

## **Head 117 – Ministry of Transport and Highways**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Ministry of Transport and Highways for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance and cash flow statement for the year then ended 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 provisions of the National Audit Act, No.19 of 2018. The summarized reports on the financial statements of the Ministry of Transport and Highways to be submitted in terms of the paragraph 11(1) of the National Audit Act No. 19 of 2018 which contained my comments and observations had been submitted to the Chief Accounting Officer on 31 May 2023. The detailed management report of Ministry to be submitted in terms of the paragraph 11(2) of the National Audit Act had been submitted to the Accounting Officer on 06 July 2023. This report in pursuance of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with paragraph 10 of the National Audit Act No. 19 of 2018 is presented to the Parliament.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Ministry of Transport and Highways as at 31 December 2022 and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements are further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **1.3 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Financial Statements**

The Chief Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Section 16(1) of the National Audit Act, No.19 of 2018, the Ministry is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable the preparation of annual and periodic financial statements.

In terms of Sub-section 38(1)(c) of the National Audit Act, the Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Ministry and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

#### **1.4 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 General'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 and its materiality depends on the influence on economic decisions taken by users on the basis of these financial statements.

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

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the 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.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Chief Accounting Officer regarding, among other matters significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 1.5. Report on Other Legal Requirements

I express the following matters in terms of Section 6 (1) (d) and Section 38 of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year,
- (b) The following recommendations made by me on the financial statements of the preceding year had not been implemented.

<b>Reference to paragraphs of the report relating to the previous year</b>	<b>Recommendation that was not implemented</b>	<b>Paragraph reference in this report</b>
1.6.1	Capital expenditure should be accounted under assets as per circular instructions	1.6.1

## 1.6 Comments on Financial Statements

### 1.6.1 Non-financial Assets

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
Out of the capital expenditure incurred under the 2506 infrastructure development expenditure of the Ministry of Transport and Highways, a sum of Rs.187,170 million only had been classified and accounted under assets in the year under review according to Asset Management Circular No.01/2017 dated 28 June 2017.	It was started accounting in the year 2022 and any way, maximum effort will be taken to finish it in 2023.	Capital expenditure should be accounted as assets according to the circular instructions.

## 2. Financial Review

### 2.1 Management of Expenditure

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
(a) The total net provision of Rs.3,149.41 million allocated for 27 Capital Expenditure Codes under the Head had been saved without being utilized during the year under review.	Agreed	The management responsibility is to prepare the complete and accurate cost estimates as possible for the services that can be provided as per the reasonably available capacity during the financial year according to Financial Regulation No.50.
(b) A sum of Rs.33.66 million and Rs.1.26 million were saved from the total allocation of Rs.48.78 million and Rs.1.6 million respectively for 20 Recurrent Expenditure Codes and 03 Capital Expenditure Codes under Programme 01 and those savings ranged from 50 per cent to 99 per cent.	Agreed	-do-
(c) The total allocation of Rs.46,777.61 million was saved out of the sum totalling of Rs.64,946.31 million allocated for 48 Capital Expenditure Codes under program 02 and those savings ranged from 50 per cent to 99 per cent.	Agreed	-do-

- (d) As mentioned above, the saving of Rs.49,928.28 million from the allocation of 75 Capital Expenditure Codes had directly affected to the suspension of major projects and the lower performance of some projects such as Badulla-Chenkaladi Road Rehabilitation, the Third Phase of the Baseline Road etc. which were expected to be completed by the Ministry in the year under review.
- The adverse economic condition in the country affected the delay in final bill payments.
- Action should be taken to utilize the provisions within the stipulated period.

## 2.2 Incurring of Liabilities and Commitments

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
Although the Record of Liabilities should be regularly examined and settled promptly as per Financial Regulation 214, the total amount of outstanding commitments and liabilities as at 31 December 2022 was Rs. 45,750.11 million due to failure of receipt imprests, failure to made payments and failure to account of Interim Payment Certificates.	This was due to cash receipts were not sufficient and payments were not made to Interim Payment Certificates submitted to the Department of External Resources for payment.	Action should be taken to settle by examining the Liability Register regularly.

### 2.3 Non-compliance with Laws, Rules and Regulations

The following observations are made.

	Audit Observation		Comment of the Chief Accounting Officer	Recommendation
	Reference to Laws, Rules and Regulations	Value Rs.million		
(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i)	Financial Regulation 104(4)	-	Although the final report should be submitted within three months from the date of occurrence of the loss after the investigation relating to the vehicle accident, the final reports relating to 8 vehicle accidents belonging to the Transport Sector had not been submitted by 28 February 2023.	The final reports will be submitted. Adhere to the Financial Regulations.
(ii)	Financial Regulation 103 and 104.	17.78	The necessary actions as per the Financial Regulations were not taken regarding the accident of a jeep owned by the Rural Roads Development Division on 24 December 2022	An allocation of Rs.2 million had been requested from the Treasury to implement the recommendation of the appointed committee. That the losses should be recovered from the responsible person by comply with the Financial Regulations.

			and it was observed that the estimate for the repair was Rs.17.78 million.		
(iii)	Financial Regulation 571(2)	0.225	Although lapsed deposits should be credited to government revenue, action had not been taken accordingly regarding the tender deposits amounting to Rs.0.035 million over two years and retention money amounting to Rs.0.19 million.	Noted to inform to the Project.	That the lapsed deposits should be taken into revenue as per Financial Regulations.
(b)	Asset Management Circular No.02/2017 dated 21 December 2017.	-	Every vehicle owned by the government must be registered in the name of that institution and action should be taken to register the vehicles in its own name that are used without the registered ownership by the consent of the registered owner or handed over to the organization that has the right of registration. However, contrary to that, it was observed that 10 vehicles owned by the Road Development Authority are being used by the Ministry of Transport and Highways.	Several vehicles had been obtained from the Road Development Authority from time to time due to official requirements since the Ministry has a limited number of vehicles in running condition.	That the vehicles should be used according to the Circular instructions.
(c)	Paragraph 5.4.4 of the Procurement Guidelines - 2006 of the	4.63	Mobilization Advances of the contractors must be fully recovered before it exceed 90 per cent of the contract value.	Action will be taken to settle the unrecoverable advances.	That the action should be taken to recover the advances as per the instructions of

Democratic  
Socialist  
Republic of Sri  
Lanka.

Although the payment of  
04 rural bridges in  
Matara District had been  
completed, the sum of  
Rs.4.63 million from the  
advances paid to the  
State Development and  
Construction  
Corporation for that  
purpose had not been  
recovered by the end of  
the year under review.

the Procurement  
Guideline.

(d) Circular of the  
Secretary to the  
Highway  
Ministry No.  
SMRR/PL/01/C  
IR dated 17  
March 2021.

(i) Section 03

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Although when selection  
of projects should focus  
on roads with access to a  
greater number of by  
roads benefiting a larger  
number of families,  
instances where actions  
were not taken  
accordingly were  
observed. For example, a  
road that included only  
04 beneficiary families  
in Kandy District had  
been selected and a road  
was selected which  
would benefit only 15  
families in the Puliadi  
Kovil road bridge  
construction project in  
the Northern Province.

This bridge was  
selected to be  
constructed with  
the aim of  
providing a better  
quality of life to  
the people of the  
area.

Action should be  
taken as per  
Circular  
instructions.



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| (ii) Section 04                         | - | Although projects should be selected to cover all Gram Niladhari Divisions, 15 roads only had been selected to be developed in Hatharaliyadda Divisional Secretariat in Tumpane Region in Kandy District.  | The approval had been given only for proposals requested by Local Authorities.  | Adhere to the Circular instructions.  |
| (iii) Paragraph 2.1 of the annexure A-3 | - | Although the compressive strength of the concrete mix should be 30 N, the compressive strength of 62 concrete blocks was less than 30 N out of 117 concrete blocks taken as samples from 15 roads in Kandy District and the compressive strength of the concrete blocks in 03 roads out of the 05 roads constructed by Elahera Pradeshiya Sabha in Polonnaruwa District has less than 30N. | Instructions had been given that the compressive strength of concrete laying road should be 25N/mm2 as per letter No.SMRR/PL/01/Cir | The management should confirm that the introduced minimum requirements as per the Circular instructions regarding the quality of the roads constructed are fulfilled. |

## 2.4 Deposits

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
The differences of Rs.0.505 million were observed between the debits and credit balances in the General Deposit Ledger No.6000-0-0-002-0-159-0 and the values mentioned in the ACA-4 format included in the financial statements relating to the Transport Sector.	Mistakenly, the debits and credits relating to the projects under the Transport Sector had not been included	The necessary adjustments should be made by reconciling the entries in the General Deposit Ledger with the entries in the financial statements.

## 2.5 Public Officers Advances “B” Account

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
The Ministry had failed to recover the loan balance of Rs.1.152 million outstanding on 31 December 2022 from 11 officers who were transferred between Ministries, Departments and Provincial Councils, died, retired, interdicted and vacated posts.	Action will be taken to settle each of these loan balances in the future and action will be taken in the future to obtain Treasury approval to write off bad debt balances in this year.	Action should be taken immediately to write off the relevant loan balances.

## 3. Operating Review

### 3.1 Non-achievement of expected Outcome

#### (a) Colombo Suburban Railway Project

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
(i) A Feasibility Study was done on improving the railway network by incurring a sum of US\$ 8 million equaling to Rs.1,505.93 million under the financial assistance of the Asian Development Bank with the aim of strengthening the national transport network by expanding the railway transport network in the next 20 years. This Feasibility Study Report was given to the Railway Department by the Line Ministry in March 2021 and although almost two years had passed since this study was completed, there was no benefit compared to the amount incurred due to the non-implementation of the feasibility study report and the payments were also made to the loan installments during the year under review.	The project was handed over to the Sri Lanka Railway Department for implementation.	That action should be taken to implement the project as per the Feasibility Study Report according to the priority of national requirements.

- (ii) The Cabinet had approved the allocation of Rs.9,600 million for the construction of 1,244 houses by vacate the illegal residents living on either side of that line for the purpose of widening the Kelani Valley Railway Line. Although the project duration of 3 years will end in December 2021, the houses had been provided only for 694 illegal residents as at that date and it was only 56 per cent of the desired target. It was observed that the resettlement of these illegal residents could be problematic due to the completion of the project.
- It is expected to complete this task by allocating funds in the future.
- That the planned activities should be completed during the project period.

### 3.2 Projects abandoned without completing

#### (a) Sahasara Bus Reforms Project

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
(i) Although an estimate of Rs.26,860 million had been prepared for the reforms of nearly 23,000 buses covering the island wide between 2018 and 2023 with the aim of increasing passenger attraction for public transport, a sum of Rs.248.8 million only had been incurred by the end of 2022. It was only one per cent of the total estimated value.	All the remaining expenses were incurred for the administrative expenses of the project management unit in addition to incurring a sum of Rs.298.8 million on the purchased of GPS equipment and OCC equipment.	That action should be taken by the management to ensure the implementation of the projects as planned.
(ii) Nearly a sum of Rs.180.9 million or 73 per cent out of the total cost of Rs.248.8 million spent on the project had been incurred on administrative activities of the project.	It incurred a sum of Rs.67.9 million and the remaining amount had been incurred for the project management unit.	That the project funds should be used economically.

- (iii) The government had suspended the project due to the inefficiency of the project and out of the 1,465 GPS devices that had already been purchased, 1279 were delivered to the National Transport Commission, 183 to the Kadawatha Multimodal Transport Centre and 3 to the Western Provincial Transport Authority.
- A number of 1462 GPS devices were purchased by the Sahasara Project and the Ministry had arranged to hand over 500 of them to the National Transport Commission and the remaining 962 GPS devices after considering the requests of each institution.
- That project activities should be efficiently managed to achieve their objectives.

**(b) Kurunegala Habarana Railway Track**

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
(i) A sum of Rs.575.83 million or 39 per cent of the allocated amount of Rs.1,459 million only had been incurred by the 31 December 2022 from the amount allocated by the estimated allocation from 2010 to 2022 to the acquisition of land on both sides for this new railway proposed to be constructed from Kurunegala via Dambulla to Habarana centered on the Dambulla Economic Centre.	Provisions were saved due to the completion of many tasks related to the project without incurring any cost to the government.	That project funds should be used efficiently to achieve its objectives.
(ii) Although it was proposed to acquire 4392 plots of land in 57 Grama Niladhari Divisions related to this project, it had been acquired only 149 plots with regular payments as at 31 December 2022.	The amount of 4,392 plots of land out of 4,400 plots of land belonging to 57 Grama Niladhari Divisions required for the construction of this railway line was acquired to the government on 28 February 2023.	That the acquired lands should be formally taken over and a necessary security programme should be implemented.

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| (iii) | Although a total expenditure of Rs.568 million had been incurred for the entire project including an amount of Rs.349.06 million as land acquisition expenses from 2016 to 2022, the investors or funding arrangements had not been identified for this project as at 2022. Further, it was observed that the total amount incurred so far was an idle expenditure due to the government taking a policy decision to suspend the project. | According to Cabinet Decision No. AMA/23/0482/608/037 dated 27 March 2023, actions were taken to wind up the project. | That funding arrangements should be determined before starting the projects. |
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### **3.3 Borrowings from Local Banks for Development Activities by the Road Development Authority**

The Road Development Authority had entered into loan agreements amounting to Rs.408,541.01 million and USD 44.72 million from local banks from 2013 to 2022. These loans were used for projects like Central Expressway Projects I and II, Colombo Katunayake Expressway, Outer Circular Highway Project III and 100,000 km Rural Road Project. The following observations are made in this connection.

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
(i) According to the information furnished to the audit, the amount of loan to be repaid out of the loans obtained from the local banks was Rs.356,059.32 million as at 31 December 2022 and the amount of interest that had to be paid to the local commercial banks in the last 05 years was Rs.109,333.11 million. Further, the interest to be paid to 07 local banks with the default interest on the loan taken was Rs.37,668.72 million as at 31 December 2022 and the value of outstanding loan installments was Rs.2,502.39 million.	Agreed	It is the responsibility of the management to identify the projects to be implemented and to implement the relevant projects at minimum cost after conducting a proper feasibility study and cost-benefit analysis for the projects.

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| (ii)  | <p>The Road Development Authority restructured the loans after submitting Cabinet Memorandum No.MFE/ERD/14/CM/2020/065 dated 13 March 2020 by further extending the period of repayment of installments on the loan amount of Rs.356,059.31 million outstanding as at 31 December 2022 out of the loan amount of Rs.408,541.01 million had been obtained in 34 instances from 07 local commercial banks on the basis of repayment between 10 and 18 years based on a grace period of 2 ½ to 4 ½ years. A consultancy fee of Rs.10.80 million had been paid to People's Bank for obtaining advice related to restructuring and an additional interest amounting to Rs.400.74 million had to be paid on the increased annual interest rate due to debt restructuring.</p>                   | Agreed  | -do- |
| (iii) | <p>Treasury bonds amounting to Rs.36,671.62 million had been issued due to the inability of the Treasury to provide allocations for the settlement of loan interest and installments outstanding as at 31 December 2022 for loans obtained from local banks. Further, in addition to obtaining loans from local banks, the Treasury Bonds had been issued under interest rates ranging from 20.0 to 22.5 per cent by 31 December 2022 for an amount of Rs.32,217.89 million to be paid to 36 contractors for road construction works relating to the 100,000 km road programme. Accordingly the government will have to bear additional expenses due to the issuance of Treasury Bonds amounting to Rs.68,889.51 million and that expenditure was approximately Rs.15,155.69 million.</p> | <p>The value of Rs.36,671.62 million is the value of Treasury Bonds issued for the payment of interest and installments related to the year 2022 as mentioned under this.</p> | -do- |

### 3.4 Foreign Funded Projects

#### 3.4.1 Integrated Road Investment Programme

The following observations are made.

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
(a) Although 07 years had passed since the date of commencement of the programme as at 31 December 2022, only 126.27 km in 7 national roads and 2291 km in 566 rural roads had been completed and out of it, only 27.43 km of 4 national roads and 2,219.96 km of 558 rural roads related to 30 contract packages were completed and handed over to the Road Development Authority.	The 27.43 km of 04 national roads and 2219.96 km of 558 rural roads had been handed over to the Road Development Authority.	That projects should be operated efficiently to achieve the intended progress.
(b) An agreement was signed to carry out the outstanding works of 04 contract packages R1, R2, KE1 and MA1 which were canceled under this programme by the same contractor under the 100,000 km Rural Road Development Programme instead of blacklisting of that contractor and the value of those contracts had increased by Rs.580.14 million as compared to the original contract price. Accordingly, an undue financial benefit was given to the unsuccessful contractor by awarding the contract to the same contractor whose contract was terminated by another project and it was agreed to complete the balance works within 15 months	It is planned to revise the expenditure code of the above project and cancel the contract under a Mutual of Understanding. Accordingly, it was informed that the works will be done under the direct labor of the Road Development Authority based on the future allocations.	A proper procurement method should be used to select suitable contractors.

from the date of signing the new agreement. However, although about 29 months had passed since the signing of the agreement as at 31 December 2022, a poor progress in between 18 per cent to 50 per cent were recorded in these packages. The people using these roads had seriously suffered since 07 years due to the slow progress of the rehabilitation works. Accordingly, it was observed that the project activities couldn't be implemented as intended by awarding the contracts again to terminated contractors contrary to the existing rules and regulations.

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| (c) | Although the laboratory equipment and furniture of the main and field laboratories shall be reverted to the contractor at the end of the programme as per sub-clause 108.4 of the contract specifications, a lump sum payment of Rs.397.77 million had been made for those items in 17 RMC packages and 16 rural road packages as at 31 December 2022. Thus, these unusual contract conditions allowed the contractors to get undue benefits. | The possibility of removing this item will be considered in future contracts.   | That it is the responsibility of the management including the relevant officials to adjust the contract conditions without being unfavorable to the government. |
| (d) | According to sub-clause 14.6 of the Special Conditions of Contract, although the minimum value of the interim payment certificate to be submitted by the contractor shall be 1.5 per cent of the accepted contract value, a total sum of Rs.1,637.27 million had been paid for 131 instances where interim payment certificates with values below the   | Necessary financial facilities had been provided for the continuation of the contract due to the problematic situations that had arisen in the country. | That the limits of the contract conditions should be followed and that the relevant approvals should be obtained for changing those limits.                     |



required minimum threshold were evaluated under 22 RMC packages during the year under review.

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| (e) | A sum of US\$ 1.13 million equaling to Rs.183.52 million had been paid as Commitment Charges by the programme uneconomically to the Lending Agency on un-disbursed proceeds of the loan as at 31 December 2022 due to poor progress of the road rehabilitation works.  | Arrangements will be made to minimize the Commitment Charges based on the efficient utilization of the loan during the relevant period. | That the management should make arrangements to utilize the loan within the stipulated period. |
| (f) | It was observed that, the unrecovered Mobilization Advances amounting to Rs.1,453.09 million relating to 06 re-awarded contract packages and the unrecovered Mobilization Advances of Rs.377.07 million relating to 02 terminated contract packages as at 31 December 2022 may be an uneconomical expenditure. | Advances will be recovered after the completion of litigation activities.   | That arrangements should be made to recover the advances.                                      |

### 3.4.2 Second Integrated Road Investment Programme

The following observations are made.

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) Although according to the Facilities Administration Manual issued in April 2021, 417.75 km of 36 national roads and 3338.87 km of 1349 rural roads in the Northern, Eastern, Uva and Western Provinces are expected to be rehabilitated, the rehabilitation works of 153.74 km of 13 national roads and 1432.42 km of 557 rural roads only had been	The percentage of completion of road rehabilitation works in Uva, East and Northern Provinces was 60, 84 and 86 per cent respectively.	Action should be taken efficiently to achieve the desired goals of the programme.

completed by 31 December 2022 and handed over to the Road Development Authority. The initial contract period of 720 days of road rehabilitation works in the Uva, Eastern and Northern provinces of the programme had ended between 444 and 530 days by the end of the year under review and the progress of contract completion in each province was 60, 84 and 86 per cent respectively.

- (b) According to the Procurement Plan of the programme, the awarding of contracts related to the rehabilitation of 73.4 km of 08 national roads with an estimated cost of Rs.11,205 million in the Western Province was planned to be completed on 15 September 2021. However, although more than 15 months had passed for the procurement activities by the end of the year under review, NR-01 and NR-03 packages were not awarded to selected contractors and the awarding of the contracts was halted until releasing funds to Tranche-04 based on the financial situation of the programme at the end of the year under review. Therefore, it was observed that the validity of the bids relating to these contracts will be problematic in the future.
- It had been decided to temporarily suspend the award of contracts under this programme due to lack of funds. The loan agreement for the next tranche is expected to be delayed until December 2023. A decision on contract awarding is to be taken immediately after the signing of the agreement.
- That arrangements should be made to achieve the physical progress of the contracts as per plans.
- (c) Extensions of Time had been granted for 46 packages out of the 53 contract packages for the rehabilitation of rural roads in the 04 provinces where the programme is implemented and the number of times extensions were given for those packages ranged from 1 to 30.
- The time extensions had to be granted from time to time due to health guidelines and lock downs imposed with the Covid-19 pandemic, as well as transport and distribution restrictions imposed due to fuel shortages.
- That time extensions should be approved after studying the matters related to extension of time.

The time extensions from 57 days to 684 days had been granted for the contract packages related to Uva, Northern and Eastern Provinces and it was in the range of 8 to 94 percent of the original contract period of 730 days.

- (d) As per Section 7.9.2 of the Government Procurement Manual, the procurement entity shall call for a new bid or negotiate with the bidder to reduce the bid price to a reasonable value in order to obtain a satisfactory bid price if the evaluated lowest responsive bid value exceeds the Engineer's estimate by a significant margin. However, the engineering estimate value related to this procurement was Rs.4,068.08 million and it was observed that the lowest responsive evaluated bid price of three packages was higher than the engineering estimate in the range from 21 per cent to 27 per cent.
- It was recommended to the Technical Evaluation Committee that it would be suitable to negotiate and reduce the prices of packages NR1, NR2 and NR5 as the evaluated bid prices were high. Accordingly, the Ministry Procurement Committee decided to discuss the prices for NR1 and NR5 packages.
- That action should be taken to reduce the prices according to the instructions of the Procurement Guideline.
- (e) It was included a special clause under 1.6 in Section 3 of the bidding documents to enable the lowest evaluated substantially responsive bidder to allow more than one contract contrary to the Standard Bidding Documents of the Government Procurement Guideline. Therefore, an additional cost of Rs.695.45 million had to be incurred only from the awarded contract packages due to having to award the relevant contract to another bidder who is not the lowest evaluated substantially responsive bidder.
- Although the lowest evaluated substantially responsive bidder in several contracts, it is clearly stated under Evaluation and Eligibility Criteria in the Bidding Document that only one contract can be awarded to a bidder.
- That the relevant officers should be responsible for the losses incurred due to their acts contrary to the instructions of the Procurement Guidelines.

- (f) Although the Performance Securities should be provided by the contractors at their own cost, it was observed that a separate pay item had been included in the BOQs to be able to claim to the contractors contrary to Sub Clause 4.2 of the General Condition of the Contract. Accordingly, a sum of Rs.85.64 million had been paid to the contractors in Uva Province to reimburse the cost of Performance Securities as at 31 December 2022.
- It was not incurred a loss under this item. If this item is not included, the contractor will act to obtain it under overhead cost.
- That the approval should be obtained for change the contract conditions. That conditions favorable to the contractors and unfavorable to the government should not be included in the contracts and that the disciplinary actions should be taken against the responsible officers regarding including such conditions.
- (g) According to sub-clause 14.6 of Special Conditions of Contract, the minimum value of the interim payment certificate (bill) to be submitted by the contractor shall not be less than 1.5 per cent of the accepted contract value. However, it was observed that 326 interim payment certificates totalling Rs.5,192.39 million below the required threshold were evaluated during the year under review.
- The opportunity to recommend even monthly bills below the limit of 1.5 per cent had been assigned to the consultant due to financial difficulties that may occur from time to time in the construction companies.
- That the conditions of the contract should be followed and that the necessary approvals should be obtained for change that limits.
- (h) Although all laboratory, furniture and survey equipment shall be reverted to the contractor at the end of the programme in accordance with 108.4 (2), (5) and 120.7 (1) of the conditions of the contract, a sum of Rs.518.99 million and a sum of Rs.14.13 million had been paid as lump sum payment for laboratories, furniture and survey equipment
- The possibility of removing this item will be considered in future contracts.
- One of the main objectives of the procurement process is to perform the activities at the lowest possible cost. Accordingly, that the management

respectively by 31 December 2022. Thus, unusual contract conditions resulted the contractors to obtain undue benefits.

should conduct investigations and take necessary measures regarding the inclusion of conditions that are unfavorable to the organization.

- (i) Although the engineer should determine the value of the works, goods and any other sums due to the contractors as soon as practicable after issuing a notice of termination as per Section 15.3 of the General Condition of the contract, the calculation of the value at termination from enforcement of notice to termination of 03 terminated contracts in Uva province were delayed for a period of 267 to 413 days. This reason directly affected the accuracy of the engineering estimates prepared for the procurement activities for the re-awarding of these contracts, as well as the delay in the recovery of the mobilization advance amounting to Rs.560.14 million and the failure to encash the performance guarantee amounting to Rs.690.74 million.

Steps were taken to re-bidding and complete the balance works during the process of calculating the value at termination due to avoid potential additional cost and to minimize public complaints. The recovery of the security deposit had been delayed due to the injunction obtained by the contractor from the High Court.

That action should be taken to recover the losses by conducting the required investigations regarding the officers who delay their duties in a way that causes losses to the government.

- (j) It couldn't be able to obtain a confirmation of the materials at site during the termination of the contract due to the delay in the calculation of the value at termination and the failure to obtain the documents related to the site inspection conducted by the consulting engineer and the contractor during that calculation. Therefore, the accuracy of the value at termination was not confirmed.

The contractor had not submitted the site inspection reports to be done together with the consultant engineer and there were no materials at site at the time of the engineer's arrival and inspection.

An assessment should be made on the materials at site at the time of termination of the contract.

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| (k) | A sum of US\$ 0.46 million equalling to Rs. 90.5 million had been paid as Commitment Charges uneconomically to the Lending Agency on un-disbursed proceeds of the loan as at 31 December 2022 due to poor progress of the road rehabilitation works.   | Arrangements will be made to minimize the commitment charges.   | That it is the management's responsibility to make the necessary arrangements to utilize the loan effectively within the relevant period.                             |
| (l) | The 03 terminated contract packages in Uva province were invited bids by split into 09 packages and the contracts of 07 packages were awarded at the end of the review year and the contract value of Rs.7,266.19 million in 03 initial packages were exceeded by Rs.1,040.64 million from those packages. This additional cost will increase further after awarding the remaining 02 packages. This cost increase was directly affected to poor project management and the slow progress of project activities. | Market prices and other factors affecting bids fluctuated widely from the original bidding date to the date of rebidding. | The targets planed should be established realistically and that it is the management's responsibility to minimize additional costs by achieving the desired progress. |

### 3.4.3 Central Expressway Project-Section -01

The following observations are made.

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) The government couldn't be able to pay the expenditure incurred for the construction of package 04 and package 07 of Northern Expressway by China Metrological Group Corporation who was the contractor of the project. So that, the construction of the Section-1 of the Central Expressway had been granted at a value of Rs.158,386 million under Cabinet Decision No.15/1021/602/040 dated 16 July 2015 without following procurement procedures.	Although the award of the contract had not been made in accordance with the provisions of the Procurement Guideline, the activities from the selection of the contractor to the award had been carried out in accordance with the Cabinet decisions.	That economy, transparency is safeguarded by awarding contracts as per the provisions of the Procurement Guidelines.

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| <p>(b) Although the contract agreements of Package-I from Kadawatha to Kossinna were signed on 20 June 2016 and the contract agreements of Package-II from Kossinna to Mirigama were signed on 04 August 2015, the commencement of work was delayed until 15 September 2020 due to the delay in signing the loan agreement with the Export-Import Bank of China up to 22 September 2020. The actual progress of packages I and II as at 31 December 2022 remained at low levels of 39 per cent and 34 per cent respectively due to the delay in signing of the loan agreement by the Export-Import Bank of China until 22 September 2020 during the current economic crisis.</p> | <p>Agreed</p> | <p>That it is the responsibility of management to achieve the desired progress.</p>   |
| <p>(c) A sum Rs.13,266.87 million had been paid through interim payments for the first package and the second package up to now and although the contractor had submitted payments on completed work, the unpaid interim payments as at 31 December 2022 was Rs.40,347.75 million. The contractor had claimed a finance charge of Rs.666.32 million on 22 June 2022 as per General Conditions of Contract No.16.1 due to the failure to pay interim payments to the contractor.</p>  | <p>Agreed</p> | <p>That it is the responsibility of the management to ensure that additional payments are minimized.</p>                      |
| <p>(d) The project had acquired 5136 plots of private land and 1220 plots of crown land by the end of the year under review out of 5163 plots of land and 1978 additional plots of land to be acquired basically and the number of land plots to be divested was 50 due to change the road track by curve widening at several places to reduce bends. The Road Development Authority had completed the acquisition of only 625 plots of land under Section 44 of the Act. The project had paid Rs.9,402.14 million as compensation and Rs.1,016.54 million as</p>  | <p>Agreed</p> | <p>That the action should be taken to formally hand over and account the acquired land to the Road Development Authority.</p> |

delay interest as at 31 December 2022 for land acquisition and The payment of Rs.88.23 million as compensation for land acquisition and Rs.331.87 million as delay interest were outstanding as at 31 December 2022.

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| (e) | Although the Performance Securities should be obtained by the contactor at his own cost as per Sub Clause 4.2 of the General Condition of the Contract, contrary to it a separate pay item had been made in the BOQs and a sum of Rs.805.43 million had been paid by the programme under that pay item.  | If this item is not included, the contractor will obtained it under overhead cost. | That approval should be obtained for changes the contract conditions and that conditions favorable to the contractors and unfavorable to the government should not be included in the agreements and that the responsible officers should take the necessary formal disciplinary actions regarding such entry. |
| (f) | The Kaleliya-Medagampitiya road (B183) near Pallewela town was planned as an over pass to the Central Expressway and land acquisition for this purpose had also been completed. However, the basic plans of the road had to be revised and an additional cost of Rs.2,590 million had to be incurred due to the social protest that arose regarding the construction of the over pass. Further, the contractor had requested an additional payment of Rs.411.92 million and an extension of time (EOT) of 177 days due to failure to hand over the related work sites. | Agreed   | That action should be taken to minimize additional and uneconomic costs by minimizing changes to basic plans through social awareness.   |
| (g) | The assets of the contractor remained idle due to the need to stop construction works on the expressway due to the ongoing economic crisis. The relevant contracting company had taken steps to send the people  | Agreed   | That the management should take actions to reduce the uneconomic costs.  |



brought from China return to China before the end of the contract period. The contractor had requested a sum of Rs.40.66 million and CNY 4.96 million from the project for the flight ticketing fees and other expenses incurred in sending the employees to China from June 2022 to May 2023 due to this situation.

- (h) The existence of unsafe pits filled with water at some places on the road is a big environmental problem due to the suspension of the construction and a sum of Rs.9.82 million had been paid for road safety and control in Package- 1 in the year under review. The durability of the concrete structures was questionable due to the corrosion in the reinforcement of the concrete exposed to the outside and effective measures were not taken to prevent these problems.
- It had been advised to cover the construction area which were temporally suspended with the necessary safety ribbons and erected the name boards
- That the management should take steps to ensure that the required safety measures are implemented when suspend of the construction.

### 3.4.4 Construction of Kandy Tunnel Project

The following observations are made.

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
<p>In order to solve the heavy traffic in Kandy city, it was planned to construct a two line road in September 2021 between Thannekumbura and Suduhumpola with a distance of 5.56 km consist of 04 tunnels, 03 bridges and 04 interchanges at a cost of US \$ 252.3 million equaling Rs.50,461 million under the financial assistant of Korean Economic Development Co-operation. An agreement was signed with the Road Development Authority and University of Peradeniya on 25 March 2021 for environmental impact assessment for this project and the relevant contract period was extended in 03 instances.</p>	<p>The time had been extended on 03 occasions due to the interruption of the bore exploration process as the lack of fuel and delay in field work due to bad situation in the country.</p>	<p>The project should be implemented since it is a very important project as nationally.</p>

Thus, only the task of environmental impact assessment had been completed by 31 December 2022 and a sum of Rs.43 million or 86 per cent of the allocation had been incurred on it. The physical progress of the project was only 2 per cent by the end of the year under review.

### 3.4.5 Marine Drive Extension up to Panadura

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
<p>The estimated cost of the project to extend the Marine Drive parallel to the Galle Road to Panadura as an alternative route to reduce traffic on the Colombo-Galle road was Rs.5,346 million and a total provision of Rs.550.47 million had been made for the year under review. The physical progress of the work on the bridge over the Dehiwala Canal which belongs to Phase IV of the multi-phase project as at 31 December 2022 was 60 per cent and the financial progress of the project was 64 per cent as the cost was Rs.351.05 million.</p>	<p>The extension of the Marine Drive Project only remains to be completed. But the contractor suspended the project in June 2022 due to a lack of funds.</p>	<p>Steps should be taken to complete the project works on time.</p>

### 3.4.6 Transport Connectivity and Assets Management Project

The following observations are made.

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
<p>(a) It was planned to construct approximately 58 kilometres of the Peliyagoda-Puttalam road from Ja-Ela to the end of Chilaw town under this project and the estimated total cost of the project was US \$ 125 million or Rs 18,125 million. However,</p>	<p>It had been mentioned that the provincial council roads should be improved instead of the national highways due to the change in priority</p>	<p>That project objectives and scope should be accurately determined at the time of project planning.</p>

the initial scope of the project was changed and the initial loan provision was revised to USD 9 million or equivalent to Rs.1,305 million. Although the project was scheduled to commence on 30 June 2016 and be completed by 30 June 2026, it was not possible to achieve the desired objectives due to the limitations of the loan. Further, the scope of the project had been changed as improvement of provincial roads.

of the government. Therefore, the financial progress of 2017 and 2018 could not reach the expected level.

- (b) Although 5 years and 3 months had passed as at 31 December 2022 since the loan facility was provided, it had been used only US \$ 2.3 million or 26 per cent. The restructuring of the project scope three times based on policy decisions and delay in staff recruitment were seriously affected to the delay in project activities. Although the target physical progress of major activities of the project was 100 per cent by 31 December 2022, the progress achieved was only 77 per cent.
- The delay occurred due to the restructuring of the project on two occasions by 31 December 2022. Since the project completion date had been extended to 30 September 2023, the above credit facility can be fully utilized.
- Project objectives and scope should be accurately determined at the time of project planning.

### 3.4.7 Southern Road Connectivity Project

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
<p>It had been planned to implement construction of roads rehabilitation works of 45.77 km in 06 national roads in Colombo and kaluthara Districts under 05 contract packages as per the amended scope of this project. Although the Contract Package-3 had been completed as scheduled, construction works of Contract Package (CP) 1,2 and 4 had been completed with a delay of 248 days, 534 days and 689 days respectively. Although the progress of CP-2, CP-3 and CP-4 had been stated as hundred per cent, the balance work of that had been implemented under new package as CP-5. The construction work of the CP-5 contract package supposed to be completed on 30 November 2021 and a physical progress of 86 per</p>	<p>CP-1 and CP-4 packages had been completed as per the initial work scope and CP-2 and CP-3 packages had been completed according to the amended scope. The balance work of few sections of B-084 road under CP-2 package had been added to the CP-5 package. However, any work of CP-3 and CP-4 had not been added to the</p>	<p>Contract work should be completed timely by minimizing the additional cost.</p>

cent only had been achieved as at 31 December 2022. Therefore, it was observed in the audit that, the cost of Rs.402 million for the balance work of the project has to be borne by the government in future. In addition to that, although the balance work of the Package-5 had been planned to implement under Integrated Road Investment Programme, an agreement had not been entered with that Programme even the month of May 2023.

CP-5. Balance work had been handed over to the iRoad Project. However, balance work had been delayed due to the initiation of restructuring process of IMF loan.

### 3.4.8 Elevated Highway from New Kelani Bridge to Athurugiriya Project

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
<p>This project had been identified as one of the leading projects of the country to reduce heavy traffic in the financial and administration capitals in Colombo Metropolitan Area and will be completed in year 2025 and maintain by an investor for 15 years. The project planned to be implemented under the basis of Design-Build-Finance-Operate-Maintain-Transfer (DBFOMT) on the Public Private Partnership (PPP). The estimated cost of the project was approximately Rs.193,000 million and the length of the main lane was 16.4 km. Although the total cost incurred on the project as at 31 December 2022 was Rs.1,181.64 million, it had been decided to terminate the activities of the Project on 31 January 2023 by Project Steering Committee without having Cabinet approval.</p>	<p>Based on the recommendations given by the committee appointed to Re-strategizing and Accelerating of Mega Projects (RAMP), the Project Steering Committee held on 12 January 2023 decided to terminate the project works.</p>	<p>The projects should be completed timely to achieve intended objectives.</p>

### 3.4.9 Port Access Elevated Road Project

Following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
<p>(a) Project implementation plan had been revised 04 times and expected date of completion of the entire Project had been extended from 2025 to the 2026</p>	<p>Necessary action had been taken to complete the planned activities during the project period.</p>	<p>Action should be taken to minimize the additional cost by completing as per the Project Plan.</p>

and the commencement was delayed in 9 main activities amounting to Rs. 40,171 million out of the 13 activities with an estimated cost of Rs.40,228 million included in the Action Plan of the project for the year 2019 and the period had been extended from 03 months to 64 months for that. Accordingly, it was observed that the completion of the relevant activities of the project on the revised target date is questionable.

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| (b) | <p>Although the Project had been scheduled to commence on 27 September 2019 and to be complete on 25 September 2022, the entire civil works progress was 54 per cent as at 31 December 2022 after lapse of 1192 days. Extensions of 259 days had been approved for completion of construction works and the completion date had been extended up to 11 June 2023 accordingly. This was due to the inefficiency of the contractor and Rs.147.66 million had been paid to the contractor in relation to the time extension of 105 days of the project as at 31 December 2022.</p> | <p>This delay was mainly due to the delay in the acquisition of the main warehouse and factory area of the Port Authority for the project.</p> | <p>Action should be taken to minimize the additional cost by completing the project as planned.</p>           |
| (c) | <p>The Project had sought concurrence of Asian Development Bank on 02 February 2023 to cancel the implementation of Electronic Toll Collection System (ETC) with an initial allocation of US\$ 24.7 million due to the</p>  | <p>The specifications and plans may be used in the future when a decision is made to implement the ETC system.</p>                             | <p>The desired objectives of the project should be achieved by perform planned contract work efficiently.</p> |

extension of contract period on increase of construction cost of Port Access Elevated Road and Maritime Facility Center (MFC). However, a sum of Rs. 161.69 million had been incurred on consultancy service and it was observed that the expenditure on suspended ETC system was an idle expenditure.

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| (d) | Although the physical progress of construction of Port Access Elevated Highway was 54 per cent as at 31 December 2022 and financial progress was Rs.23,430.34 and it was a higher value such as 84 per cent of the estimated contract cost of Rs.28,002 million. The fluctuation of exchange rates and high inflation had been mainly affected to the slow progress of the project. | The Project couldn't be completed as planned due to the delay in the granting of ownership of the road sections by the Sri Lanka Ports Authority. | Action should be taken to complete the project activities in a timely manner. |
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### 3.4.10 Inclusive Connectivity Development Project

Following observations are made.

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) The Government of Sri Lanka and the World Bank had been entered to an agreement under US \$ 500 million to rehabilitation and improvement of rural roads on 03 November 2021. The 16 contracts had been awarded to the 09 contractors with the estimated contract value of Rs.13,291.39 million without tax. A provision of Rs. 2,303.30 million had been made for the	It was very difficult to get the required fuel and blasting material for the contractors on the economic instability in the country. A time extension had been requested from the Secretary to the Ministry for the above reasons.	That action should be taken to achieve a satisfactory level of performance.

year 2022 for the project. According to the procurement plan of the Project, out of 4 packages 22 rural road of the length of 76.62 in Rahtnapura District had been expected to be completed with the range of 49 percent to 98 per cent. However, only 7.1 km or 9 per cent of the total length had been completed at a cost of Rs.601.10 million by 31 December 2022.

- (b) As per the Procurement Plan for the Project, it was planned to improve 88.25 Km in 23 rural roads belongs to Matale District, 81.58 Km of 24 rural roads in Anuradhapura District and 112 Km of 16 rural roads in Kurunagala District in the year under review. However, 251.67 Km in 54 rural roads under 10 packages had been completed and a sum of Rs.876.69 million had been incurred for completion of works in Matale and Anuradhapura Districts. Accordingly, the physical progress was indicated a lower value of 1 – 21 per cent.
- Measures such as continuous follow up and good financial management strategies have already been taken to speed up the contract packages.
- Actions should be taken to achieve the satisfactory performance.

### 3.5 Local Funded Projects

#### 3.5.1 Central Expressway Project – Section 02

The second stage of the Central Expressway from Meerigama to Kurunagala had been awarded to four local contract joint venture/ consortiums under four packages. Although the road had been allowed to traffic on 15 January 2022, the civil works had not been completed. The following observations are made in this regard.

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) The Road Development Authority had been granted approval to obtain the loan directly without obtaining it through Treasury as it would be affected to the condition of reducing the budget deficit agreed with the International Monetary Fund at that time. Accordingly, the Road Development Authority had obtained a loan amounting to Rs. 124,221.35 million from several local banks at different time for this Project. However, It was observed that, the objectives of reducing the budget deficit will not be fulfilled by that action due the Authority obtain the allocation from the Treasury to pay the related debt.	Based on the policy decision of the Government, this expressway Project was carried out for uplift of the local contractors with the support of the local bank loans and direct contribution of local contractors as the first expressway Project in Sri Lanka.	That project should be implemented in compliance with fiscal policies.
(b) The competitive economic advantages that the Government could have attained had been lost due to the selection of contractors on the basis of the unsolicited proposal without competitive bidding contrary to condition 1.3 of Appendix 23 of the Procurement Guideline as the detailed engineering estimates had already been prepared for these contracts, the local	Although the four (04) consortium contractors were given the opportunity to bid for the all four (4) packages of the Project, disturbances occurred to competitiveness due to only one consortium contractor had submitted bid for each package. For that reason contracts were awarded on price negotiations. The contracts	Government procurement procedures should be followed which provides more economic advantage to the government.



contractors who are bidding have previous experience in construction of the Sothern Expressway and the preliminary plans had already been prepared by the Road Development Authority at that time. Also, the contract was awarded to a consortium consisting of several pre-qualified consulting companies for a total of Rs. 2,243.40 million and USD 5.86 million only on the basis of price negotiation without prior competitive bidding for the suppling of project consulting services.

- (c) According to the Sub section 14.7 of FIDIC, certified amount of each interim payment certificate should be paid by the employer within 56 days. According to the Sub section 14.8 of the contract conditions, the contractor is entitled to a finance charge on unpaid amount during the delay period. The total value of interim payment certificates related to 03 packages for which payments had been certified by the engineer but had not been paid by the end of the year under review was Rs.1,203 million and it was observed that the project may have to incur additional expenses due to the delay of those payments beyond the above limit.
- The contractors are entitled to receive late fees as per the contract conditions in the event of a delay in payment due to the economic crisis in Sri Lanka.
- Action should be taken to minimize the delay in payments.

- (d) It was observed that, a sum of Rs.12,557 million have to be paid to the contractor in the future on completion of the entire contract works and according to the Sub section 16.1 of FIDIC, Notice to Termination had been issued by the contractor due to non – payment of the arrears interim payments. Further, a sum of Rs.238.91million had to be paid to the consultant of the contract as at 31 July 2022. It was observed that the completion of the project will be problematic due to these financial issues which may not be resolved.
- These arrears had now been paid in full and most of the balance work were completed by the contractors.
- Contract payments should be made as per the conditions of the contracts.
- (e) Noise barriers fixed on the both side of the highway had been corroded. According to the investigation report of the ITI on 03 March 2022, sound barriers had been made by using inferior quality paint-coated galvanized sheets and the consultant of the contract had recommended to remove the inferior quality sound barrier as per the to the Sub section 7.5 of the Conditions of Contract.
- As sound absorption occurs by the material inside the sound barrier, the consultant recommended paying 43 per cent of the total value by deducting the value of the inner materials and the outside cover of the sound barriers.
- That it is the responsibility of the management to ensure that construction is carried out in accordance with the specifications.
- (f) It was observed that, the quality of contract works have to be followed up due to the cracks in the expressway surface and toll buildings, the uneven road surface and cracks in the viaduct areas of the roads.
- Payments relating to the buildings and roads with quality issues were temporarily suspended until the above parts were repaired and the contractor is acknowledged on the defect list which are in the defect notification period.
- Payments should not be made for construction that does not meet the required standards.

### 3.5.2 Central Expressway Project – Section 03

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) According to the Section 4.4 of the Procurement Guideline, although the contract packages related to any procurement should not be split, The expressway section which was only 12 km long and had a contract value of Rs.28,840 million was granted to 14 local contracting companies under 17 contract packages. Therefore, the procurement of 12 packages was missed to be referred to the Cabinet Appointed Procurement Committee.	The packages were divided based on the criteria of technical diversity and financial capacity of local contractors for construction contracts.	Procurement activities should be conducted as per the conditions of the Procurement Guideline.
(b) According to the structure of the road, the contract value was divided into 05 Cabinet Packages and 12 other packages while dividing the road into several segments for awarding the contract. The total value of the contract was Rs.28,895 million and all these packages which were started before the month of January 2022 and schedule to be completed before the month of July 2023. However, the physical progress of these packages was as low as 01 per cent and 42 per cent.	The main reason for decline the physical progress was economic crisis in the country.	Construction progress should be achieved as per the plans.

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| (c) | The Mobilization Advances amounting to Rs.3,713.81 million had been paid for contractor for entire contract packages and an advances of Rs.3,707.29 million remained unrecovered at the end of the year under review as the physical progress of most of the packages was less than 30 per cent. | The validity period of the bank guarantees for those advances had been further extended. | The advance money should be collected by expediting the construction work. |
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### 3.5.3 Central Expressway Project – Stage 04

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) The revised cost estimate of this project from Kurunagala to Dambulla with the length of 58.6 Km was Rs.179,830 million. Although efforts had been made to award contract and financing from domestic and foreign sources through various procurement methods under various Cabinet decisions, all those above activities had been failed. Although it had been over 6 years, the Project had been implemented without a donor. Hence necessary actions had been taken to wind-up the Project as at 31 December 2022 and the project management unit was started in 2016 and a sum of Rs.518.15 million had been incurred for it by the end of the year under review.	Although there was no methodology for commencing and financing the contracts, the Project Monitoring Unit was started in 2016 and land acquisition and procurement processes had been completed.	It is common practice to initiate projects with certainty on how to finance them after carrying out feasibility studies, cost-benefit analyses and environmental studies.

- (b) The Project had acquired 3,505 private land plots and 1,550 crown lands as at 31 December 2022. Compensation amounting to Rs. 339.71 million had been paid for the acquisition of 207 plots out of that. However, any plots of land had not been handed over to the Road Development Authority by 31 December 2022 under Section 44 of the Act.
- Any plots of land had not been handed over to the Road Development Authority as at 31 December 2022.
- That action should be taken by the Road Development Authority to take over and protect the lands that had been completed the compensation process.

#### 3.5.4 Ruwanpura Expressway

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
<p>(a) The Project activities of Ruwanpura Expressway had been started at a total cost of Rs.54,695 million on 2016. Accordingly, the construction works of 73.9 km of expressway from Kahathuduwa interchange to Pelmadulla and 24.3 km from Kahathuduwa to Ingiriya section had been handed over to the construction company on 03 May 2021 and the relevant construction works intended to be completed in year 2023. However, the contractor unilaterally suspended the construction on 10 May 2022 due to the failure to settle bills even after a period of one year from the commencement of the construction. A sum of Rs.3,210 million with VAT had been paid as an advance to construction company on 13 July 2021 from the loan taken from National Savings Bank and the above money could not be able to recovered due to suspension of construction by contractor and the interest payments of Rs.22.55 million and Rs.264 million were paid respectively on 30 June 2022 for the loans obtained from the Bank of Ceylon and the National Savings Bank. The action had been taken to terminate the project</p>	<p>These environmental impacts can be minimized by complying with the recommendations given by Central Environmental Authority and it is expected to comply with those recommendations.</p>	<p>A consent should be obtained from the donor to obtain the funds at the initiation of the project.</p>

on 31 January 2023 by Committee Appointed to Re-strategizing and Accelerating of Mega Projects (RAMP) and a sum of Rs.10,124 million had been incurred on the project as at end of the year under review. It was observed that there were significant social impact on livelihood and economic activities of the people in that area such as existence of water pits in excavated area of constructions, road blocks create from un-used soil piles and inability to cultivate paddy lands etc. due to suspension of constructions of the project suddenly.

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| <p>(b) Although the bids were called for 4 construction packages separately to award the 04 constructions to 4 separate contractors under the section of the expressway from Kahathuduwa to Ingiriya, the decision was changed and all 4 packages were awarded to one contract company. Although it was not necessary to allocate the total preliminary cost of Rs.7,070 million of 04 packages for a single contractor, it had been given to one construction company. Further, the opportunity to develop the economic activities of small and medium scale contractors by providing the construction of roads and related services as expected by the Cabinet Memorandum was omitted due to this.</p> | <p>The Maga Engineering Company submitted the lowest bid for all these 04 packages after the tenders were called and therefore, it was decided to hand over all the 04 packages to the lowest bidder Maga Engineering Company under Cabinet Approval .</p> | <p>The procurement process should be planned to make maximum economic benefits.</p>                            |
| <p>(c) An agreement was made with the Road Development Authority on 11 October 2021 after negotiating with the Bank of Ceylon to provide Rs.12,950 million of the funds required for this project on a credit basis. The second advance to be paid to the construction company and the payments for the bills presented for road construction totalling Rs.5,450 million presented to the bank by the Authority from October 2021 to April 2022 had not been paid by the end of the year under review.</p>   | <p>Although the bills which have to be settled to contractor had been presented to the Bank of Ceylon due to the economic crises situation prevailing in the country, the relevant money had not been released by the Bank of Ceylon.</p>                  | <p>Additional expenditures should be eliminated by settling the bills presented by the contractor on time.</p> |

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| (d) | A sum of Rs.2,477 million have to be paid for the bills submitted by the contraction company excluding the advance and there was a risk of having to pay interest as per Section 14.8 of the contract agreement on the delay of those payments.   | Delay charges have to be paid for the amounts due to the contractor as per the conditions of the contract agreement.                 | Additional expenditures should be minimized by settling the bills in a timely manner. |
| (e) | A sum of Rs.3,210 million inclusive of VAT had been paid on 13 July 2021 as advances to the construction company from a loan obtained from the National Savings Bank and the above money could not be able to recover due to failure to settle the contract sum and the suspend the construction by the contractor. | The bills payable to the contractor and claims related to the contract can be settled and these payments have not been incurred yet. | Immediate steps should be taken to recover advances.                                  |

### 3.5.5 Development of rural roads and bridges

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) (i) The contracts were awarded to the State Development and Construction Corporation and the Road Development Authority for the construction of 463 bridges at an estimated cost of Rs.7,204 million under the vehicle moving bridge construction project. It was observed that 175 bridges had not been commenced there construction by the end of the year under review out of those bridges and 96 bridges had under 25 per cent performance, 46 bridges had 25-50 per cent. There were 07 bridges which agreements were cancelled. However, it was observed that, intended objectives going to achieve by the government through the project and public welfare had not been achieved due to not commencing the work as scheduled dates, abundance of construction work, cancellation of	According to the instructions issued on 29.04.2022 by Road Development Authority base on Budget Circular No. 03/2022, it had been advised to stop construction of bridges that had not started and to restructure the rural bridge programme.	Physical performance should be maintained as planned to achieve project objectives.

agreements and low physical progress of projects that commenced the work and the inconvenience made to the public due to abandoned of work.

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| (ii) | Construction of this bridges had been abandoned after March 2022 with the political and economic instability exist in the country and although Rs.87.18 million had been paid as mobilization advances for 41 bridges in North West Province, advance amount of Rs.50.15 million had to be recovered further even as at 31 December 2022 and in which Rs.48.81 million advance was given to SD&CC and mobilization advances of Rs.15.33 million had been paid for two projects which had terminated the agreements had not been recovered even as at 31 December 2022. Further, there was an uncertainty of recovering advances because, out of the 07 bridge contracts, physical progress of 04 contracts was in between 05 per cent to 70 per cent. | Advance Recovery Plan had been provided by the SD&CC to the Road Development Authority and the Ministry for the advance money to be given to SD&CC and the Road Development Authority. | Advances should be recovered as per the agreements.                     |
| (b)  | Although 1,000 bridges at a cost of Rs.1,500 million had been planned to be constructed in 2020 under Construction of Low Cost Bridges Project, the construction was commenced only 33 bridges at the end of the year under review and only 17 bridges had been completed.  | Physical progress of 22 bridges was range from 30-100 per cent.  | Physical progress should be achieved according to project plans.        |
| (c)  | The construction contracts to develop 38,718 rural roads at a cost of Rs.35,497 million under Rural Road Project identified island wide through District Coordinating Committees had been given to Local Authorities, Road Development Authority and Divisional Secretariats. However, it was observed that, only 6,423 rural road contracts had been implanted and its progress was at a   | Agreed.  | The action should be taken to achieve targeted progress of the project. |



low level of 16 per cent. Further, even though, an allocation of Rs.56 million had been provided for 29 roads in Polonnaruwa Districts under Rural Road Construction Project, only 05 road construction projects had been completed and 21 contracted road construction projects had not been implemented.

### 3.5.6 Programme of Developing 100,000 km of Alternative Roads

The total amount of roads awarded to contractors for construction work was 17,847 km as at 31 December 2022 and the extent of contract work completed was 6,298 km. The extent of ongoing and abandoned was 11,549 km. A sum of Rs.142,821 million had been paid to this activities. A sum of Rs.43,205 million from local banks, Rs.68,263 million under votes of the Ministry and Rs.35,940 million from two circumstances by issuing Treasury Bills had been provided for this project. The following observations are made in this regard.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) It was observed that, there were errors in the contract rates (RA-06/RA-16) used for 73 road constructions implemented within Polonnaruwa and Nuwara Eliya Districts and as a result, the estimated cost had been overstated by Rs.106.85 million.	Steps had been taken to make necessary corrections.	The estimates should be prepared by using standard rates.
(b) The estimates of 40 projects had been over estimated by Rs.55.18 million due to the over stated the distances used in the preparation of rates for the distances for the procurement of soil (gravel), asphalt and bitumen required for the construction of road contracts had implemented within Polonnaruwa and Kurunegala Districts.	The material transport distances had been considered not only for one road but also the total roads under that contract.	The estimates should be prepared by using standard rates.

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| (c) | A late fee of Rs.86.57 million to be charged had not been collected due to obtaining additional days for complete the projects without extending the days on considerable reasons according to the 05 contract agreements inspected in road construction project implemented in Polonnaruwa District. | The late fees will not be collected until the contractor's request has been evaluated and the relevant days had been extended in three projects so far. | Late fee should be charged as per the agreements. |
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### 3.6 Assets Management

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) Although as per the letter No. MOH/ACC/13/2022/07 dated 24 February 2023 of Secretary to the Ministry of Transport and Highways, the ownership of the KH-4618 Car and CAA-4928 Jeep had been vested with the Ministry of Highways, the value of that vehicles had not been entered into the Assets Register of the Highway Section as at 31 December 2022.	These two vehicles had not been entered to the Assets Register of the Highway Section by omission and necessary action will be taken to enter it in this year.	Assets Register should be maintained up to date.
(b) Two cars registered under the Ministry of Transport had been taken by a former Secretary of the Ministry and an Accountant to the Ministry of Water Supply and formal action had not been taken to release them to that institution or taken them back to the Ministry.	Although it was informed that to return this vehicle on many occasions, the answers were not received regarding this request.	The action should be taken to transfer or taken back the vehicles in a formal manner.

### 3.7 Losses and Damage

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) The unwritten-off carried forward balance as at 31 December 2022 was Rs.0.487 million and the losses and omissions out of it valued at Rs.0.404 million were incurred in previous years and action had not been taken to recover or write off those balances even as at 31 December 2022.	Actions are being taken to write off the vehicle losses and omissions in the Transport Sector.	Action should be taken to recover the outstanding balances.

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| (b) | Although it had been recommended to recover the loss of Rs.0.37 million that occurred due to the accident of cab No. PF-6319 from the driver of the vehicle, the legal action had not been taken in this regard even as at 28 February 2023 and FR 104(4) report had not been prepared for this accident.   | The legal arrangements had been taken to recover the unpaid amount by the insurance company after obtaining the report related to the court decision.   | Action should be taken as per the Financial Regulations.   |
| (c) | Although the jeep bearing number KA-1279 had been sent to the garage on 07 September 2022 for repair due to the accident that occurred on 22 February 2019, the insurance agency had informed that it could not provide the insurance cover amount of Rs.0.93 million due to the delay in the repair. Although the repairs of the vehicle had been completed, the vehicle is still in the garage even as at 28 February 2023 and it couldn't be able to make the payment without receiving the insurance coverage. Although 3 years had passed since the accident, it could not be able to obtain insurance coverage and final report had not been prepared as per the F.R. 104(4). | The delayed repair works in relation to this accident had now been completed and further work related to obtaining insurance is being done with the intervention of the Insurance Regulatory Commission.    | Action should be taken to recover from the responsible officers.   |
| (d) | A vehicle attached to the Private Secretary of the former Minister of Transport had been fired by protesting group on 09 May 2022 and the vehicle was damaged completely due to the fire. The actions as per the FR 104(4) regarding the vehicle accident had not been made even as at 28 February 2023.  | The process on the file was delayed due to delay in delivery of the assessment report by the Valuation Department.  | That the action should be taken to recover from the responsible officers by identifying the losses and damages as per the Financial Regulations. |
| (e) | In the inquiries conducted as per the Financial Regulations 104 regarding the misplacement of a government owned laptop computer amounting to Rs.0.17 million which had been given to the Media Secretary of a former Minister of Transport in the year 2021, it had been decided by the Board of Inquiry, the media secretary was responsible for this and even though it was decided that the loss should be recovered from him at once, it was not   | It was informed that to the Media Secretary of a former Minister to pay value of laptop computer amounting to Rs.170,400 at once according to the final decision of the inquiries related to this incident. | Action should be taken to recover the loss as per the Financial Regulations.   |

recovered even as at 31 December 2022. An amount of Rs.0.045 million received to Ministry as his payment of Provident Fund during his service of Ministry had been retained.

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| (f) | Although a motor vehicle met with an accident had been repaired by the Ministry at a cost of Rs.6.15 million, that amount had been loss to the government since the actions were not taken to reimburse that expenditure from insurance company. However, appropriate actions had not been taken with regard to that damage as per the Financial Regulations 104 even as at 27 February 2023. | Relevant further actions are being taken with the chairmanship of the Director of the Mechanical Section of the Road Development Authority. | Action should be taken to recover the loss from the relevant responsible officers as per the Financial Regulations. |
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#### 4. Achievement of Sustainable Development Goals

##### 4.1 Progress in Identifying and achieving of the Sustainable Development Goal

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Although according to the United Nations Sustainable Development Program, the Rural Roads Division of the Ministry had identified 02 sustainable development objectives and established performance indicators, there was no progress in those objectives due to the failure to implement of new projects in the year 2022.	Agreed.	Sustainable Development Goals should be achieved.
(b) The Highways Division of the Ministry had identified goals and indicators related to 03 sustainable development Objectives for the year under review and although the progress of those indicators was in the range of 80 per cent to 100 per cent according to the Annual Performance Report, it was disputed in the audit how the progress was 80-100 per cent as mentioned above due to the poor physical progress of each of the projects identified to achieve these indicators.	The progress of road and bridge construction targeted for the year under review could not achieve 100 per cent progress as expected.	Sustainable Development Goals should be achieved.

## 5. Human Recourse Management

### 5.1 Approved and Actual Cadre

The cadre structure of the Ministry as at end of the year under review is as follows.

<b>Audit Observation</b>				<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
The carder structure of the Ministry as at the year under review is as follows.				According to the policy decision of the Government, 365 Development Officers had been attached to the Ministry in the year 2013 and the approval for the cadre was also received for that. All those officers had been attached to regional offices of the Road Development Authority located nearest their residences due to inability to retain in the Ministry. Those officers were released in a timely manner so far and 63 officers remain.	Actual vacancies should be identified and recruitment should be done only for essential posts and appropriate arrangements should be made to deploy in an effective manner.
<b>Employee Category</b>	<b>Approved Cadre</b>	<b>Actual Cadre</b>	<b>Vacancies/ Excess</b>		
Senior Level	45	32	13		
Tertiary Level	02	-	02		
Secondary Level	285	189	96		
Primary Level	43	20	23		
Total	375	241	134		

Although there are 77 vacancies in the post of Development Officer at the secondary level during the inspection of the staff of the Ministry, 63 development officers recruited by the Ministry were released for duties in the regional offices of the Road Development Authority which are not directly related to the role of the Ministry. Further, 22 officers recruited to the Road Development Authority had been released to the Ministry during the year under review. Accordingly, it was observed that there was no proper evaluation of the service needs and adjustments were not made to the service needs recommendations while approving the cadre.