

## **OPEC Funded Road Network Development Project - 2024**

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The audit of financial statements of the OPEC Funded Road Network 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. 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 and Urban Development is the Executing Agency and Road Development Authority is the Implementing Agency of the Project.

The objectives of the Project are to constitute as integral part of Sri Lanka's Development policy Framework and improve the road network connectivity to meet the demands of the transport sector by upgrading 202 kilometres of national roads as well as the reconstruction and widening of bridges in the Western, North Western, Central, Southern and Sabaragamuwa Provinces.

As per the Loan Agreement, the estimated total cost of the Project was US\$ 62.46 million equivalent to Rs. 7,121.32 million and out of that US\$ 40 million equivalent to Rs. 4,560 million was agreed to be financed by OPEC Fund for International Development. The balance amount of Rs. 2,561.32 million is expected to be financed by the Government of Sri Lanka.

The Project had commenced its activities on 16 January 2013 and scheduled to be completed by 31 December 2016. However, the date of completion of the activities of the Project had been extended up to 28 February 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

	<b>Accounting Deficiency / Audit Issue</b>	<b>Amount Rs. Million</b>	<b>Response of the Management</b>	<b>Auditor’s Recommendations</b>
(a)	No provision had been made for compensation payables amounting to Rs.457.74	457.74	The balance lands are in different stages in land acquisition process. Since	The Accountant should ensure compliance with the

million on the remaining 1064 private land lots in the financial statements of the year under review. As a result, work in progress had been understated by similar amount.

the ownership of this land relevant SLPSAS lots not finalized and the before signing the valuation has not been done. financial statements.

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| (b) | The relevant disclosures had not been made relating to the provision of Rs.100 million on interest for land compensation and IPC payments shown under the trade and other payables in the financial statements of the year under review.   | 100.00 | Agreed. We will make necessary arrangement to disclose the relevant information in financial statements 2025.   | The Accountant should ensure compliance with the relevant SLPSAS before signing the financial statements. |
| (c) | As per the paragraph 43(a) of Sri Lanka public Sector Accounting Standard 05, assets and liabilities for each statement of financial position should be translated at the closing foreign exchange rate of the date of the statement of financial position. However, the Parity adjustments relating to the foreign loan of the project had not been accounted for the year under review as per above requirement. | -      | The exchange parity adjustment on foreign loans has not been carried out for the year 2024 in accordance with the instructions stipulated in the Department of State Accounts Circular No. 3/2024 dated 22.02.2024. | The Accountant should ensure compliance with the relevant SLPSAS before signing the financial statements. |

**2.2 Non Compliance with Laws, Rules and Regulations**

<b>Reference to the Laws Rules and Regulations</b>	<b>Non Compliance/Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor’s Recommendations</b>
Sub clauses 128 of Conditions of the Contracts	The laboratory equipment and furnishings shall revert to the contractor at the date of issuing of the taking over certificate. However, the Project had paid a sum of Rs.6 million as a lump sum	Laboratory equipment available in the Road Development Authority (RDA) exceeds the requirements. Accordingly, the said items are back to the	The special conditions of the contract should be carefully reviewed before enforcement.

for field laboratory contractor after the equipment as at 31 project conclusion. December 2024 in relation However, action will be taken to adjust the to the Reconstruction of Bridge No. 4/2 in unfavorable contract conditions in future Orugodawatta – Abathale Procurements. road. It was observed that the Procurement Committee and Technical Evaluation Committee had not reviewed that Special Condition of contract, before finalizing the Bill of Quantities (BOQs). Therefore those unfavorable contract conditions may lead to undue benefits to the contractors and overrun the project cost.

### 3. Physical Performance

#### 3.1 Physical progress of the activities of the Project

##### (a) (i) Land Acquisition

Component	Activity	As at 31 December 2024		Delay/ Audit Issue	Reasons for delays
		Expected physical performance Plots	Performance achieved Plots		
Land acquisition	Title transfer to RDA	2772	191	According to the information furnished to the audit, 2,772 plots of lands had been acquired by the project under the Section 38(a) of the Land Acquisition Act. Compensation of Rs.290.26 million for 820 plots of lands and cost of Rs.53.26 million delayed interest for 266 plots of lands had been paid as at 31 December 2024. Further, the PMU had been able to obtain possession as per section 44 of the Land Acquisition Act only for 191	Delay in land acquisition activities due to poor supervision.

land lots by the end of the year under review due to valuation process couldn't be able to complete for the remaining lots under section 17 of the Act until the end of the year under review.

**Response of the Management** Agreed.  
The current status is furnished to the audit.

**Auditor's Recommendations** The project should ensure that land acquisition processes are executed in accordance with the land acquisition plan and written 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.

(ii)	<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
	The extent of land area relating to land acquisition couldn't be reviewed in the audit because the relevant details were not in the progress reports submitted from the project's database.	Acquired land extends to be extracted from document of 10(1) decision and action is taken to include the same in to the data base.	A proper database should be maintained by including all details of land acquisitions.

**(b) Interest Payments**

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
It was observed that total interest amount identified as at 31 December 2024 for delay compensation was 12 to 39 per cent of the relevant land acquisition cost of the DS Division up to 31 December 2024. Further compensation for 1952 land lots remaining at the end of the year under review and therefore, the cost of interest may be increase in the future.	Compensation had been paid for 820 plots out of total of 2,772 plots. However, there is a delay in the compensation process due to insufficient staff at the DS offices and the failure of some landowners to provide the required documents for payment.	Land acquisition process should be implemented with proper action plan and budget allocations should be obtained accordingly.

### 3.2 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
(a) Although proper approval should be obtained for payment of Price Contingencies of the contract exceeding the BOQ amount, it was observed that payment had been made two contracts of Construction of Bridge No 4/2 and 3/1 on Orugodawaththa - Ambatale Road exceeding the BOQ amount for the price contingencies amounting Rs.70.12 million and Rs. 101.81 million respectively without prior approval.	Price contingencies exceeded due to increase price escalation and action is taken to revise the BOQ accordingly	Special attention should be paid to obtain approvals.
(b) According to the 22 IPCs of the Reconstruction of Bridges No 4/2 and 3/1 Orugodawaththa – Ambatale Road in 2024, it was identified Rs.12.45 million payments were made for quantities exceeding the quantities mentioned in the BOQs without obtaining prior approvals.	Action has been taken to revise the BOQ to meet actual work done. Quantities in the relevant Bill No. 1 of the BOQ exceeded due to EOT.	Special attention should be paid to obtain approvals.
(c) Although the contractor would be entitled to an extension of time (EOT) to complete the works owing to the acceptable reasons, a sum of Rs.6.96 million had been incurred additionally for office maintenance, house maintenance, vehicle and other operating staff of engineer and maintaining laboratory equipment etc.	The mentioned item in the Audit report increased due to extension of project period action has been taken to revise the BOQ.	Special attention should be paid on additional expenses due to EOT.
(d) Although four roads rehabilitated under this project handed over to the Road Development Authority (RDA)	Handing over document pertaining to the Bridge No. 3/2 on Polgahawela – Kegalle Road difficult to trace in the	Special attention should be paid to keep handing over documents.

as per the clause 10.1 of general conditions of contract, the actions had not been taken by the project to handing over the reconstruction of Bridge No 3/2 on Polgahawela – Kegalle road to the Road Development Authority until 31 December 2024.

office stores and action will be taken to obtain copy from the Executive Engineer.

- (e) The maintenance works during the Rehabilitation and improvement of (A005) Peradeniya – Badulla – Chenkaladi road section had not been done by the contractor. Therefore the Road Development Authority had to incur a sum of Rs.7.71 million for the rectification and maintenance of above road during the period of 2019. The project had not taken action to recover the whole amount from the contractor at once from the Interim Payment Certificates. Although the contractor agreed to settle that amount later in 10 installments, it was observed that only 05 installments had been settled by the contractor as at 31 December 2024 and the balance Rs.4.21 million was still outstanding. Any action had not been taken for responsible officers of above misconduct.
- The contractor did not maintain the road during the period from 01.03.2019 to 30.06.2019. Therefore, the Executive Engineer (Kadugannawa) was instructed to patch all potholes, clean the side drains, and clear the road side jungle.
- The contractor's obligations should be carefully review according to conditions of contract and immediate actions should be taken to recover those outstanding balances from the contractor.
- (f) Although the contract price could not be exceeded without proper approval, it was observed that the work in progress of the Construction of Bridge No 4/2 and 3/1 on Orugodawaththta - Ambatale Road had been exceeded the contract price by Rs. 34.79 million as at 31 December 2024.
- The amounts reported in the financial statements are inclusive of the provisions made for each contract. However, the paid amounts are not exceeded the contract value & well within the approved contract price.
- Action should be taken to get approvals.

### 3.3 Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
(a) The Project had utilized only USD 37.25 million equivalent to Rs.5,552.75 million from loan and Rs.591.29 million from local fund as at 31 December 2024 out of the total allocation of Rs.7,092.77 million equivalent to USD 62.21 million for the project period of more than ten years commencing from June 2013. Although, the initial closing date of project was 31 December 2016, it was observed that USD 2.75 million had remained as unutilized even as at 31 December 2024.	The balance loan amount was utilized for the reconstruction of Bridge No. 4/2 and the widening of Bridge No. 3/1 on the Orugodawatta – Ambatale Road. Further remaining balance will be utilized for the Maharagama – Piliyandala Section (B) (Km 2+000 – Km 3+700), and donor concurrence for procurement is currently awaited.	Project should prepare proper action plan and budget and responsibilities should be fixed accordingly.
(b) The allocation made in the budget for the year under review was Rs.461.48 million and out of it, the Project had only utilized Rs.344.14 million during the year under review. Therefore, there was a saving of Rs.117.34 million or 25.43 per cent as at 31 December 2024. Since it was observed that the budgeted allocation had not utilized an effective manner by the PMU.	There is a saving due to non-completion of Bridge No. 3/1 and 4/2. The work was not completed on time due to pipe shifting delay of Bridge 3/1.	Loan fund should be utilized effectively.

### 3.4 Issues Related to Human Resource Management

Audit Issue	Response of the Management	Auditor's Recommendation
According to the letter No. DMS/7777/MFAP dated 16 March 2024 issued by the Department of Management Services, the approved cadre for the Miscellaneous Foreign Aided Projects up to 31 December 2024 was 26 posts. However, it was observed that one Senior Engineer had been recruited beyond the approved cadre. Further, an Administrative officer, two Stenographers/Typists, an Office Aid and	It was approved additional 06 posts by Management Service Department Letter No. DMS/7777/MFAP dated 2025.03.06 to fulfill the positions mentioned in the Audit report.	The Chief Accounting Officer should ensure that all staff appointments are comply with the MSD approval.

an Office Labour had been recruited without the approval of the Department of Management Services.

### 3.5 System and Controls

	<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
(a)	As per the Section 9.3 of the Management Service Circular No. 01/2019 dated 05 March 2019, the Steering Committee of the Project should be met at least once in two months. However, only two meeting had been conducted during the year under review.	The meetings have not been arranged due to various reasons. However, matters and issued pertaining to projects were discussed in other forums appropriately.	Comply with the circular instructions.
(b)	According to the 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, there is no any meeting had been conducted for the year under review.	Internal Audit Review Committee meeting was not held due to non-availability of Internal Auditor.	Comply with the circular instructions.