

Badulla - Chenkaladi Road Improvement Project - 2024

The audit of financial statements of the Badulla - Chenkaladi Road Improvement 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 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 is to improve the connectivity of Eastern Province with Uva Province and Central Province enabling the improvement of transportation and enhancing the economic activities in the region by rehabilitation of 146.75 kilometres of the road Badulla to Chankaladi of Peradeniya-Badulla-Chenkaladi Road. The activities of the project are implemented under 04 components namely Civil works, Land acquisition, Consultancy services and Project management.

As per the Loan Agreement, the estimated total cost of the Project was US\$ 140 million equivalent to Rs. 18,200 million and out of that US\$ 60 million equivalent to Rs. 7,800 million was agreed to be financed by OPEC Fund for International Development and US\$ 60 million equivalent to Rs. 7,800 million was agreed to be finance by the Saudhi Fund for Development. The balance of US \$ 20 million is expected to be financed by the Government of Sri Lanka.

The Project had commenced its activities on 12 January 2017 and scheduled to be completed by 30 June 2021. However, the date of completion of the activities of the Project had been extended up to 31 December 2027.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the paragraph 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

My opinion is qualified based on the matters described in the paragraph 2.1 of this report.

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 qualified 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) | The cost of the completed roads amounting to Rs. 15,228.77 million had not been transferred to work in progress as at 31 December 2024. As a result, the work in progress had been overstated by similar amount. | 15,228.77 | Agreed. | Action should be taken to capitalize completed roads and proper handing over procedures should be followed. |
| (b) | The value of the Interim payment certificates amounting to Rs. 140.33 million certified by the engineer had not been accounted as liability in the financial statements of the year under review. As a result, the payables to contractors had been understated by similar amount. | 140.33 | Agreed. | Liabilities should be shown in the financial statements. |
| (c) | The provision had not been made for the value of the 06 outstanding Interim payment certificates amounting to Rs. 470.55 million in the financial statements of the year under review. As a result, the work in progress and provision for payables to contractors had been understated by similar amount. | 470.55 | Agreed | Provision should be made in the financial statements. |

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|-----|--|----------|--|---|
| (d) | Although the assets and liabilities should be translated at the closing rate at the date of that statement of financial position as per paragraph 43(a) of the Sri Lanka Public Sector Accounting Standards 05. However, the Project had not adjusted or disclosed parity variance during the year in statement of financial position as per above standard. | - | Parity adjustment had not been made based on the instruction letter issued by the Ministry of Finance. | Sri Lanka Public Sector Accounting Standards should be followed. |
| (e) | The interest paid from year 2019 amounting to Rs. 1,653.36 million equivalents to US\$ 10 million for the loans had not been accounted in the financial statements as at 31 December 2024. As a result, work in progress had been understated by similar amount. | 1,653.36 | Agreed | Relevant details should be obtained from Treasury and Interest charges should be accounted as per SLPSAs. |
| (f) | A sum of Rs. 846.19 million paid to 03 contractors by the donor during the year under review had not been accounted. Therefore, foreign loan had been understated by similar amount in the financial statements of the year under review. | 846.19 | Agreed. | The Accountant should ensure the accuracy of the financial statements. |

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) | 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 Steering Committee meetings had been conducted during the year under review. | Meetings have not been arranged as per the management circular due to various reasons such as elections and administration delays. | Meetings shall be held in accordance with the relevant circulars. |
| (b) | Management Audit circular No DMA/01/2019 dated 12 January 2019. | The Project Internal Audit Review Committee should be established and at least 04 meetings should be conducted annually. However, any committee meeting had not been conducted from the inception of the Project. | Agreed. | Meetings shall be held in accordance with the relevant circulars. |

3. Physical Performance

3.1 Physical progress of the activities of the Project

(i) (a) Road Rehabilitation

| Component | Activity | As at 31 December 2024 | | Delay/ Audit Issue | Reasons for delays |
|-----------|---------------------|---|---------------------------------|---|---|
| | | Expected Physical Performance (km) | Performance achieved (km) | | |
| Highways | Road rehabilitation | 146.75 | 127.75 | Contracts had been completed with a delay ranging from 378 days to 879 days. Further, although the segregated OFID 03 | Poor performance of the contractor and poor contract administration |

contract as 3B and 3C contracts which were planned to be completed as at 30 September 2023, it have been continued until 31 December 2024 without completion with a delay of 236 days and 280 days respectively.

Response of the Management Agreed.

Auditor's Recommendations Project should prepare proper action plan and budget and responsibilities should be fixed accordingly.

| Audit Issue | Management Response | Auditor's Recommendations |
|--|---------------------|--|
| (b) A comprehensive Action Plan highlighting financial and physical targets with fixing responsibilities in monthly, quarterly, biannually etc. covering the entire period of the Project had not been prepared and implemented by the Project to ensure the achievement of Project objectives using the allocated resources within schedule time period. | Agreed | Action should be taken to prepare and approve a comprehensive action plan for the Project. |
| (c) The Project had proposed to commence new contract packages by using the Project savings during the year under review. Under this, 04 contract packages with the value of Rs. 4,677.47 million had been planned to implement by using the savings. Two packages commenced under SFD savings had indicated 86 percent and 81 percent of physical progress and remaining two packages which were planned to be implemented under OFID savings were not commenced even as at 31 December 2024. | Agreed | Project should prepare proper action plan and budget and responsibilities should be fixed accordingly. |

(ii) Land Acquisition

| Component | Activity | As at 31 December 2024 | | Delay/ Audit Issue | Reasons for delays |
|------------------|---------------------------|---|---|---|---|
| | | Expected physical performance No. of plots | Performance achieved No. of plots | | |
| Land Acquisition | Registration of ownership | 2201 | 821 | Even though, the PMU had compensated 2201 land lots as at 31 December 2024, the possession of 821 land lots only had been taken over by the RDA under Section 44 of the Land Acquisition Act at the end of the year under review. | Inefficiency in land acquisition process. |

Response of the Management Out of the total 2,201 lots for which compensation has been paid, land registration should be carried out only for 1,532 lots. By December 2024, 821 lots had been completed and out of the remaining 711 lots, 119 have been completed so far. Registration for the other lots is in progress.

Auditor’s Recommendations The Chief Accounting Officer should fix the responsibilities to ensure that land acquisition processes are executed in accordance with the land acquisition plan.

3.2 Contract Administration

(a) The package from Lunugala to Bibile (171+800 km 190 + 800 km) had been awarded to the contractor K.D. Ebert & Sons Holdings (Pvt) Ltd. on 12 June 2017 for a sum of Rs. 2,006.43 million and the contract period was 30 months. The contract was taken over by the employer on 29 June 2021 while physical progress was at 60.32 per cent due to the poor performance of the contractor and his inability to complete the contract within the agreed time frame. Further, a sum of Rs.1,204.95 million had been paid to the contractor at that time. The following observations are made.

| | Audit Issue | Response of the Management | Auditor’s Recommendation |
|-----|--|------------------------------------|--|
| (i) | Although Road Development Authority had sought the opinion of the Attorney General’s Department regarding the closure of the contract with the intention of agreeing by both the contractor and the employer, it was observed that | Agreed with the audit observation. | An investigation should be conducted on deviation from the conditions of the contract and disciplinary actions |

Section 15 of the General Conditions of Contract of the FIDIC Conditions do not provide provisions for 'mutual termination' of the contract. Thus, it was observed that on 03 July 2021, the Road Development Authority had allow for mutual termination without taken actions as per Section 15 of the conditions of the contract and as well as the opinion of the Attorney General.

should be taken against the responsible officers as per Section 29 of Chapter XLVIII of Part II of the Establishment Code.

- (ii) As per the Attorney General's letter dated 17 November 2022, on the above mentioned matter, it was stated, "I am of the opinion that, where the Contractor is in clear breach of the Contract, as expressly noted by the Secretary, Ministry of Highways, RDA should not enter into any 'Supplemental Agreements' for mutual termination. In terminating the contract, RDA should act within the provisions of the Contract, as has been agreed between the parties at the outset". Due to the Engineer had taken over the works, which were partly completed on 12 July 2021, without encashing the performance bond before its expiry on 31 July 2022, it was observed that the Road Development Authority had deprived of the ability to mitigate its losses.
- The only way to mitigate the social issues, the hardship faced by the road user, their safety and other losses is closure of the contract agreed by the parties as this road segment has to be completed as early as possible.
- An investigation should be conducted on deviation from the conditions of the contract.
- (iii) The above package had been re-bid as two packages at an estimated total cost of Rs. 2,919.56 million for the balance work by drop down the authority level from Cabinet Appointed Procurement Committee to Ministry Procurement Committee. Although the splitting is deemed necessary for legitimate reasons, it should be approved by the Procurement Committee that would have been vested with due authority to carry out such procurement prior to splitting as per Chapter 4.4.2 of the Procurement Manual, the approval of
- To ensure time and economic efficiency with regard to completion of the project, it was approved by CAO to reduce the procurement level from CAPC level to MPC level.
- An investigation should be conducted on deviation from the Procurement Guideline.

the Cabinet Appointed Procurement Committee had not been obtained for splitting the contract.

- (iv) As per the details furnished to the audit, the cost incurred for the initial contract up to its termination was Rs.1,241.24 million and the cost estimated for completion of the entire contract was increased from Rs. 2006.43 million to Rs.4,160.80 million. Thus, the total contract value had been increased by Rs. 2,154 million due to re-awarded of the balance work as two contract packages. Therefore, the abnormal delay and mismanagement of the contract would be directly affected to overrun the project cost considerably. Further, it was also emphasized in the Attorney General's letter No. BCL/44/22/RDA dated 17 November 2022 regarding this matter. Further, the dispute with the contractor of taking over the OFID 03 Package had not been solved even up to 31 December 2024 and a sum of Rs.35.57 million was shown as payable to the contractor at that date.
- Bid price of new contracts was higher than the value of the previous contract due to contractor's bidding rate in initial contract was very low than the Engineer's Estimate. Further, significant quantity increases due to changes of terrain conditions, enforceable disturbances and economic crisis of the country resulted to increase the prices of all materials etc.
- An investigation should be conducted on increase the contract price by significant amount.

(b) Shifting of water lines in Nayakandura Water Supply Project

The Project had initially paid a sum of Rs.142 million to Bibile Pradeshiya Sabha for shifting water lines from Yalkumbura to Akkiriyanakumbura for rehabilitation and improvement of Badulla Chenkaladi road. The payment was made by two equal installments on 29 December 2015 and 21 September 2016. The water line shifting work was delayed and had to wait until the service corridor is provided through roadway excavation. The roadway excavation was delayed due to the road rehabilitation contractor was terminated in the year 2021. After re awarded the balance road rehabilitation contract, TEC and Procurement Committee had granted approval on 30 October 2023 for payment of additional amount of Rs.52.88 million due to high price escalation and the changes made on the original scope. Accordingly those payments were made to the Pradeshiya Sabha during 2023 and 2024. The following observations are made.

| | Audit Issue | Response of the Management | Auditor's Recommendation |
|-----|---|-----------------------------------|--|
| (i) | The payment of Rs.194.88 million had been made entirely to the Bibila Pradeshiya Sabha for the shifting of water lines without entering into an | Agreed. | Project should prepare effective time plan and budget and responsibilities should be fixed |

agreement and without identifying the scope and completed work done by following any formal payment procedure. Further, the cost of the works had been determined based on the estimate provided by the Bibila Pradeshiya Sabha without following any procurement procedure.

accordingly.

- (ii) Initially, the payment amounting to Rs.142 million had been made in 2016 and the entire amount had been deposited by the Pradeshiya Sabha in their Deposit Account until end of 2018. Therefore, those funds were remained uneconomically with the possession of a third party more than two years.
- Due to the delay in awarding, the Civil work contract, the preparation of the road corridor was delayed, and hence, water line shifting was also delayed.
- An investigation should be conducted on the release of abnormal payments.
- (c) As per the paragraph 14.7(b) of the Special Conditions of the contract, the amount certified in each Interim Payment Certificate should be paid within 90 days after the Engineer receives the Statements and supporting documents. If the contractor does not receive payment as above, the contractor shall be entitled to receive financing charges on the amount unpaid during the period of delay. It was observed that a sum of Rs.2.18 million had been certified by the Engineer as delay interest payable to contractor of SFD/04 and OFID/03B contracts. The project had not maintained an effective time plan by segregating time slots for each step in the entire payment process of an Interim Payment Certificate. Therefore, it was observed that 20 to 44 days had been taken for certification of IPCs by the Engineer and sent to the External Resources Department (ERD). Further, ERD had taken 23 to
- Agreed
- Action should be taken to avoid the payment of delay interest, and responsibilities should be fixed to make an effective time plan by segregating time slots for each step in the entire payment process.

90 days to complete the process to make payment to the contractors.

(d) The contractor would be entitled to an extension of time (EOT) to complete the works owing to the acceptable reasons.

(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 04 on going contracts that continued during 2024 had applied for EOT with delays ranging from 18 days to 254 days. If any claim submission delays contractor shall get the approval of the Engineer. The Employer, according to the recommendation of the Engineer, has approved EOT. 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.

(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 Chairman was delayed, ranging from 89 days to 324 days, in 04 ongoing contracts that continued during the year under review. If any claim submission delays contractor shall get the approval of the Engineer. The Employer, according to the recommendation of the Engineer, has approved EOT. 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.

3.3 Land Acquisition

| Audit Issue | Response of the Management | Auditor's Recommendation |
|--|--|---|
| (a) Although 5530 land lots were acquired under sections 38(a) of the Land Acquisition Act, the valuation reports for 10 land lots had not been obtained even end of the year 2024. | The Divisional Secretary has not identified the ownership of these land lots, and therefore, the details still have not been sent for valuation. | The Chief Accounting Officer should fix the responsibilities to ensure that land acquisition processes are executed in accordance with the land acquisition plan. |
| (b) A sum of Rs. 600.56 million for 2201 land lots out of 5530 land lots had only been compensated by the end of the year under review and it represented only 40 per cent of the entire compensation process. | Compensation for a total of 706 land lots belonging to the Passara and Lunugala Divisional Secretariats is to be deposited in the Badulla District Court. At present, this process is ongoing. | The Chief Accounting Officer should fix the responsibilities to ensure that land acquisition processes are executed in accordance with the land acquisition plan. |

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|-----|--|--|---|
| (c) | Due to delays in payment compensation, it was observed that the interest amounting to Rs. 166.83 million had been paid by the PMU for 953 land lots at the end of the year under review. Further, a sum of Rs. 72.2 million had been estimated as delay interest to be paid for 1459 land lots as at 31 December 2024. | The amount estimated as delay interest is for the land lots referred to the court, either under nominal value or as the full amount. | The Chief Accounting Officer should fix the responsibilities to ensure that land acquisition processes are executed in accordance with the land acquisition plan. |
| (d) | It was observed that the Project had not maintained a proper database regarding the land acquisition process and therefore, the extend of lands acquired by the project couldn't be verified in the audit. | All data related to the land acquisition process is properly updated in the project. according to the information provided by the Divisional Secretariat | Action should be taken to maintain a proper database. |

3.4 Underutilized Resources

| Audit Issue | Response of the Management | Auditor's Recommendation |
|--|--|--|
| According to the Budget Estimate for the year 2024, a sum of Rs.6,072 million had been allocated for the year under review. However, a sum of Rs.3,177.52 million had only been utilized by the project and it was represented 52.33 per cent of the allocation made during the year under review. | The savings of the projects allocated to the Slope Climate Resilience Project and the section of Randenigala road. But these two projects were unable to start during the year 2024. | Project fund should be utilized effectively. |