.3 Qualified Opinion

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

1.4 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the

Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Project.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

2. Comments on Financial Statements

2.1 Accounting Deficiencies

	Accounting Deficiency	Amount Rs.million	Response of the Management	Auditor's Recommendation
(a)	Interim payments relating to the certificates valued at Rs.161.36 million certified by the engineer had not been accounted as payables to contractors and consultants in the financial statements of the year under review. As a result, the payables to contractors and consultants and work in progress had been understated by similar amount.	161.36	Instructions will be given to adhere to the Accounting Standards when preparing future Financial Statements.	The Accountant should ensure compliance with the selected Financial Reporting Framework.
(b)	The retention amounting to Rs. 216.68 million had been included in both retention payable and the payable to civil work contractors. As a result, the current liabilities and work in progress overstated by similar amount in the financial statements of the year under review.	216.68	It had been rectified in 2025 by Journal Entry No. JE/25/67.	The Accountant should ensure compliance with the selected Financial Reporting Framework.

(c)	The engineer certified value of 3 interim payment certificates (IPC's) amounting to Rs.40.09 million relating to 03 contract packages included in the contract register in the year under review had not been accounted. As a result, the work in progress, Central Bank (CB) payable and retention had been understated by Rs.40.09 million, Rs. 28.08 million and Rs.3.83 million respectively.	40.09	CB applications referred to these IPCs payments were submitted to the Department of Treasury Operation.	The Accountant should ensure the accuracy of the financial statements.
(d)	According to the paragraph 43(a) of the Sri Lanka Pubic Sector Accounting Standards 05, the assets and liabilities should be translated at the closing rate at the date of that statement of financial position. However, the Progaramme had not adjusted or disclosed the parity variance during the year under review.	-	As per the instructions given by the Director General, Department of State Accounts, adjusting the parity variance in the Project Financial Statements is not necessary.	Compliance with the relevant SLPSAS.
(e)	The provision had been made for cost claim amounting to Rs.14,087.80 million had been rejected by the engineer. Further, the certainty of the present obligation is not confirmed in the audit regarding the remaining cost claims amounting to Rs. 3,489.50 million, which are accounted as payable to contractors in the financial statements. As a result, the payable to contractors had been overstated by similar amount.	14,087.80	The cost claims which were rejected by the Engineer incorrectly recorded as a provision in the payable to civil works contractors had been rectified by Journal Entry No. JE/25/68 in 2025.	Special attention should be paid and written instructions should be issued when review carried out in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018.

(f)	According to the paragraph 22 of the Sri Lanka Public Sector Accounting Standard 08, the provision should be recognized only the entity has a present obligation, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. However, the accuracy of the provision made as dispute adjudication board (DAB) and arbitration claims amounting to Rs. 907 million couldn't be ascertained in audit due to relevant information was not available for audit.	907.00	This contractor claim against termination and associate claims. The arbitration is ongoing.	Adhere to the SLPSAS.
(g)	The provision for unrecovered mobilization advances amounting to Rs. 1,201.37 million should be stated separately as doubtful recoveries. However, it was accounted as payable to contractors and consultants. Therefore, the payable to contractors and work in progress had been overstated by the similar amount.	1,201.37	Provision for unrecovered mobilization advance of the terminated contracts had been separately accounted.	Adhere to the SLPSAS.
(h)	According to the paragraph 97 and 98 of the Sri Lanka Public Sector Accounting Standard No. 08, a brief description of the nature of the obligation etc. should be disclosed.	571.96	The civil works had been suspended in early 2023 and several IPCs payments were withheld due to insufficient funds.	Relevant discloses should be required as per the SLPSAS.

However, the relevant disclosures had not been made relating to the provision of Rs.571.96 million for delay interest.

2.2 Non Compliance with Laws, Rules and Regulations

	Reference to the Laws Rules and Regulations	Non Compliance	Response of the Management	Auditor's Recommendation
(a)	Public Finance Circular No. 01/2020 dated 28 February 2020.	The report regarding the board of survey conducted by Programme with provincial reports should be submitted to the Auditor General before 15 June of ensuing year. However, the relevant report for the year under review had been submitted to the audit on 09 July 2025.	Board of Survey had been completed and the report has been submitted.	Board of survey should be done as per the circular instructions.
(b)	Section 9.3 of the Management Service Circular No. 01/2019 dated 05 March 2019	Steering Committee of the Project should be met at least once in two months. However, only one meeting had been conducted during the year under review.	Two meetings of the steering committee on 02 August 2024 and 08 November 2024 had been conducted.	The Chief Accounting Officer should ensure that Steering committee meetings are held in accordance with the relevant circulars.
(c)	Management Audit circular No DMA/01/2019 dated 12 January 2019	Project Internal Audit Review Committee should be established and at least 04 meetings should be conducted annually. However, only one meeting had been conducted from the year under review.	Post of the Internal Auditor of iRoad Program abolished by the Management Service Department. As such Internal audit function of the Program had not been performed properly.	The Chief Accounting Officer should ensure that Internal Audit Review committee meetings are held in accordance with the relevant circulars.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Component	Activity	As at 31 December 2024		Audit Issue	Reasons for delays
		Expected physical performance km	Performance achieved km		
Completion of rehabilitation works of National and Rural roads.	National Roads	340 km	120.31 km	The Program had only completed a length of 120.31 km of national roads and 2,447.21 km of rural roads out of 340 km of national roads and 3400 km of rural roads respectively as at 31 December 2024.	Most of the contractors suspended their works, poor performance of the contractors, fund restrictions and delays in contract payments are mainly affected to the poor progress.
	Rural roads	3400 km	2,447.21 km		

Response of the Management Agreed

Auditor's Recommendation Project should prepare proper action plan and budget and responsibilities should be fixed accordingly. Instructions should be issued in the review carried out in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018

3.2 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
(a) The PMU had not taken further actions regarding encashment of mobilization advance bonds and performance bonds as per condition of contract. The details are as follows.		

(i) The Program had submitted demands for payment to the bank regarding encashment of mobilization advances from 06 terminated packages amounting to Rs.1,445.06 million as at 31 December 2024. However, the banks had not encashed the bonds because contractors obtained court orders against the encashment of those bonds.	Several bonds were encashed and further, cases were referred to the Arbitration for further actions.	Immediate action should be taken to encash the advance bonds, and action should be taken against the responsible officers.
(ii) The recoveries were not incurred during the year related to outstanding mobilization advances amounting to Rs.885.75 million in 10 packages as at 31 December 2024	Out of this, the amount of Rs. 37.73Mn was recovered and Bonds relevant to other contract packages are still active.	Immediate actions should be taken to encash the advance bonds.
(b) The contractor would be entitled to an extension of time (EOT) to complete the works owing to the acceptable reasons. The following observations are made.		
(i) Although the contractor should apply for EOT before the end of the original contract period or the early approved EOT date, it was observed that contractors in 19 contracts that continued during 2024 had applied for EOT with delays ranging from 09 days to 889 days.	The delay in furnishing documents by the Contractors caused significant delays in EOTs.	The instructions of the contract conditions should be followed.
(ii) Although the EOT should be approved before the lapse of the original contract period or the early approved EOT period, it was observed that the approval of the EOT by the Engineer was delayed, ranging from 129 days to 732 days, in 7 contracts that continued during the year under review.	The delay in furnishing documents by the Contractors caused significant delays in EOTs.	The instructions of the contract conditions should be followed.

	Further, EOTs in remaining 12 contracts furnished to approval of the Engineer had not been approved even as at 31 May 2025.		
(c)	According to the recommendation 4.1.6 of the Public Expenditure Review Committee (PERC) dated 13 July 2023, it was recommended to complete the roads of which the rehabilitation has already been commenced by the Programme up to motorable level during the forthcoming medium term. As per the road wise progress at the end of the year under review, the handing over details regarding 520 rural roads and 26 national road which were not included in the critical works program had not been furnished to the audit.	Detailed report in this regard will be submitted within two weeks period.	Should comply with the committee recommendations and an investigation should be conducted on non-compliance with the recommendations of the committee.
(d)	Although 91 roads were identified as fully completed as per progress report as at 31 March 2023, it was observed that those roads were also included under the Critical Work Programme approved as at 01 January 2024.	It is required to check with the relevant provincial offices. Detailed report in this regard will be submitted within the period of two weeks	Proper evaluation should be conducted before preparing the Critical Work Programme

3.3 Extraneous Payments made out of the project objectives

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Accumulated commitment charges amounting to Rs. 94.03 million had been paid by the Program uneconomically to the Lending Agency on un-disbursed proceeds of the loan as at 31 December 2024.	By utilizing the tranches within the planned period, the Commitment Charge can be minimized.	Program should prepare proper action plan and budget and responsibilities should be fixed accordingly to minimise commitment charges. Instructions should be issued in the review carried out in accordance with the provisions of Section 38(1)(c)

			of the National Audit Act No.19 of 2018.
(b)	Although all laboratory, furniture and survey equipment will be reverted to the contractor at the end of the Programme as per Sub clauses 108.4 and 120.7 of the Conditions of the Contracts, a sum of Rs. 518.99 million and Rs. 14.13 million had been paid as a lump sum for laboratory, furniture and survey equipment respectively. Thus it may indicate that favorable contract conditions may lead to undue benefits to the contractors.	The expenditure incurred under this method is relatively less. Further, RDA is currently in the possession of adequate quantities of Laboratory Equipment and space for storage of such equipment is also not available.	The special conditions of the contract should be carefully reviewed before enforcement. Special attention should be drawn by the TEC and the PC when reviewing the bidding documents to secure the employer rights, keep value for money in the procurement process.

3.4 Underutilized Resources

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Generally, the entire loan amount is released by the donor in several tranches from time to time under a Multi-Tranche-Finance Facility. The donor had released USD 500 million out of USD 900 million under three tranches according to their regular disbursement method before 2021. Although loan No 3580-SRI (COL) was closed as at 06 October 2021, it was observed that a sum of USD 139,761.22 out of the agreed loan balance of USD 60 million was not fully utilized before the loan closure.	Loan 3580 –SRI (COL) closed with reduced amount of USD 59,860,238.78.	Programme should plan to utilize loan facility within the stipulated time period.

(b)	The loan disbursement process was withheld by the donor due to the macroeconomic crisis during 2021-2023. Later, a critical work loan agreement was signed to provide USD 60 million under tranche 4 of the Programme to carry out the critical works of the already commenced and incomplete road section, maintenance of not commenced roads and payment of previous work done relating to both iRoad and this programmes under the approval of Cabinet of Ministers No. 23/1830/608/070-II dated 09 October 2023. As per Cabinet Memorandum, it was decided to rehabilitate 804 rural roads and 11 national roads transferred to the critical works program out of the 1019 incomplete roads. Although the mobilization advances amounting to Rs. 6,454.95 million were outstanding as at 31 December 2024, it was observed that further actions had not been taken to recover outstanding mobilization advances on terminated packages and the packages which were not included in the critical works program amounting to Rs.1,445.06 million and Rs.692.71 million respectively.	Most of the contracts were de-scoped due to funding limitations. PMU carried out several discussions with the contractors to formulate a mechanism for the recovery of advances by way of setting off pending IPCs, Retention money etc. with the consent of the Contractors.	Immediate action should be taken to encash the bonds and formal inquiry should be conducted and loss should be recovered.
(c)	As per the loan agreement signed on 28 November 2023 for the tranche 4 under the Programme, it had been provided a sum of USD 60 million for both iRoad Programmes in order to attend the critical works of the already commenced and	Disbursement and utilization of the proceeds of the Tranche 4 loan were carried out by according to the disbursement plan, budgetary controls and	The loan proceeds should be utilized properly to avoid additional cost.

incomplete road section and payment of previous work done. A sum of USD 33.56 million out of USD 60 million equivalents to Rs. 10,294.06 million had been disbursed as at 31 December 2024. Out of that, a sum of Rs.4,594.82 million had been spent for civil works of iRoad Programme as at 31 December 2024.	critical work plan approved & reviewed by the ADB.	

3.5 Matters in Contentious Nature

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	According to the report of Public Expenditure Review Committee (PERC) issued on 13 July 2023, it was recommended to complete the roads of which the rehabilitation has already been commenced by the Programme up to motorable level during the forthcoming medium term, it was observed that the programme had commenced to rehabilitate four new roads (untouched roads) with a length of 9.02 km valued at Rs.321.71 million under critical works program contrary to the decisions of the above committee.	All roads handed over to i-Road program in 2020 were not been touched within three years and highly damaged. Due to this reason these roads had to be attended under critical works.	Comply with the committee recommendations and an investigation should be conducted on selection of new rural roads without proper authority.
(b)	**Appointment of the Independent Consultants**		
	An IT officer was appointed as an Independent Consultant on 06 June 2024 contrary to the Paragraph 32 of the consultancy agreement and a sum of Rs. 499,500 had been paid as remuneration for the period from June to August 2024, from	IT Officer who was appointed is not an independent Consultant. She has been recruited as a non-key expert under the consultancy agreement	Should comply with the Facility Administration Manual and an investigation should be conducted

	the Interim Payment Certificates of the Project Implementation Consultancy-05 in the Eastern Province road rehabilitation consultancy. Further, the relevant officer was attached to the duties of the Secretary Office of the Ministry. Further, this officer had participated as a high-level official for a training program of the pilot project on the Greater Kandy Multi-Modal Transport Hub conducted in India from 09-14 September 2024.	between the iRoad Program and the Project Implementation Consultant.	regarding deviations.
(c)	After the special project administration mission from March to May 2023 of the lending agency, it was agreed a way forward with the program in continuing the critical and essential balance road works within a limited subsequent tranche. Accordingly, donor processed tranche 4 amounting to US $ 60 million and the respective loan agreement was signed on 28 November 2023. This tranche loan became effective on 4 December 2023. As per the instructions given by Management Services Circular No.01/2019 dated 15 March 2024 and further explained by its letter No. DMS/7777/IROAD-III dated 03 January 2024 addressed to the Secretary to the Ministry, it was emphasized that the project staff should be determined based on the agreed financial value of US $60 million since many of the road rehabilitations under the programs had been completed. Further, the Project Management Unit and Project Implementation Unit approved so far by	As per the instructions of the Management Services Department, the Project value was reduced to USD 60 Mn from USD 250 or above. Accordingly, staff salaries and allowances were reduced by huge amounts. Engineers are still continuing all i Road I & II work for the betterment of the Program.	An investigation should be conducted on the payment of salaries to the officers who were not accepted the new appointments.

	the Management Services Department for these programs had been abolished and informed that arrangements should be made to obtain fresh approval for it. Therefore, the appointments made before the end of 2023, all service contracts of the Program staff ended on 31 December 2023. The Additional Secretary (Administration) of the Line Ministry had approved to pay the salaries of the staff until 31 March 2024. Although the Department of Management Services had approved a fresh cadre by its letter No.DMS/7777/IROAD-III dated 04 March 2024 and additional approval was given further 06 Project Engineer posts (Under the PS 4 category) by the letter No.DMS/7777/IROAD-III dated 05 June 2024. It was observed that those appointments had not been accepted by officers. Although any appointment will take effect from the date of assuming duties as per Appendix 4 of Chapter II of the Establishment Code, the Program had paid a sum of Rs. 4.51 million as project allowance for the months of April to November 2024 to the 12 officers who had not accepted their new posts.		
(d)	Although 4075 land lots were donated by the respective land owners to the project during the road rehabilitation works, it was observed that the related consent letters and other documents of 2752 land lots only had been handed over to respective Local Authorities. Therefore, it was observed that	The relevant documents of the donated lands are supposed to be handed over to the respective authorities along with the completed roads.	Local Authority should be encourage to align with proper land acquisition procedure.

the PMU had not introduced and implement proper handing over procedure regarding donated lands.

3.6 Advisory Services

The Programme had entered an agreement with a Public Administration Specialist on 03 January 2022 at a value of Rs.8.2 million to obtain consultation on expanding the Road Maintenance Trust Fund (RMTF) to cover local road maintenance, expanding the RDA's responsibility to local road maintenance, assisting the improvement of the accounting capacity of RDA and develop a comprehensive accounting and financial manual for the programme. The following observations are made in this regard.

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	According to the agreement for above consultancy service, it should be completed by end of June 2023 and a sum of Rs. 5.7 million had been paid to the Public Administration Specialist. However, it was observed that, Inception Report and the Accounting and financial management manual only had been submitted as per the TOR.	Under the economic crisis and temporary suspension of negotiation process of the Tranche 4 Loan, it was decided to stop the payment for Consultancy.	Action should be taken on non-compliance with TOR condition.
(b)	According to the Terms of References, the consultant is expected to provide formal trainings to financial management staff of the programme on implementation of this manual. However, it was observed that, the above requirement had not been fulfilled by the consultant.	A final report on the policy measures and Quarterly Progress report had not been submitted.	Action should be taken on non-compliance with TOR condition.

(c)	Although a sum of Rs. 5.17 million or 63 per cent of the contract value had been paid to the Public Administration Specialist, the report on the assessment of government capacity, report on the action plans, final report on the policy measures and quarterly progress reports had not been submitted as per the Terms of References (ToR). Therefore, the completion of this contract effectively is doubtful in audit due to abnormal delay in completion of the targets.	The amount of Rs 5.17 Mn is for the reports submitted as described and not paid any additional amount.	Action should be taken on non-compliance with TOR condition.