

Port Access Elevated Highway Project - 2024

The audit of financial statements of the Port Access Elevated Highway 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 Section 2.09 of the Loan Agreement No. 3716 - SRI dated 17 January 2019 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, the Ministry of Highways and Road Development 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 have a positive impact on economic activities and regional integration. Benefits envisaged are inter-alia the ease of traffic congestion in the city of Colombo, reduction of travel time from Colombo to the Katunayake International Airport and ease of traffic congestion of logistic transport from the harbour to other regions of Colombo. The traffic congestion in the suburbs of Colombo too is also expected to ease due to the reduction expected in the movement of containers in Highways of Colombo. The activities of the Project are implemented under four components namely Works and Equipments, Consulting Services, Project Management, Interest and Commitment charge.

As per the Loan Agreement, the estimated total cost of the Project was 360.20 US\$ million equivalent to Rs.56, 850.37 million and out of that US\$ 300 million equivalent to Rs.47, 349 million was agreed to be financed by the Asian Development Bank. The balance US\$ 60.20 million equivalent to Rs.9, 501.37 million agreed to be financed by the Government of Sri Lanka.

The Project had commenced its activities on February 2016 and scheduled to be completed by 30 June 2025.

1.3 Qualified Opinion

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

1.4 Basis for Qualified Opinion

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

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

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

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

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

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

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

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

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

2. Comments on Financial Statements

2.1 Accounting Deficiencies

	Accounting Deficiency / Audit Issue	Amount Rs.	Response of the Management	Auditor's Recommendations
(a)	According to paragraph 07 of Sri Lanka Public Sector Accounting Standard No. 01, transactions and other events are recognized when they occur. However, the tax concession benefit granted to the contractor, as per Sub-clause 14.1(b) (ii) of the Particular Conditions of Contract Part A, amounting to Rs.1,252,990,115, granted from 19 February 2022 to 18 October 2024, had not been recorded in the financial statements. As a result, total receivable amount had been understated by the similar amount.	1,252,990,115	Instructions will be given to all Project Directors to pay special attention to the contractual conditions and regularity provisions relating to the tax and duty concessions granted to the contractors.	The accountant should ensure compliance with the selected financial reporting framework.
(b)	According to the paragraph 07 of Sri Lanka Public Sector Accounting Standard No.01, the transactions and events should be recorded in the accounting records and recognized in the Financial Statements of the period which they relate, however 03 Interim Payment Certificates which are related to the year under review Certified by the Engineer, had not been taken as a provision in the Financial Statements. Due to that work in progress had been understated by Rs.73,692,567 in the year under review.	73, 692,567	Accepted. IPC 56 was not certified and submitted by the Engineer when preparing Final Statements. Therefore provisions could not be made in the Books of Accounts.	The accountant should ensure compliance with the selected financial reporting framework.

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| (c) | <p>As per the paragraph 43(a) of Sri Lanka Public Sector Accounting Standard No 5, Assets and Liabilities should be translated at the closing foreign exchange rate at the date of the statement of financial position. However, mobilization advance receivable and retention payable had not been translated using the foreign exchange rate as at 31 December 2024. Due to that, the mobilization advance receivable balance and retention Payable balance had been understated and overstated by Rs.213.84 million and 153.52 million respectively.</p> | <p>Rs.213.84 million and 153.52 million.</p> | <p>It is noted to translate mobilization advances retention payment at closing foreign exchange rate.</p> | <p>The accountant should ensure compliance with the selected financial reporting framework.</p> |
| (d) | <p>According to the paragraph 88 and 89 of Sri Lanka Public Sector Accounting Standard No.01, the face of the statement of financial position shall include line items in each vise and additional line items, headings and sub totals shall be presented on the face of the statement of financial position when such presentation is relevant to and understanding of the entity's financial position. However, the Project comprises two main assets under work in progress, the Elevated Highway and the Maritime Facilitation Centre. A sum of Rs.65,850 million had been spent on these two project components up to 31 December 2024. All costs included in the work in progress without showing separately between two main assets.</p> | <p>Rs.65,850 million</p> | <p>Necessary cost absorption regarding the Cost centers will be done at the Project closing stage.</p> | <p>The accountant should ensure compliance with the selected financial reporting framework.</p> |

(e)	According to the paragraph 55 of Sri Lanka Public Sector Accounting Standard No 2, Non cash movements should be adjusted under cash flows from operating activities. However, a sum of Rs.14.77million on exchange gain arising from changes in the foreign exchange rate for the year 2024 had not been adjusted to the cash flow statement accordingly.	Rs.73,619 and Rs.14.773 million	Accepted, A corrected Cash Flow Statement is attached and noted to adjust properly in further Financial Statements.	The accountant should ensure compliance with the selected financial reporting framework.
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2.2 Unreconciled Balances

Value as per Financial Statements Rs.	Value as per corresponding records Rs.	Description of the corresponding record	Response of the Management	Auditor's Recommendations
5,625,199	6,262,015	Annual financial statement of Road development Authority in – 2024reimbursement salary of PMU staff receivable reimbursement salary of PMU staff receivable.	Accepted.	The accountant should ensure that the balances are reconciled with ledger balances.

2.3 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.	The Project Steering Committee should meet at least once in two months and through that Project should carry out periodic reviews to monitor the effectiveness of such system. However, only three Steering Committee meetings had been held	Three Steering Committee meetings were held for the year 2024.	Circulars instruction should be followed.

during the year under review and only eight Steering Committee meetings were held from 2019 to 2023 and it may badly affected to the project activity.

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| (b) | Public Administration circular No 9/2009 and dated 16 April 2009. | Contrary to the circular, an amount of Rs.592,426.64 had been paid as Overtime without confirming the Arrivals and Departures through finger scanner. | After Fingerprint Machine was installed on 23.10.2024. the Project office, relevant overtime payments were made to the staff complying with the instructions in the circular. | Circulars instruction should be followed. |
| (c) | Management Audit circular No DMA/01/2019 and dated 12 January 2019. | Project Internal Audit Review committee meetings had not been held by the Project for the year under review. | Agreed. Remedial measures are being taken. | Circulars instruction should be followed. |
| (d) | Section 06 of the Management Audit Circulars No DMA/2/2024 and dated 24 October 2024. | Action had not been taken to conduct and internal audit from 30 April 2021 of the project. | The recruitment process is still in progress. | Circulars instruction should be followed. |
| (e) | Section No 2.3.2 of Management Services Circular No 1/ 2019 and dated 15 March 2019 and Section No 4.1.1 of Management Audit circular No DMA/2/2024 and dated 24 October 2024. | Project director should be appointed in order to ensure effective Project Management on full time basis, however, the post of the Project director had been appointed on acting basis for the project from 15 March 2021. | An advertisement has been published on 07.05.2025 to recruit for the post of Project Director for an appointment on full-time basis. The recruitment process is being done during these days. | Circulars instruction should be followed. |

3. Physical Performance

3.1 Physical progress of the activities of the Project

Component	Activity	As at 31 December 2024		Delay/ Audit Issue	Reasons for delays
		Expected physical performance Units/ percentage	Performance achieved Units/ percentage		
(a) Construction of the Port Access Elevated Highway	Construction	100	97.4	The construction of the Port Access Elevated Highway commenced on 27 September 2019 with a construction period of 1,095 days, and was initially planned to be completed by 25 September 2022, as per the civil works contract. The Project approved a time extension of 837 days due to COVID-19, adverse weather conditions, and disruptions caused by the discovery of human skeletons on seven occasions. Consequently, the completion date was extended to 6 May 2025. Accordingly, the civil works programme has been revised six times. However, as at 31 December 2024, the overall progress of the civil works was 97.4 per cent, compared to the planned progress of 100 per cent. Thus, 1,783 days had elapsed as of 31 December 2024.	There are several reasons for delay as follows. Mainly, Covid 19, delay in giving possession of site by Sri Lanka Ports Authority, adverse weather conditions and discovery of human skeletons on site.

Response of Management	of	the	The extended date of completion is 6 May 2025. Although 100% of the original scope should have been completed by September 2024, only 94% could be completed due to the disturbance caused by the skeleton investigation. The Contractor revised the programme (Programme Revision – 7) in September 2024. According to the revised programme the planned progress was 97.4% and it could be achieved.		
Auditor's Recommendations			A formal inquiry should be conducted to ensure that the rights of the employer are upheld as per Condition of the Contract (COC) while issuing the Extension of Time (EOT).		
(b) Construction of Maritime Facilitation Center	75.8	45	As per the baseline action plan of the year 2019, construction of Maritime Facilitation Center had been scheduled to commence in February 2020 and completed by February 2022. However, due to delay in the procurement process, the contract had been awarded after elapse of 17 months from the scheduled date of commencement which was on 07 July 2021 at a contract price of Rs.4, 999.43 million for a period of 02 years. Total of 778 days of EOT had been granted in 09 instances and the completion date had been revised to 22 August 2025.		
Response of Management	of	the	As May 2025 target could not be achieved due to reasons beyond the Contractor's control, further EOT was approved until 22 August 2025. The Contractor is now working according to Programme Revision -6 accordingly.		
Auditor's Recommendations			A formal inquiry should be conducted to ensure that the rights of the employer are upheld as per Condition of the Contract (COC) while issuing the Extension of Time (EOT).		

3.2 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
(a) According to the sub clause 14.1 b (ii) of the Particular Conditions of the Contract Part A, all duties, taxes, custom duty and other levies on consumables (Permanent basis) excluding Value Added Tax payable by the contractor shall be included in the rates and prices and the total bid price submitted by the bidder. At the same time stated in the (b) of the same sub clause, “in the event of exemption of custom duties, excise duties, VAT or any other levies being granted by the government in respect of the works, the benefit of the same shall be passed on to the Employer” .Following observation were made in this regard.		
i. Although the contractor is required to maintain meticulous records of all taxes and duties paid, and to provide these records as and when requested by the Engineer/Employer in accordance with Clause 14.1(b) of the Particular Conditions of Contract Part A, the PMU had not been obtained necessary details by properly coordinated with the contractor.	Records were maintained by the Contractor throughout the period. All records including shipping (Cusdec) documents are maintained in the files in PMU. The details of tax concessions can be extracted from those files.	The Project Director should ensure that the contractor maintains meticulous records in compliance with the Conditions of Contract.
ii. A register had not been maintained by the Project detailing the required quantities, imported quantities, their values, and the corresponding tax concession amounts for re-export, permanent and consumable basis in coordination with the contractor, for the consignments imported under the 226 invoices. Accordingly, it was not confirmed to the audit regarding the quantity of each consignment which was imported into the country through the Project, the quantity used for the Project, and the quantity remained unused.	A database is being maintained in the office. Further all Cusdec forms are available in the files maintained, and required data can be obtained from those documents. Details of imported quantities have already been submitted to the office of the Audit. The Contractor will be requested to submit the information on used and balance quantities.	The Project Director should take immediate action to recover the undue benefit from the contractor and a formal inquiry should be conducted to ensure that the rights of the employer are upheld as per the Condition of the Contract (COC).
Accordingly, the failure to obtain the necessary records from the contractor and the lack of timely action to recover the funds upon receipt of the relevant benefits from the contractor were identified as significant issues	The information on the imported quantities is available in the PMU. The Claim on the benefit of tax concessions was prepared using this information, which is under evaluation by the Engineer.	

during the audit. As a result, the tax concession benefit which amounted to Rs. 1,252,990,115 had not been obtained by the Project. These concessions, including CID, CESS, and PAL, had been granted by Sri Lanka Customs for 226 invoices dated from 19 February 2022 onwards.

(b)

A contract agreement had been signed between the Road Development Authority and the Central Engineering Consultancy Bureau (CECB) for consultancy services related to the design of the Maritime Facilitation Center, workshop, and supervision of piling works for the Sri Lanka Ports Authority. Under that, detailed design of piling and preparing of Bidding documents and reviewing of contractor's design had to be carried out and the agreement had expired in January 2024. Due to the extension of contractor's works, agreement with the CECB for the reviewing of all the designs submitted by the contractor was extended until 31 May 2025 through a supplementary agreement.

Accepted. Designs were changed time to time due to modifications to the Employer's requirements as proposed by SLPA. This also contributed to the extension of the design review period.

A formal inquiry should be conducted to ensure that the rights of the employer are upheld as per Condition of the Contract (COC) while issuing the Extension of Time (EOT).

According to Section 3 of Supplementary Agreement No. 01, the Project is liable to make an additional monthly payment of Rs.1,142,562 to the Central Engineering Consultancy Bureau (CECB) from January 2024 to December 2024. Accordingly, a total of Rs.13, 710,745 was paid to CECB during the year under review.

(c)

i. According to the clause No 14.5 of the particular Conditions of Contract- Part A of Port Access Elevated Highway, 08 items have been identified as allowable for the payment of materials at the site and as of IPC 37, a sum of Rs.3,986,676,473.46 was identified as material at the site consisting of eight items as of 30 April 2024.

However, 05 categories of reinforcement items had not been used even when physical progress reached 98 percent as of 30 November 2024 and 1,230 tons of reinforcement amounting to

Accepted subject to the following. According to the Engineer's calculation, 903 tons of reinforcement was remaining at the end of November 2024. Out of this quantity 336 tons was required for the balance work of the original scope of the Works. Other quantity of 567 tons was kept on site by the Contractor for the future work.

A formal inquiry should be conducted to ensure that the rights of the employer are upheld as per Condition of the Contract (COC) while payment of Material at site.

Rs.547,350,000 were available as material at the site for the remaining 2 percent of physical progress with the contractor as per the IPC 54 as at 30 November 2024.

- ii. It has been identified that these materials are not required for the remaining works of the awarded contract, as per the information given by the Project, it has been identified that 503 tons of reinforcement have been identified as excess material at the site, amounting to Rs.179,068,000. Accordingly project had allowed the contractor to enjoy undue financial benefits since 30 April 2024, when the payment was made under IPC 37. Further while materials at the site have been paid to the contractor a significant Portion of these materials are considered as unwanted stock. Consequently, the actual work progress does not align with the substantial material payments made. This discrepancy is evident when analyzing the trend of net values, which are determined by deducting the valuation of the previous IPC from the current IPC valuation including materials at the site. Notably, this trend has been declining since IPC No. 45.

This situation has arisen due to the failure of the supervision consultant to perform their duties when checking and recommending the IPC, as stated in Section C (iv) of the Terms of Reference of the Consultant. Accordingly, the consultancy payment of Rs.2,452,771,489 up to the year under review was not satisfied for the audit.

- (d) According to the cabinet approval No 24/2008/713/009 and dated 28 October 2024, approval had been granted to the contract price revision for the civil works of Port Access Elevated Highway (CW 01) to revise the contract price from Rs.28,002.22 million to Rs.68,337.22 million subject to strict adherence to the recommendations of the Standing Cabinet Appointed Procurement Committee (SCAPC) and the concurrence from the Asian Development Bank (ADB).

The revised contract price includes an additional variation of Rs 5.91 billion of which Rs. 5.26 billion

Accepted subject to the following.

The Contractor was informed the urgency of the work and the need to retain the balance quantity of materials until the new work is completed. The quantity of reinforcement was accepted as material on site for this reason.

However, the concurrence of ADB for the VO-60 has not been received yet. As the variation is being delayed, action was taken to deduct the remaining quantity from the subsequent IPC.

As the Contract is of Lump Sum type, work is valued only when a substantial part of the structure is completed. Hence, the used quantity of reinforcements not reflected immediately in the value of work done.

Accepted. subject to the following amendment:

The revised Contract Price as approved by the Cabinet of Ministers is LKR 52,579.66 million. LKR 68,337.22 million is the corresponding amount of disbursement. The original contract scope did not include the connecting roads of Ramps 3 and 4, Toll Plaza, and service buildings. As a result, Variation No. 60 was introduced. Original

A formal inquiry should be conducted to ensure that the rights of the employer are upheld as per Condition of the Contract (COC) while payment of Material at site.

A formal inquiry should be conducted to determine the accuracy of the original scope of work and the engineer's EPC bidding documents.

pertains to Variation Order No. 60 for the improvement of the Lotus Roundabout–PAEH link road, including the toll plaza, service building (Ramp 04), and Ramp 03.

scope prepared according to the conditions prevailed in respect of the overall development plan of the area.

In the Technical Evaluation Committee report on variation submission and the volume 5B, 5.7 scope of work issued with bidding document in the contract agreement, It has been stated that the improvement of the Lotus Roundabout–PAEH link road, including the toll plaza, service building (Ramp 04), and Ramp 03, was not included in the original scope of the project.

Accordingly, the initial requirement for commissioning the road facility was not included in the scope of work issued with the bidding documents in the contract agreement amounting Rs. 28,002.22 million.

- (e) The SCAPC Committee expressed that it is necessary to include these scopes in order to commission the PAEH Project. However, this omission in the identified scope of work was not mentioned in either the Cabinet Memorandum dated 03 September 2024 (No. 44/2024), Annex V of the said memorandum, and the SCAPC Committee reports dated 29 August 2024 and 02 September 2024.

As a result, the Ministry of Transport, Highways, Ports, and Civil Aviation did not comply with Section 3(v) of the Manual on Submitting Memorandums to the Cabinet (No. 11/1288/558/03 dated 10 June 2011), which states, “The last paragraph of the memorandum should specify the matter for which the approval of the Cabinet of Ministers is sought.

- (f) According to Meeting No. Multi/Lat/03/2024 held on 29 August 2024 and 02 September 2024, and based on the recommendations of the Standing

The connecting roads of Ramp 3 and Ramp 4 had not been included in the original scope as designs for the continuation of those ramps had not been finalized at the time of award of the Contract due to non-completion of the overall development plan. It is not an omission but a practical condition.

Approval for the principle of VO-60 was received by the Cabinet of Ministers on 3 June 2024.

The rates in Variation No: 60 have been derived based on HSR rate plus 25% overhead

Essential information should be include in a cabinet memorandum to enable the cabinet to easily understand all the relevant matters and the most appropriate decision.

The Project Director should ensure adherence to either the

Cabinet Appointed Procurement Committee (SCAPC) Decisions No. 2 and 3, it was advised to negotiate with the contractor to reach a reasonable price reduction for the above submission. If the contractor does not agree to the negotiated settlement, it is recommended that the work be carried out through a competitive bidding process.

and profit and prevailing market rates. The Engineer has negotiated with the Contractor before finalizing the amount. In addition, final negotiation will be done before issuing instructions to commence, after receiving the ADB concurrence.

SCAPC Committee decision or the Cabinet decision to negotiate a price reduction for the additional variation and a formal inquiry should be conducted to ensure that the rights of the employer are upheld as per Condition of the Contract (COC) while preparation of the variation order.

However, before the above SCAPC report, as per the letters No SRM-JV/4 18/8447 and SRM-JV/4 18/8436 and dated 23 August 2024 and 26 August 2024, the contractor had send the cost proposal of Rs.6,780,058,054 for the additional variation for Ramp 3 and 4.

Subsequently, as per letter No. SRM-JV/4-18/8561 dated 12 September 2024, the contractor's initial total cost of Rs.6,780,058,054 was reduced to Rs.5,261,570,878 by deleting the four items of Rs.1,508,094,14.92 as instruction given by the engineer/employer.

Accordingly, the project did not adhere to either the SCAPC Committee decision or the Cabinet decision to negotiate a price reduction for the additional variation. Instead, only a scope reduction had been done.

- (g) As per the Cabinet Approval No. 24/2008/713/009 and dated 28 October 2024 and without considering the Standing Cabinet Appointed Procurement Committee (SCAPC) decision No 02 and 03, The Project Director had sent the request to ADB for concurrence on the final revised contract price through letter \no RDA/ADB/PAEHP/2-8-1/24-4661 and dated 14 October 2024 however relevant concurrences had not been obtained from the Asian Development Bank to the contract price revision by 09 April 2025.

The variation No: 60 is reviewed by an ADB expert. Final negotiation will be carried out by the SCAPC after receiving the ADB concurrence.

The Project Director should ensure adherence to either the SCAPC Committee decision or the Cabinet decision to negotiate a price reduction for the additional variation.

(h) According to the sub clause 13.8 of the section 08 in the Particular conditions of contract No price adjustment shall apply to the foreign currency portion of the value of work done payable to the contractor. However at the request of the Contractor and after a decision based on the standing Cabinet Appointed Procurement Committee (SCAPC) and the Cabinet approval No.23/2544/608/074-1 dated 09 January 2024, 02 Supplementary agreements had been signed between the Road Development Authority and the relevant contractors on 03 July 2024 separately in respect of Adjustment for changes in costs of the foreign currency component. Following observation were made in this regard.

i. According to the above cabinet approval, it has mentioned that the concurrence of the Asian Development Bank should be obtained prior to enter into any Supplementary agreement. However as per the letter of concurrence of the ADB, they have mentioned that “this approval should not be interpreted as the ADB endorsing the introduction of a price cap and instead it indicates that ADB does not find the proposal to be in violation of its policies”. Based on this statement, action had not been taken to forward this conditional concurrence to the Cabinet and inquire the opinion of the Attorney General before signing the supplementary Agreements with the contractors.

ii. By 31 December 2024, price escalations of Rs.2,370,038,000 and Rs.136,399,969 had been paid for the Port Access Elevated Highway and the Maritime Facilitation Centre respectively and further 02 price escalations amounting to US Dollar 4,112.05 and 217,908.76 had been submitted for the payment by 09 April 2025 accordingly. Agreed Price escalation of US Dollar 8 million for the PAEH had been claimed by the contractor accordingly.

ADB has expressly provided its “no objection” to the proposed payment. The comment has been made in respect of the price cap, i.e. the limit of payment of USD price escalation only. It is a general statement that ADB includes in its concurrence to ensure that ADB is not liable with regard to any matter arising from the limit of payment.

Although the contract price is paid in two components, LKR and USD, the Contract Price is indicated in LKR only. The fixed exchange rates have been adopted to ensure that the USD amount included in the original contract price will not be changed during the contract period. The fixed exchange rates do not provide any protection against the price escalation.

A formal inquiry should be conducted to ensure that the rights of the employer are upheld as part of the Condition of the Contract (COC) while paying the Price Escalation on USD Component.

A formal inquiry should be conducted to ensure that the rights of the employer are upheld as part of the Condition of the Contract (COC) while paying the Price Escalation on USD Component.

As per the SCAPC Committee report dated 27 November 2023, it has mentioned that the fixed rate of exchange for 01 USD was Rs.195.82 and 161.98 for the MFC and PAEHP respectively which provides a protection against increases in USD expenditure. However the committee reports did not include any calculation relevant to the reduction in the amount of US dollars of the originally agreed contract sum due to the unforeseen inflation after 01 May 2023 which is the adjustment commenced date in the supplementary agreements.

Reduction in the amount of USD agreed in the original contract price does not occur. Any increase of prices of imports is covered in USD price escalation

- iii. As per the Section 2.5 of the SCAPC Committee report and the Section I of the supplementary agreements, it refers only about the price adjustments for the increased cost of imports purchased with USD, However both documents, toward their conclusion, price escalations had been allowed for the all inputs including labor, material plant and other. Accordingly, the payment of price escalations amounting to Rs.2,370,038,000 and Rs.136,399,969 which had been paid for the Port Access Elevated Highway and the Maritime Facilitation Centre respectively were not considered satisfactory during the audit.

Contractually, price escalation is paid for local component of the Contract Price, which is 48.2%. The USD component (51.8%) of the contract price is used by the Contractor for his foreign inputs only

A formal inquiry should be conducted to ensure that the rights of the employer are upheld as part of the Condition of the Contract (COC) while paying the Price Escalation on USD Component.

- iv. Furthermore, it was observed that there was an inconsistency in the weighting percentages outlined in the supplementary agreement for contract number RDA/ADB/OCB/PAEH/CW-01 and those specified in the original contract agreement.

As an example, According to Section 13.8 of the contract agreement, the weighting for Bitumen was 0.69 percent in the local currency component. However, the weighting for Asphalt in the foreign currency component was 10 percent, as stated in the supplementary agreement.

CIDA Price Escalation Formula is applicable to the local component of the whole of the works. For the Local component, the price escalation is calculated from the commencement of the project; however, for the USD component, it is calculated after the Supplementary Agreement, effective from 01 May 2023.

A formal inquiry should be conducted to ensure that the rights of the employer are upheld as part of the Condition of the Contract (COC) while paying the Price Escalation on USD Component.

- (i) i. Due to delays in the completion and handover of the Maritime Facilitation Center building to the Sri Lanka Ports Authority (SLPA), the Project

Accepted.

Take measures to reduce the variation cost as per the COC.

incurred a total of Rs.340.87 million as of 31 December 2024 under three variation orders for mobilizing existing staff of the SLPA. Furthermore, it was observed that the above payment exceeded the approved variation limit by Rs.12.36 million.

- ii. Additionally, the variation limits for the rented buildings, including the Audit and Media Building for the Sri Lanka Ports Authority (SLPA) and the rented building for the Chairman's Office of the SLPA, were increased by Rs.164,301,454.05.

Accepted.

Take measures to reduce the variation cost as per the COC.

3.3 Utilization of Funds

Audit Issue	Response of the Management	Auditor's Recommendation
(a) Out of USD 293.89 million agreed for financing in the loan agreement the total loan utilization up to 31 December 2024 was amounted to USD 211 million which equivalent to RS 60,780.38 million and USD 82.89 million which equivalent to Rs.24,251.95 million remain to be utilized. Further observed that the commitment charges of Rs.430,922,200.71million had been paid to the lending Agency uneconomically on undisbursed proceeds of the loan as at 31 December 2024.	Covid situation and the prevailing economic conditions of the Country during 2020 were mainly affected to slow progress of the Project	The Project Director should ensure timely achievement of the project's physical progress.
(b) Due to Slow progress of civil works, out of the GOSL allocation of Rs.30 million for the year under review, the Project had utilized only 87.76 percent of the allocation and out of the allocation of Rs.20,000 million of the foreign funds, 61.63 percent had been utilized during the year under review.	Accepted. The reasons for this situation are the delay in approval of VO-60 and slow progress of MFC Contractor.	The Project Director should ensure the timely achievement of the project's physical progress in line with the funds provided by the Treasury.

3.4 Idle Resources

Audit Issue	Response of the Management	Auditor's Recommendation
(a) The concurrence of the Asian Development Bank had been requested by the Project on 02 February 2023 to cancel the implementation of electronic toll collection system (ETC) which had an estimated value of USD 28.4 million, due to insufficiency of funds arisen from price escalation. The ADB has given concurrence for cancellation. However, the total incurred expenditure in this regard was Rs.176.48 million as at 31 December 2024.	However, the preliminary designs and bidding documents prepared by the consultant were used for inviting proposals for the system on PPP basis.	The Project Director should ensure that the expenditure incurred for the implementation of electronic toll collection is justified by its potential to deliver future economic benefits.
(b) According to the recommendations given in the Cabinet Approval No CP 24/299/608/015 and dated 04 March 2024, a cabinet appointed negotiation committee (CANC) and Project Committee had been appointed and carrying out the procurement process to implement the system on a PPP basis. According to the CANC minutes on meeting No 07 which held on 12 November 2024, one bidder had been selected for financial evaluation. However, the Project had not been able to implement the ETC system based on an alternative procedure as specified by the management in the year 2022.	Evaluation of the financial bid is in progress. As per the CANC recommendation, an economist has been requested from ADB. The procurement process will be continued.	The Project Director should ensure that the project activities are implemented as mentioned in the action plan.

3.5 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendation
According to the Financial Regulations No 137 and 138, before certifying or approving a voucher the responsible officer should be confirmed that the Voucher is accurate and complete. However the periods of six months from January to June 2024 which we have selected as the sample following observations are made.	Some incorrect dates had been written in the vouchers inadvertently and relevant officials were instructed to take due care when dates are inserted in the vouchers in future.	The Project Accountant should ensure that all payments comply with Financial Regulations.
i. In 10 vouchers amounting of Rs.432,584.15 had been certified by the certifying officer before the preparation date of vouchers.		
ii. In 04 vouchers amounting of Rs.277, 350 had been certified after the date of payment.		
iii. In 21 vouchers amounting of Rs.3,627,921.09 had been approved by the approving officer after the date of payment for the voucher.		
iv. In 05 vouchers amounting of Rs.1,105,257.02 relevant dates had not been mentioned by the certifying and approving officers.		