

Design and Construction of Kohuwala and Gatambe Flyovers Project - 2024

The audit of the financial statements of the Design and Construction of Kohuwala and Gatambe Flyovers Project for the year ended 31 December 2024 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. My comments and observations which I consider should be reported to Parliament appear in this report

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, then the Ministry of Highways, presently the Ministry of Transport, Highways, Ports and Civil Aviation is the Executing Agency, and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are the Designing and Construction of flyovers planned to be located where Kohuwala in the Colombo district and Gatambe in the Kandy district. The activities of the Project are implemented under 02 sites namely the Kohuwala flyover and the Gatambe flyover. As per the Loan Agreement, the estimated total cost of the Project was EURO 54.974 million equivalent to Rs. 11,156.60 million and out of that EURO 52 million equivalent to Rs. 10,192 million was agreed to be financed by the Hungarian Export-Import Bank. The balance amount of Rs. 964.60 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 16 August 2021 and initially scheduled to be completed by 16 June 2023 for Kohuwala and 16 December 2023 for Gatambe, and then project completion time extended to 30 June 2025 by a supplementary agreement for MOU.

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 determines 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 Program'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 audi

2. Comments on Financial Statements

2.1 Accounting Deficiencies

	Accounting Deficiency / Audit Issue	Amount Rs. Million	Response of the Management	Auditor's Recommendations
(a)	Provision of financial charges on delayed payments amounting to Rs.175.15 million equivalent to Euro .55 million had not been recorded in the financial statements. As a result, working progress had been understated by similar amount.	175.15	A claim of EUR 1,002,016 (Rs. 311,571,576) was submitted by the contractor on March 18, 2025, subsequent to the submission of the financial statements to the auditors.	The Accountant should ensure compliance with Sri Lanka Public Sector Accounting Standards (SLPSAS).
(b)	Contingent liability amounting to Rs. 2,848.91 million equivalents to Euro 9.16 million as at 31 December 2024 had not been disclosed according to the paragraph No. 100 of the Sri Lanka Public Sector Accounting Standard No. 08.	2,848.91	These claims have not been forwarded for the approval process to date.	The Accountant should ensure compliance with Sri Lanka Public Sector Accounting Standards (SLPSAS).
(c)	Mobilization advance amounting to Rs.62.34 million as at 31 December 2024 had not been recorded in the financial statements. As a result, current assets had been understated by similar amount.	62.34	The relevant adjustments will be done to re state the opening balance when presented the financial statements 2025.	The accountant should ensure compliance with the selected financial reporting framework.

(d)	As per the paragraph 43(a) of Sri Lanka Public Sector Accounting Standard No 05, assets and liabilities for each statement of financial position should be translated at the closing foreign exchange rate of the date of the statement of financial position. However, the Parity adjustments amounting to Rs. 807.98 million relating to the foreign loan of the project had not been accounted for the year under review as per above requirement.	807.98	We have agreed to convert mobilization advance, payable to the contractor retention using spot exchange rate as at 31.12.2024 according to the SLPSAS 05, except finance charge & foreign aid loan.	The Accountant should ensure compliance with Sri Lanka Public Sector Accounting Standards (SLPSAS).
(e)	According to the paragraph 39 of Sri Lanka Public Sector Accounting Standard No. 02, foreign exchange gain amounting to Rs.93.54 million had not been adjusted to the cash flow statement.	93.54	Agreed. We will do necessary adjustment to the financial Statements of the year 2025 by relating the comparative amounts	The Accountant should ensure compliance with Sri Lanka Public Sector Accounting Standards (SLPSAS).

2.2 Non-Compliance with Laws, Rules and Regulations

	Reference to the Laws Rules and Regulations	Non-Compliance Audit issue	/ Management Response	Auditor's Recommendation
(a)	Section 9.3 of the Management Service Circular No. 01/2019 dated 05 March 2019	The Steering Committee of the Project should be met at least once in two months. However, only two meeting had been conducted during the year under review.	The meetings have not been arranged as per the Management Circular due to various reasons such as elections, and administration delays.	Circular instructions should be followed.

(b)	Management Audit circular No DMA/01/2019 dated 12 January 2019	Project Internal Audit Review Committee should be established and at least 04 meetings should be conducted annually. However, any project internal audit review committee meeting had not been held by the PMU during the year under review.	Internal Audit Review Committee meeting was not held due to non- availability of Internal Auditor.	Circular instructions should be followed.
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3. Physical Performance

3.1 Utilization of Funds

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	The donor had released only Euro 13.85 million equivalents to Rs.4219.06 million out of total loan amounting to Euro 52 million equivalents to Rs.10,192 million until the suspension of loan on 14 April 2022 and the donor has informed to employer that, they were not reinstate disbursement due to debt restructuring process. Therefore, the remaining loan balance of Euro 38.15 million could not be used for this project and need to identify alternative funding source to complete balance work of this project, however, the employer has not identified alternative funding sources until end of July 2025.	Government has decided to commence the project under GOSL Funds. Accordingly, the Cabinet paper was submitted to appoint a Committee to negotiate with Contractor on due payments, advance recovery claim negotiation and change the Contract Agreement.	The Chief accounting officer should coordinate with the Treasury and relevant authorities to identify feasible financing sources and ensure to complete the balance work of the Project.
(b)	According to the Budget Estimate of the year 2024, a sum of Rs.2,000 million for construction had been allocated to this project for construction, however, the	After suspension of loan, all construction activities slow down/stop by the Contractor, and work was not progressed as planned.	Budget allocation should be utilized effectively.

PMU had entered in to commitments of Rs.260.33 million with contractor during the year under review. Therefore, there was a saving of Rs.1,739.67 million or 86.98 per cent as at 31 December 2024. Since, it was observed that the budgeted allocation has not utilized an effective manner by the PMU.

3.2 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
(a) The proposal for the design and construction of Gatambe and Kohuwala flyovers had been evaluated by a Cabinet Appointed Negotiation Committee (CANC) on 26th March 2019. Therefore, recommendation to mutual suspension also should be granted by a TEC assisting cabinet appointed procurement committee including all members as per the Section 2.8.2 of the Procurement Guideline in 2006. However, it was observed that the Secretary to the line ministry had been prepared a cabinet memorandum based on the recommendations given by a TEC which had not a member from the Treasury. However, the Cabinet of Ministers had been approved the same cabinet memorandum on 4 July 2023 with concerning observation given by the minister of finance. Although, minister of finance granted his observation to such cabinet memorandum to evaluate the contractors' claims through a duly appointed TEC, action had not been taken by the Ministry of Transport and Highways accordingly until end of the year under review.	To evaluate the Contractor's claims. This appointment follows the observations made by the Minister of Finance, Economic Stabilization, and National Policies, as recorded in Cabinet Decision No. 23/1073/608/069 dated 11.07.2023. The claims are under evaluation.	Chief accounting officer should conduct a proper investigation on appointment of TEC and inform to relevant authorities to take disciplinary action and recover the lost from the officers who violate the provisions of the procurement guideline.

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| (b) | <p>The TEC mentioned in Paragraph (1.3.b.i) had not been evaluated and estimated cost of alternative solutions which could be taken as per the contract agreement like contract termination by employer etc. and only evaluated cost and effects of mutually suspension. The TEC had been recommended to grant EOT for Gatambe and Kohuwala flyovers for 433 days and 315 days respectively without conserving to protect employer rights as per the contract agreement.</p> | <p>The Extensions of Time (EOTs) have been granted based on events and circumstances arising from the Employer's failure to comply with Sub-Clause 2.4 – Employer's Financial Arrangements, in essence, a default on the part of the Employer. Furthermore, the conditions stipulated for termination by the Employer under Sub-Clause 15.2 have not been fulfilled.</p> | <p>Action should be taken to recover additional cost due to implementing improper recommendations.</p> |
| (c) | <p>The employer had been granted Euro 10 million as an advance to the contractor as per the clause 14.2 of the contract agreement. Even though, at the time of employer decided to mutual suspension of the project on 25 October 2023, there was a recovery balance of Euro 7.23 million from advance while outstanding payment to Euro 6.14 million to the contractor. However, these balances had not been considered at the time of mutually suspend the project and recommended to pay financial charges amount to Euro 448,452.56 by the TEC for evaluation of financial charges due to delay payment appointed by the Additional Secretary Engineering to Ministry of Transport and Highways.</p> | <p>The Contractor's entitlement to financial charges is established under Sub-Clause 14.7 – Timing of Payments. These financial charges became applicable due to the Employer's failure to comply with Sub-Clause 2.4 – Employer's Financial Arrangements, which resulted from the suspension of loan disbursements by EXIM Bank of Hungary. It should be noted that there is no contractual linkage between the recovery of the mobilization advance and the financial charges as defined under Sub-Clause 14.8.</p> | <p>Action should be taken to recover additional cost due to implementing improper recommendations.</p> |
| (d) | <p>According to the sub- clause 14.2 of General condition of contract agreement, when the contract has been suspended or terminated by the contractor as per clause 16, the whole of the advance balance then outstanding shall immediately become due and payable by the contractor to the employer. Even though, the contractor of design and construction of Kohuwala and Gatambe flyover has been suspended on 1 May 2023, mobilization advance as at 31</p> | <p>It can be negotiated to set off balance advance recoverable to due pending IPC payments.</p> | <p>The Chief accounting officer should conduct an internal review to determine whether responsible officials failed to act in a timely manner to recover the advance.</p> |

December 2024 amounting to Rs. 2,192.24 million had not been recovered from the contractor even after laps of 2 years from the date of suspension.

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| (e) | As per sub- clause 14.2 of general condition of contract, if the advance payment has not been repaid by the contractor before 28 days to the expiry date, the contractor shall request from relevant bank to extend the validity period of the guarantee. However, the contractor had not extended the existing guarantee amounting to Rs.2192.24 million equivalent Euro 7,050,288 until end of the year under review from the expiry date on 15 January 2025. In addition to that, the PMU had obtained a corporate guarantee without informing to contractor whether it has been accepted or not as per the sub- clause 3.5 of the contract and refer the legal department of RDA to verify validity of the corporate guarantee. | The unrecovered portion of the advance payment will be set off against the pending IPC payment in the negotiations. | The Employer should enhance contract monitoring systems to ensure timely enforcement of all contractual obligations. |
| (f) | According to the supplementary agreements signed by the employer and the contractor to implement the MOU for mutual suspension the contract for design and construction of kohuwala flyover signed on 25 October 2023 by same parties, the contractor have agreed to complete the deck concreting of kohuwala flyover, maintaining security and safety measures at project site. However, the PMU had been taken action to open Kohuwala Flyover to general public on 17 July 2024 without completing the balance work. Therefore, it might to be cause to happen road accident. | To minimize public inconvenience, the Contractor opened the flyover to the public at entirely his own cost. However, certain at-grade road section works remain incomplete. Possible Safety measures, as far as possible, have been implemented to mitigate potential risks and ensure public safety. | The Chief Accounting officer should develop and implement standard protocols for risk assessment and procedures before opening any public infrastructure. |
| (g) | According to the section 2 of the memorandum of understanding (MOU) made an entered into and sign on 25 October 2023 between Road development authority and the | The Extension of Time (EOT) for the Kohuwala flyover has been evaluated based on the circumstances and events that arose at the time of | Project Director should assure to avoid unnecessary delay and overrun of the Project cost. |

contractor. The contractor shall be entitled to the extension of the time for completion to the contract equalling with the full time of the suspension. For the avoidance of doubt, Even though the contractor had claimed 23 IPCs amounting Rs. 444.39 million equalling to euro 1.32 million after suspend the contract from 1 May 2023 to 15 April 2025 for civil works done by the same period. However the employer had accepted to grant EOT equal to suspension period while civil works continue by the contractor.

suspension. As a significant portion of the work was already completed by the Contractor, the EOT will be granted only for the remaining balance of work to be carried out after the resumption of construction.

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| (h) | 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 Kohuwala and Gatambe flyover with amounting to Rs.10,192 million had been signed on 20 June 2019, by the chairman of the Road Development Authority without proper authorization. | According to the Road Development Authority Act, if the Chairman of Road Development Authority has the official seal and has a member of the Board of Directors, can be signed agreements between the Road Development Authority and other parties. However it is noted to further review this matter. | A formal inquiry should be conducted to determine the circumstances under which the Chairman exceeded his authority. |
| (i) | 152 land lots had been acquired under section 38 (a) of the land acquisition act for the Gatambe flyover, the valuation reports as per the section 17 of Land Acquisition Act for those land lots had not been obtained by the PMU until the end of the year 2024. In addition to that, the PMU had completed the payment of compensation and interest amounting to Rs.984.2 million over 107 land lots out of total land lots of 167 acquired for the Kohuwala flyover. Therefore, it was observed that the progress of land acquisition had remained at a low level for both flyovers. | The additional secretary (Development has informed to the relevant institutions to expedite the acquisition process. | Action should be taken to establish internal control procedures with required documents for all the steps of land acquisition process. |