Reconstruction of 25 Bridges Project - 2024

The audit of the financial statements of the Reconstruction of 25 Bridges 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 Article 1 of the Loan Agreement No. 886 dated 30 January 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the Kuwait Fund for Arab Economic Development. 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, Ports and Shipping presently, Ministry of Transport and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are to reconstruct 25 bridges with two lanes with pedestrian shoulders in the Western, Sabaragamuwa, Eastern, Southern, North Western, Central, Northern Provinces to meet the increasing demand for the transport of passengers and goods and contribute to the economic and social development of the respective areas by reducing the vehicle operations and road maintenance cost, travel time and accidents. The activities of the Project are implemented under three components namely package 01, 02 and 03. As per the Loan Agreement, the estimated total cost of the Project was US$ 35.41 million equivalent to Rs 4,632 million was agreed to be financed by The Kuwait Fund for Arab Economic Development. The Project had commenced its activities on 07 September 2015 and scheduled to be completed by 05 September 2017. However, the date of completion of the activities of the Project had initially been extended up to 31 December 2019 and then 31 December 2024.

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 the Management	Auditor's Recommendations
(a)	The payments made for the works done amounting to Rs.114.07 million of the package 03 contract and consultant payment of Package 02 relevant to the year 2022 and 2023 had been recorded as work-in progress of the year under review. Therefore, the work-in progress for the year had been overstated by similar amount.	114.07	After NOR taking the decision to settle the outstanding bills using the GOSL fund, required allocations were release to RDA to proceed payments.	The Accountant should ensure compliance with Sri Lanka Public Sector Accounting Standards (SLPSAS).
(b)	Retention money released amounting to Rs.14.55 million had been credited to foreign aid payable account instead of being credited to the bank account. Therefore, the balances of foreign aid payable had been overstated by similar amount in the financial statements.	14.55	It is noted to correct foreign aid payable account accordingly.	The Accountant should ensure compliance with Sri Lanka Public Sector Accounting Standards (SLPSAS).
(c)	According to the paragraph 105 of Sri Lanka Public Sector Accounting Standard No 08, the PMU had not been disclosed contingent assets amounting to Rs.233.13 million as at 31 December 2024.	233.13	Agreed.	The Accountant should ensure the relevant SLPSAS disclosures are made.

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)	Management Audit circular No	Project Audit and Management Committee	Agreed.	Audit Committee meetings are held in

	DMA/01/2019 dated 12 January 2019	Meeting should be established and at least 04 meetings should be conducted annually. However, it was observed that no Project Audit and Management Committee Meeting was held during the year under review.		accordance with the relevant circulars.
(b)	Sub clause 9.3 Management Circular No 01/2019 dated 15 March 2019,	The Secretary to the Line Ministry shall ensure that the Project Steering Committee would meet at least once in two months. However, no Steering Committee meeting was held during the year under review.	Agreed.	Steering committee meetings are held in accordance with the relevant circulars.

3. Physical Performance

3.1 Contract Administration

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Although an Extension of Time (EOT) had been granted for the reconstruction of eight bridges under Package 03 from 13 January 2022 to 21 October 2022. Even though all bridges were expected to be completed within this extended time frame, the construction of five (05) bridges remained incomplete as at 23 July 2025, despite the lapse of over two years after the end of EOT period. However, the project had not taken action to impose delay damages against to contractor, in accordance with Sub-Clause 8.7 of the Contract Agreement.	Agreed.	Chief accounting officer should take action against the improper contract administration.
(b)	According to the sub-clause 14.2 of the construction contract, if the advance payment has not been repaid prior to termination under Clause 15 (Termination by Employer), the whole of the balance then outstanding shall immediately become due and payable by the Contractor to the	Discussions were held between the Road Development Authority (RDA) and ELS Construction (Pvt) Ltd to execute a mutual termination agreement and to recover the outstanding advance	Written instructions should be issued by the chief accounting officer when signing the supplementary agreement accordance with the provisions of Section 38(1)(c) of the National

	Employer. In the case of Package 04, the construction contract was signed on 03 March 2022, and a mobilization advance of Rs. 71.9 million had been paid to the Contractor on 07 April 2022 and 21 June 2022**.** However, no construction work was commenced under this package. When the Employer terminated the contract on 23 May 2025, the full mobilization advance remained outstanding and unrecovered. Despite this, a supplementary agreement was signed on behalf of the Road Development Authority (RDA) by the Chairman and a Board Member, without due consideration of the provisions of Sub-Clause 14.2. This agreement related to Package 02, which had been suspended by the Contractor due to loan suspension by the donor**,** and committed the RDA to settle an outstanding amount of Rs. 62.18 million**.** Therefore, the RDA has not considered employer rights and benefits when signing these supplementary agreements.	payment, as the Interim Payment Certificates submitted were insufficient to fully recover the advance payment. Ultimately, the mutual termination agreement was signed incorporating all reasonable terms and conditions so as to minimize any adverse impact to the Employer. According to the sub cl. 14.8 of COC of contract package 02, the Contractor is entitled to claim any interest charges for delay payments only for the balance amount after settling the mobilization advance of PK 04 and IPC s sent to KFAED.	Audit Act No.19 of 2018.
(c)	The contractor had retained the mobilization advance for over 03 years without any corresponding physical progress. Due to absence of a structured recovery mechanism and an interest mitigation plan, the contractor has effectively received dual financial benefits by continuously utilizing the mobilization funds and by remaining eligible to claim interest for delayed payments under Package 02. As this matter remains resolved to date, it reflects a deficiency in contract administration and financial management, leading to potentially adverse financial consequences to the government.	This circumstance arose because of unavoidable reasons we have taken necessary actions to minimize any adverse impact to the Employer.	Instructions should be issued by the chief accounting officer for recovering mobilization advance and payments.

(d)	In terms of Sub-Clause 11.9 of the Contract Agreement, the performance of the Contractor shall not be deemed complete until the issuance of the Performance Certificate by the Engineer. However, such certificates had not been issued for all the bridges which were handed over to Road Development Authority and Defects Liability Periods of those bridges already had been lapsed. Therefore, The PMU had not followed formal closure procedures of contracts and give opportunity to earn undue benefits to the contractor.	Agreed.	Action should be taken against the responsible officers.
(e)	A sum of Rs. 10.1 million had been transferred by the PMU to the Major Bridges Construction Project (MBCP) in the year 2019 which was closed on 20 October 2020, without obtaining approval of the Line Ministry. Therefore, it was observed that above 10.1 million had paid without obtain any goods or services by violating the No. 127, 128, 129 of financial regulations.	Agreed.	The Chief Accounting Officer should review this transfer and action should be taken against the responsible officers.
(f)	It was observed that consultant supervisions of this project had not been continuously utilized as ineffective manner. The consultant for package 01 was terminated by employer due to poor performance, while the consultant for package 03 had been suspended the service due to non- payment of consultancy fees. A total amount approximately Rs.495.15 million had been incurred to consultants across the project during the implementation period and the implementing agency (RDA) has the technical and managerial capacity to supervise works effectively and did the work as consultant of package	An independent Supervision Consultant should be appointed as per the Loan Agreement. As the Consultant was terminated in PK 01, Engineer for the Contract was appointed within the RDA with special approval.	Cost-benefit analysis should be conduct before obtain service of external consultancy.

01. Therefore, the expenditure incurred for external consultancy services of this project could have been avoided and action had not been taken accordingly.

3.2 System and Controls

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	The details of land acquisition of this project had not been furnished to audit even after 2 months from the requested letter issued day on 30 May 2025. Therefore, completeness and accuracy of payment and provisions for compensation and interest at the end of the year could not be verified in audit.	Land acquisition works handed over to RDA on 28/02/2023. All required details are available with DDG (Land), RDA.	Chief Accounting Officer should ensure that an effective internal control system for land acquisition process.
(b)	PMU had been closed by 31 January 2023 based on the decision taken by the Secretary to the Ministry of transport and Highways due to suspension of loan disbursement by the donor. However, PMU had maintained an office continuously at the Urban Development Authority in Battaramulla without closing it.	Agreed.	Chief accounting officer should conduct a proper investigation on this matter.