

OPEC Funded Rehabilitation and Improvement of Colombo National Highways Project 2024

The audit of financial statements of the OPEC Funded Rehabilitation and Improvement of Colombo National Highways 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 1511 PB dated on 10 June 2013 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 Ports, Shipping and 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 Project. The objectives of the Project are to upgrading 65.45 kilometres of 13 key national roads in Colombo suburbs and reconstructing of Narahenpita -Nugegoda Bridge. The activities of the Project are implemented under two components namely civil works and consultancy services

As per the Loan Agreement, the estimated total cost of the Project was US\$ 86.25 million equivalent to Rs.11,212.37 million and out of that US\$ 50 million equivalent to Rs.6,499.57 million was agreed to be financed by the OPEC fund for International Development. The balance amount of Rs.36.25 million is expected to be financed by the Government of Sri Lanka.

The Project had commenced its activities on 11 December 2013 and scheduled to be completed by 31 December 2017. However, the date of completion of the activities of the Project had been extended up to 12 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 Deficiency / Audit Issue Amount Rs. million	Response of the Management	Auditor's Recommendations
(a) Compensation payable for three (03) roads amounting to Rs.8,107,850 had not been accounted. As a result, the compensation payable balance had been understated by similar amount in the financial statements at the year under review.	8.10	Agreed and necessary adjustments will be made to the Financial Statements for the year 2025.	Adhere to the SLPSAS.
(b) A provision of Rs.70,800,000 had been made for the interim payment certificate(IPC) No. 4, 5 and 6 for the year under review. As a result, the retention payable shown in the financial statements at the year under review had been understated by Rs.7,711,362.	7.71	Agreed and necessary adjustments will be made to the Financial Statements for the year 2025.	The Accountant should ensure compliance with the selected financial reporting framework.
(c) Rehabilitation and Improvement work of Walgama – Diyagama Road initially had been commenced under OFID II. Due to insufficient fund availability of	2, 491.26	We have disclosed this arrangement under the explanatory note no 5, “Rehabilitation and Improvement of B-452	The Accountant should ensure compliance with the selected financial reporting

OFID II the construction works had been commenced under OFID IV. However, land acquisition expenses of Rs.2,491.26 million had been recorded in the financial statements of the OFID II without transferring to the OFID IV Project.

Walgama – Diyagama Road”. framework.

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.	At the moment this has been rectified.	Circulars requirement should be followed.
(b)	Management Audit circular No DMA/01/2019 and dated 12 January 2019.	According to the circular, project Internal Audit Review Committee should be held annually. However, any project Internal Audit Review committee meeting had not been held by the Project for the year under review.	Internal Audit Review Committee meeting was not held due to non-availability of Internal Auditor.	Circulars requirement should be followed.

3. Physical Performance

3.1 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendations
Rehabilitation and Improvement of Orugodawatte– Ambatale Road Stage 1 and 11 (0+000km to 7+700 km) Contract No: RDA/MFAP/ICB/OFID-1/09A and RDA/MFAP/ICB/OFID-2/09B).		
Following observations are made in this regard.		
i. The Taking over certificate should have been issued by the Project on 11 August 2024 without completing the item of Asphalt concrete wearing course as per the annexure 5 of the Taking over Certificates based on the approval given by the Additional Director (Development), Ministry of Highways, letter No. MOH/DEV/05/ORU/03 (Vol III) dated 03 March 2022 which was mentioned that the Asphalt wearing course should not be done until the completion of pipe laying activity. It was observed that the approval to reduce the scope of this contract had been given without following the proper approval process	It was decided to stop Asphalt Concrete Wearing Course (ACWC) due to frequent and widespread bursting of water pipes, extensive delays in the NWSDB pipe-laying project. This made it unclear when the NWSDB would complete the laying and commissioning of the new pipe system.	Project engineers should ensure the implementation of strict protocol for all critical Construction activities.
ii. As per the letter No GTC-OC/OFID2/9A/TL/KHCM/640 and dated 18 September 2024, the Project had revoked the previous omission and instructed the contractor to proceed the Asphalt Concrete Wearing Course based on the decision made on the Progress Review Meeting held on 05 September 2024. Then, during the period of 21 October 2024 to 10 January 2025, Asphalt Concrete Wearing Course had	According to NOR meeting was summoned on 28.10.2024 and NWS&DB was instructed to abandon all pipes enabling to complete ACWC and NWS&DB acted accordingly. The LKR 29.08 million noted in the Audit Report is	A formal inquiry should be conducted to ensure that the required quality requirement as prescribed in the project specification and the safety of the beneficiaries

been laid without completing the above mentioned pipe laying activity and Rs.72,105,952 and Rs.136,439,551 of payments had been done for Stage 1 and Stage 2 respectively. As a result, the original BOQ amount had been increased by Rs.29.08 million due to not completing the pipe laying activity on time.

Furthermore, due to laying the asphalt wearing course After 2 ½ years, which is from 03 March 2022 to 10 January 2025, it was observed that the expected condition of the road surface after laying the wearing course had not been fulfilled and also as a result the repair costs to the vehicles, tend to damaging the road surface and traffic congestions had been occurred.

not solely attributable to delays in pipe-laying activities. Rather, it also includes costs arising from the addition of junctions and extensions along by-roads at these junctions on request of public which were not part of the original project scope.

- iii. Above Asphalt Concrete Wearing Course laying had been completed after the date of substantial completion of works which were 15 July 2024 and 25 July 2024, it was observed that the Asphalt concrete wearing course which is a major item of work had been done during the defects notification period and as a result, the asphalt wearing course does not cover by a 365 days of defects notification period as per the sub clause of 1.1.3.7 of conditions of contract.

The Employer decided to proceed with the ACWC during the DNP using the same contractors, at BOQ rates, under a written undertaking that no additional claims would be made other than for the mobilization of asphalt equipment. This decision was reached after a comprehensive evaluation of all available options during the PCC and NOR meetings.

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

- iv. Even though there was a situation where delay damages (LD) could be charged up to 10 percent of the contract sum which is an amount of Rs.347.19 million the Project had not recovered any delay

The Contract Provision is not specific for application of LD once it is taken over.

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

damage, for the above delays as per the sub clause 8.7 of the Conditions of the Contract.

as per Condition of the Contract (COC) while taking over the site.

3.2 Observations made on site visits

Audit Issue	Response of the Management	Auditor's Recommendation
At the time of site visit on 21 May 2025, it was observed that a considerable quantity of outstanding works were still in progress, such as, Interlock paving, in situ cover slabs, cleaning of lined drains, Construction of edges kerbs and Construction of center median across the pedestrian crossings relevant to the two contracts, even though the due dates of balance works/defects completion had expired by 09 July 2024 and 30 September 2024.	The Engineer and Employer have issued multiple reminders, and the work is ongoing. Recent payment delays have exacerbated the issue. Amidst these constraints, it is anticipated fully completion of Contract 09B in June 2025 and warning is issued to Contract- 09A .	A formal inquiry should be Conducted to ensure that the rights of the employer are upheld as per Condition of the Contract (COC) while taking over the site.

3.3 Idle/ Unutilized/ Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
During the year under review, an allocation of Rs.750 million under the foreign loan component and Rs.1,261 million under the Government of Sri Lanka (GOSL) component was provided for the project. Out of these allocations, the project utilized Rs.499.93 million, representing 66.53 percent of the foreign loan component, and Rs.1,260 million, and representing 99 percent of the GOSL allocation.	It had been decided to recommence improvement of B 367 Piliyandala – Maharagama Road section from 0+000 Km – 1+800km (section A) at the beginning of the year but court decision received to recommence the project on mid of the year and there is underutilization of foreign loan component.	PMU should be taken action to utilize the loan fund effectively.

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 5726 plots of land including 992 plots of land owned to the government and the compensation amount of Rs.9993.89 million had been paid under Section 17 of the Land Acquisition Act. In addition, a sum of Rs.2,001.26 million had been paid as interest on delays in settlement of compensation up to 31 December 2024 and compensation and interest amounting to Rs.992.76 million had accrued. However, only 996 plots of land had been registered under Section 44 of the land acquisition act as at 31 December 2024 and 82.61 percent of the total and plots had been remained to complete the Land Acquisition process.	The registration of land under section 44 carrying out by respective Divisional Secretariats. However, some of officials of Divisional secretariat not responded as anticipate due to various reasons such as lack of staff and shortage of stationeries.	Land acquisition process should be carry out with proper action plan before the commencement of the civil works.