

Kandy Multimodal Transport Terminal Development Project - 2024

The audit of financial statements of the Kandy Multimodal Transport Terminal Development Project for the year ended 31 December 2024 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 04.03 of the Article IV of the Loan Agreement NO.6623 – LK (Concessional Credit) and 6624 – LK (Non-concessional credit) SF dated 22 April 2021 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. 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 of the Project, the Ministry of Urban Development, Water Supply, and Housing Facilities is the Executing Agency, However, in the year 2021 the executing responsibility of this project had been transferred based on a cabinet decision to the Ministry of Transport and Highways and Road Development Authority became the Implementing Agency of the Project. The main objective of the Project is to enhance accessibility, efficiency, and safety for public transport users of the Kandy Multimodal Transport Terminal. The activities of the Project are implemented under 04 components namely, Development of Kandy Multimodal Transport Terminal, Urban Integration and Road Safety Improvements around KMTT, Institutional Strengthening and capacity Building, Contingent Emergency Response Component. As per the Loan Agreement, the estimated total cost of the Project was US\$ 69.33 million equivalent to Rs.13,762 million, of which SDR 47.13 million equivalent to US\$ 64.33 million will be financed by IDA under the concessional terms and US\$ 5 million will be financed by IDA under the non-concessional terms. The Project had commenced its activities on 06 May 2021 and scheduled to be completed by 31 May 2025 and extended upto 31 May 2027.

1.3 Qualified Opinion

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

1.4 Basis for Qualified Opinion

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

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as

management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

I also:

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

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

2. Comments on Financial Statements

2.1 Accounting Deficiencies

	Accounting Deficiency / Audit Issue	Amount Rs. Million	Response of Management	the Auditor's Recommendations
(a)	Out of total mobilization advances of Rs.4,162.56 million, an amount of Rs.2,175.62 million had been paid to the contractors and consultants had been recorded under the work in progress instead of being recorded as mobilization advance. Hence, the work in progress balance shown in the statement of financial position had been overstated by similar amount.	2,175.62	Agreed. Noted for correction from the 2025 financial year onward.	The accountant should ensure compliance with the selected financial reporting framework before signing the financial statements.
(b)	The retention amount of Rs.190.62 million related to Contract for Design and Construction of Kandy Multimodal Transport Terminal had not been accounted as a payable balance and Work-in Progress accordingly. As a result, the work-in progress and retention money shown in the financial statement had been understated by similar amount.	190.62	Agreed. Noted for correction from the 2025 financial year onward.	The accountant should ensure compliance with the selected financial reporting framework before signing the financial statements.
(c)	According to the paragraphs no 88, 89 of Sri Lanka Public Sector Accounting Standards No. 01, as a minimum, face of the statement of financial position shall include, headings and sub totals when such presentation is relevant to understanding the financial position. However, contrary to that a sum of Rs.5,104.39 million of work in progress had been recorded on face of statement of financial position instead of being disclosed as component wise classification.	5,104.39	Agreed. Noted for correction from the 2025 financial year onward.	The accountant should ensure compliance with the selected financial reporting framework before signing the financial statements.

(d)	Although, an amount of Rs.889.34 million paid up to the year 2022 for the KMTT project by the Strategic Cities Development Project (SCDP), the PMU had not obtained details relevant to the above payments from previous project and disclosed in the financial statements of the KMTT project.	889.34	Disagreed. No details of transactions related to this project carried out by the Strategy City Development Project (SCDP) have been received by the KMTT Project so far, and therefore cannot be disclosed in the financial statements."	The accountant should ensure compliance with the selected financial reporting framework before signing the financial statements.
(e)	According to the paragraph 39 of Sri Lanka Public Sector Accounting Standard No 2, unrealized gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, foreign exchange gain amounting to Rs.6.67 million had not been adjusted to the cash flow statement accordingly.	6.67	Disagreed. Since this exchange gain derived from financing activities, it has been recorded under Financing activities.	Adhere to the Sri Lanka Public Sector Accounting Standards.
(f)	As per the paragraph 43(a) of Sri Lanka Public Sector Accounting Standard No. 05, assets and liabilities should be translated at the closing foreign exchange rate at the date of the statement of financial position. However, mobilization advance amounting to USD 1.13 million equivalents to Rs. 421.67 million and the parity adjustment amounting to Rs.180.53 million relating to the foreign loan of the project had not been accounted or disclosed in the financial statements.	602.2	Disagreed. As per the instructions given by the Director General of Department of State Accounts by his letter No. SA/FR8Policy/Asset/dated 22 February 2024, adjusting the parity variance in the Project Financial Statements is not necessary.	Adhere to the Sri Lanka Public Sector Accounting Standards.
(g)	According to paragraph 100 of the Sri Lanka Public Sector Accounting Standard No. 08, it should be disclosed each class of contingent liability at the reporting date with a brief description of the nature of the contingent liability and, where practicable. However, six (06) variation orders submitted by the	3.24	Agreed. This was not certified by the Engineer for the Contract at the time of finalizing project financial statements. The disclosure was mistakenly omitted from the notes to the	Adhere to the Sri Lanka Public Sector Accounting Standards.

contractor amounting to Rs.3.24 million during the year under review had not been disclosed in the financial statements.

financial statements.

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| (h) | The payable balances to contractor and consultant of KMTT as per the statement of financial position was Rs.744.21 million. However, as per the outstanding Interim payment Certificates (IPC), it was Rs.732.61 million. Hence, a difference of Rs.11.6 million was observed between two balances. | 11.6 | The overestimate or underestimate will be adjusted in the next year financial statement. | The accountant should ensure that the balances are reconciled with the other party's ledger balances before signing the financial statements. |
| (i) | The work-in-progress balance as per the statement of financial position was Rs.5,104.39 million and as per the notes No.05 to the financial statements it was Rs.5,272.62 million. Hence, a difference of Rs.168.23 million was observed between two balances. | 168.23 | Agreed. Measures will be taken to avoid such errors in future financial statements. | The accountant should ensure all balances are reconciled with the relevant schedule, before signing 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)	According to Public Administration circular No 9/2009 and dated 16 April 2009	Arrival and Departure times of all public servants in all public institutions should be confirmed through the finger scanner. Further to confirm the arrival and departure through the finger scanners, if the time of arrival and departure is used as a basis for payment of allowances made outside regular duty hours such as overtime and holiday pay, etc. However, in contrary to above circular, an amount of Rs.3.2 million had been	Agreed. Actions are taken to install the finger print machines. However, overtime and holiday payments are made after checking with attendance register, movement register and the running charts.	The Project director should take action to install new finger print machine immediately and should confirm before approve and certify OT and other allowances compliance with circular instruction

paid as overtime without confirming the arrivals and departures through finger scanner.

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| (b) | According to the Sub clause 9.3 of the Management circular No 01/2019 dated 15 March 2019 | The Secretary to the Line Ministry shall ensure that the Project Steering Committee should meet at least once in two months and through that Project should carry out periodic reviews to monitor the effectiveness of such system. However, only one Steering Committee meetings had been held during the year under review and it may be adversely affected to the project activities. | Agreed. Due to the elections held in 2024 and the resulting administrative delays, it was not possible to maintain a regular meeting schedule. At the moment this has been rectified. | The chief accounting officer should ensure that the Steering Committees are held in accordance with the relevant circular. |
| (c) | According to the section 4 of the National Budget Circular No.3/2018 dated on 16 July 2018 | The Government agency should be obtained the approval from General treasury when hiring vehicles. However, the PMU had been obtained 03 vehicles on operational lease method (Use and Return) without taking approvals from the General Treasury and paid Rs.2.42 million for 3 months in 2024. | Agreed.
The National Budget Circular No.3/2018 dated on 16th July 2018 has not applied for special projects. However, the project does not have hired vehicles since the 2nd Quarter of 2024. | The chief accounting officer should take disciplinary action for the responsible officers who violate the instruction of National Budget Circular. |

3. Physical Performance

3.1 Physical progress of the activities of the Project

Activity	As at December 2024	31	Delay/ Audit Issue	Reason for delays	Management Response	Auditor's Recommendations
	Expected physical performance %	Performance achieved %				
(a) preliminary and detailed design for structural and architectural components of KMTT	100	77	According to the approved work programme, preliminary and detailed design for structural and architectural components was scheduled to be complete as at 20 January 2025. However, detail design had not completed up to 06 June 2025. The PMU had not been taken necessary action to mitigate the time extension and cost over turn as per condition of contract.	Design delay is occurred due to unpredictable level of investigation for detail design.	Disagreed. Design delay is occurred due to unpredictable level of investigation for detail design. As per the Contract, the Consultant has taken several steps to take corrective actions to mitigate the delays and PMU is closely monitoring the process weekly.	Chief accounting officer should instruct PMU to complete the project within agreed duration.
(b) Piles construction of KMTT building	100	62	Even though, piles construction of terminal building was schedule to be complete on 01 June 2025, actual progress of this works was 62 percent at the time of site visit on 06 June 2025. The PMU had not been taken necessary	As per the unpredictable site /soil conditions, more time than expected has been taken for pile construction.	Disagreed. As per the unpredictable site /soil conditions, more time than expected has been taken for pile construction.	Action should be taken to complete the project within scheduled time.

action to mitigate the time extension and cost over turn as per condition of contract.

(c)	Foundation work of the Arcade Building.	100	0	According to the approved work programme, the foundation work of the Arcade Building was scheduled to be commenced on 31 October 2024 and to be complete by 24 February 2025. However, it was observed that the foundation work had not completed even up to 06 June 2025 and PMU had not been taken necessary action to mitigate the time extension and cost over turn as per condition of contract.	SLR has not taken steps to handover the land as per the MOU between SLR & MOTH.	Disagreed. SLR has not taken steps to handover the land as per the MOU between SLR & MOTH.	Action should be taken to complete the project within scheduled time.
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3.2 Contract Administration

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	According to the provision No 14.6.2 of the particular condition of contract the Contractor is required to submit Interim Payment Applications (IPAs) when requested bill amount was 2 percent from accepted contract amount (less provisional sum) regularly until the work has completed. In addition, efficient fund utilization is essential to avoid unnecessary financial charges such as	Disagreed. Some of the items have been missed from the bid and unexpected changes in 'MedaEla' has to be incorporated to the design as per site conditions. Therefore, the contractor has not cost for these items at the beginning so that their	Action should be taken to achievement of the project's physical progress in line with the disbursement plan.

commitment fees on undisbursed balances, as per the terms. 3.01-Article III of the loan agreement. However, the Project has accepted 12 Interim Payment Applications (IPAs) without following the condition mentioned in section 14.3 and 14.6.2 of the contract agreement and it will be affected to slow utilization of donor funds, increasing the undisbursed balance and commitment fees.

financial application is not reflecting the actual work carried out.

Up to now no commitment charges has been shown in the client connection statements issued by the World Bank.

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| (b) | <p>As per the section “c” of the schedule No. 02 of loan agreement the Project Administration Manual should be prepared and finalized prior to or within 6 months after loan effective date. However, a Project Administration Manual (PAM) had not been prepared for this project even after 4 years from loan effective date. Therefore, it was observed that, in absence of integrated reference document, outlining critical administrative procedures, reporting formats, risk management frameworks, and accountability structures negatively affected project coordination, delayed decision-making, and increased the risk of non-compliance with donor and government procedures.</p> | <p>Disagreed</p> <p>Due to ownership issues related to the KMTT, this has been delayed for some months. At present the PMU has sent the Operation Manual report to the World Bank for their concurrence and the verbal concurrence has been received from World Bank Procurement Specialist related to this project.</p> | <p>Chief accounting officer should instruct the PMU to prepare the Project Operation Manual as per the loan agreement.</p> |
| (c) | <p>According to the Mission conducted by the World Bank during the period from 2 to 13 in December 2024, requested from secretary to Line Ministry to initiate the discussion with Ministry of Finance to identify Ownership and operational model of KMTT. However, action had not taken by the Secretary to Line Minister accordingly. This delaying may be affected to implementation and utilization of USD 4 million allocated under this project for the component 03 named “Institutional Strengthening and Capacity Building”.</p> | <p>Disagreed.</p> <p>Ministry is in the process of finalizing the Ownership Model and the Operation Model for KMTT with the collaboration of Stakeholders and the Treasury. However, the allocated US\$ 4 Million has already been transferred to the KMTT civil works and bus operation contracts due to the shortage of funds to grant those contracts.</p> | <p>Chief accounting officer should take necessary action to finalized ownership and operational model of KMTT.</p> |

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| (d) | A land extended of 1.9216 hectares used by the Sri Lanka Railway Department had been assigned and allocated to construction of the KMTT Project and the project has agreed to construct a seven-story building under GOSL funds for demolishing building in acquired land area. According to the procurement plan of the project for the year 2024, the construction contract of seven stories building was scheduled to be awarded by 05 July 2024, but, the contract had not been awarded until the end of May 2025 even after laps of one year. | Agreed.
Until 2024, it was not decided whether the funding source is from the World Bank or GOSL. Hence, there was a delay until 2024 and now GOSL funds have been allocated for this and the procurement process is in the tail-end. | The project director should take necessary action to preparing and obtaining action plan, procurement plan including Time target complete the work within loan period |
| (e) | Even though, the project completion time has extended from 31 May 2025 to 30 May 2027 by the World Bank based on a requested by the Government of Sri Lanka without changing other loan terms and conditions. As a result, loan repayment should be started from the year 2025 to 2045. It was observed that the Government had to pay loan installment without obtaining any benefits from the investment. The PMU had not taken to communicate the impact of above disadvantage to the Government and take step for mitigate it. | Disagreed.
The funds were allocated to this project in 2019 under the SCDP. Due to the Covid 19 pandemic and financial crisis in the country, this has been delayed until 2022. The Government has taken a decision to transfer this project from Ministry of Urban Development and Housing to Ministry of Highways in order to accelerate the awarding process. | Loan fund should be utilized effectively. |
| (f) | According to the World Bank mission report, it was estimated to spend amount of Rs.362 million during defect liability period and this expenditure has to be borne by the Sri Lankan Government. It was observed that the delaying to start the construction works of KMMT from 2021 to 2024 was mainly affected to obtain net benefits from the project cost, including net benefits of 12.26 percent in the under review as per the Project Appraisal Document and it caused to overrun the project cost, delaying to obtain expected outcome and need to assess alternative financing arrangements to cover this additional cost. | Agreed.
This has been conveyed to the Cabinet in year 2024 & Cabinet decision has been given. | Project should prepare proper action plan and budget and responsibilities should be fixed accordingly. |

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| (g) | <p>Even though, the Strategic Traffic Management and Traffic Circulation Plan Report for Kandy (CBD) issued by the Ministry of Megapolis and Western Development, has identified the requirement of Road Under Bridge exclusively for buses for their two-way movement from or to KMTT, to overcome traffic generated due to proposed dibbling the railway line at the Entrance to KMTT. The above requirement had not been identify at the initial stage of the project and construction works were started without a solution to expected traffic at entrance to KMTT. Therefore, the project objectives would not be achieved as planned due to this situation.</p> | <p>Disagreed.</p> <p>Initial development plan has been prepared by the SCDP under UDA and we have been given to construct the KMTT project. Under this, it was revealed that the proposed underpass bridge cannot be done due to heavy congestion of service cables and the wastewater canals.</p> | <p>The chief accounting officer should take necessary action to do a feasibility to identify impact of all remedies suggested by Strategic Traffic Management and Traffic Circulation Plan Report for Kandy to overcome the traffic barriers.</p> |
| (h) | <p>According to the Paragraph 8.9.3 of Procurement guide line, any good or services exceeding Rs.500 million shall be signed by the secretary to the line Ministry, However, contract agreement for Design and construction of KMTT with amounting to Rs.25,697.87 million had been signed on 01 February 2024, by the chairman of the Road Development Authority without proper authorization.</p> | <p>Disagreed.</p> <p>Major Contract Agreements have been signed by the Chairman, RDA as the Head of the implementing agency on Board approval as a practice.</p> | <p>The chief accounting officer should conduct an investigation to identify the impact of sign the construction contract by RDA.</p> |