

Design and Construction of Kohuwala and Gatambe Flyovers Project - 2025

The audit of financial statements of the Design and Construction of Kohuwala and Gatambe Flyovers Project for the year ended 31 December 2025 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. My comments and observations which I consider should be reported to Parliament appear in this report

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, the Ministry of Highways, presently the Ministry of Transport, Highways, and Urban Development is the Executing Agency, and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project 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 55.98 million equivalent to Rs. 18,932.65 million and out of that EURO 55.98 million equivalent to Rs.3,026.98 million was agreed to be financed by the Hungarian Export-Import Bank. The balance amount of Rs. 15,905.67 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. A supplementary agreement was signed on 10 February 2026. According to the agreement, the completion period for each project was extended by 3 months from the recommencement date for Kohuwala and by 22 months from the recommencement date for Gatambe.

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 2025 and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for Qualified Opinion

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

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

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management 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 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)	According to the Section 43(a) of Sri Lanka Public Sector Accounting Standard No. 05, assets and liabilities for each statement of financial position presented should be translated at the closing foreign exchange rate at the date of the statement of financial position. However, the project had not taken action accordingly. As a result, contractor's payable account and work in progress account had been understated by Rs.55.18 million and Rs.862.61 million respectively.	917.79	Agreed. But due to the non-translation of payable balances at the closing rate, Payable to Contractor account has been understated by Rs. 55.18 million. However, the understated amount has been corrected by the Journal No. 26- 01 in this year. It is noted to account foreign exchange gain/loss in the future.	The financial statements should be complied with Sri Lanka Public Sector Accounting Standards (SLPSAS).
(b)	The mobilization advance recovery guarantee amount of Rs. 227.16 million was not disclosed in the financial statements.	227.16	Agreed, the unrecovered advance has been set-off against the net unpaid certified amount of Euro 8,056,150.31 as to-date. Therefore, as a result of the above set-off the Advances recoverable under the original contract was fully recovered.	Relevant disclosures should be made in the financial statements as per 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 three meetings had been conducted during the year under review.	The stipulated SCM meetings could not be conducted during the audit year 2025 due to the Local Government Elections and the “Dithwa” cyclone situation. However, it was managed to conduct three meetings during the year under review.	The chief Accounting officer should ensure that the steering committee meetings are held in accordance with the relevant circulars.
(b)	Management Audit circular No DMA/01/2019 dated 12 January 2019	Project Internal Audit Review Committee must be set up. The committee should hold at least four meetings each year. However, during the year under review, the Project Management Unit only held three meetings, two chaired by the Secretary and one chaired by the Project Director.	It is noted to advice the PMU to arrange the specified two meetings regularly in the future in compliance with the relevant circular provisions	The chief Accounting officer should ensure that the Internal Audit Committee meetings are held in accordance with the relevant circulars.
(c)	Section 6 of the management Audit Circular No DMA/2/2024 dated 24 October 2024	The appointed internal auditor for the Executive/Implementing Agency shall conduct the project audit in accordance with section 40 (1) of the National Audit Act and Financial Regulation 133. However, action had not been taken to appoint an internal auditor to this project up to the end of the year under review.	Applications were called for the position. However, no suitable candidates applied for the post, and therefore the interview has been recalled.	The chief Accounting officer should ensure the availability of an effective and independent Internal Audit process.

3. Physical Performance

3.1 Utilization of Funds

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	According to the 2025 Budget Estimate, an amount Rs. 10,900 million had been allocated under vote no 117-2-6-26-2104(12) (Rs.8,000 million), 117-2-6-26-2104(17) (Rs.2,800 million) and 117-2-6-26-2105(11) (Rs.100 million) for the Kohuwala and Gatambe flyover project. Although the Hungarian EXIM Bank had announced in February 2025 that it would stop providing foreign loans, it was observed 98 percent had been revised compared to the original budget allocation as Rs. 185 million in the last quarter of the year under review. A sum of Rs. 175.24 million had been spent from the revised allocation during the year under review and a balance of Rs.9.76 million had been returned to the Treasury. Accordingly, it was observed during the audit that the project had not used the funds effectively.	Agreed	The Chief accounting officer should coordinate with the Treasury and relevant authorities to ensure the use of allocated funds and complete the balance work of the Project.

3.2 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
(a) In response to a request made by the Department of External Resources on 27 July 2017, the Government of Hungary confirmed its agreement to provide a concessional loan facility for the construction of flyovers in Sri Lanka. Accordingly, on 08 April 2021, a financing agreement was entered into between the Government of Sri Lanka and the Hungarian Export-Import Bank Private Limited (EXIM) for the design and construction of the Kohuwala and Gatambe flyover projects. Subsequently, on 20 June 2019, an agreement was signed between the Road Development Authority and M/s Betonutepito Private Company for the design and construction of the Kohuwala and Gatambe flyovers. Accordingly, construction activities commenced on 16 August 2021, with the Kohuwala flyover scheduled for completion on 15 February 2024 and the Gatambe flyover on 10 June 2023. However, due to the temporary suspension of external debt servicing introduced by the Government of Sri Lanka on 12 April 2022, the Hungarian EXIM Bank suspended all disbursements on 14 April 2022. Consequently, a Memorandum of Understanding was signed on 25 October 2023 between the Employer (Road Development Authority) and the Contractor (M/s Betonutepito P/C) to mutually suspend the contract for a period of six months effective from 01 May 2023. This suspension was subsequently extended up to 30 June 2025 through further agreement. On 14 February 2025, the Hungarian EXIM Bank informed the Ministry of Finance	Agreed	Chief accounting officer should ensure project monitoring and coordination mechanisms to ensure timely decision-making in case of funding disruptions. Action should be taken to expedite recommencement and completion of suspended projects to minimize further cost escalation and public inconvenience.

that it would not be possible to recommence disbursements under the loan facility. In accordance with Cabinet Decision No. 26/0052/809/009 dated 20 January 2026, approval was granted to recommence the contract under Government of Sri Lanka funding. Accordingly, on 10 February 2026, a supplementary agreement was signed between the Road Development Authority and the said contractor to recommence construction activities. The revised contract value amounted to Euro 55,986,900, and with an additional cost of Euro 3,986,900 incurred to settle contractor claims. Therefore, the total contract value increased by 7.67 per cent compared to the original agreement.

- (b) As per Special Conditions 1.1.3.3 of the Revised Agreement of the Design and Construction of Kohuwala and Gatambe Flyovers dated 20 June 2019, the remaining works of Kohuwala Flyover shall be completed within 03 months and Gatambe Flyover within 22 months from the Recommencement Date of the Project. As per Condition 10 of the Supplementary Agreement dated 10 February 2026, the date of re-commencement shall be determined after the completion of the following conditions.
- i. 28 days after the Supplementary Agreement comes into force
 - ii. Settlement of payments under Condition 06 of the Supplementary Agreement
 - iii. 28 days after the Contractors issue Letter of Acceptance
 - iv. Advance payments to the Contractor

However, it was observed during the audit that the re-commencement date had not been determined as the above conditions (ii) and (iv) have not been

A 75 percent of the payments in Sri Lankan Rupees have already been paid to the Contractor as stipulated in the revised Contract Agreement. However, when arranging the Telegraphic Transfer (TT) for the remaining 25 percent payment in USD, the Inland Revenue Department (IRD) imposed a 14 percent remittance tax, considering the said payment as the Contractor's profit. This position has been disputed by the Contractor, and discussions are currently being carried out between the Contractor and the IRD to resolve the matter.

However, the Contractor had already commenced the works on 06 February 2026.

Further, as per Item 3.4 of the Cabinet Approval, a supplementary agreement is

Chief accounting officer should conduct an investigation on poor project management and action should be taken to mitigate these issues.

completed up to 27 March 2026. Further, according to the cabinet decision no. 26/0052/809//009 dated 19 January 2026 the approval has been given for 3.1, 3.2 and 3.3 of Cabinet Memorandum, even though the Cabinet had not granted approval for condition mentioned in paragraph (ii) above in the supplementary agreement.

required to be signed upon recommencement of the project. Accordingly, the supplementary agreement has been prepared incorporating Condition (ii) as one of the four requirements stipulated therein.

- | | | |
|---|--|---|
| <p>(c) The War Heroes Monument located at the Gatambe junction had to be removed due to the construction of the Gatambe flyover. The project proposed to construct a new War Heroes Monument instead for old monument. The project's urban planner had submitted a conceptual design for the same and the relevant approval had been given by the Commander of the II Division, Headquarters on 18 August 2022. Although the reconstruction work of the Gatambe flyover had commenced as per the supplementary agreement on 10 February 2026, the contractor had not submitted the work plan and cost estimate of the War Heroes Monument to the client as of the audited date of 27 March 2026. Further, an estimate amounting to Rs. 12.44 million had been submitted by the project officer at Headquarters II Division on 26 April 2022 for the construction of the war heroes' monument.</p> | <p>The matter relating to the 'War Heroes' Monument was discussed with the Contractor, and it was agreed that the estimate for the proposed work would be submitted in due course. This activity will be implemented under the urban landscaping work of the Contract.</p> | <p>The Chief Accounting Officer and the Project Management Unit should take the necessary actions to mitigate the social impact arising from the delay in this socially significant construction project.</p> |
| <p>(d) An area of 89 perches of land and 04 buildings with a car park have to be removed for construction of the Gatambe flyover from the land plot where the Ranaviru Children's Park is located. For this purpose, the Ministry of Highways and Transport had released a provision of Rs. 14.16 million to the Ministry of Defense for the construction of a building. Since</p> | <p>The Commander of the II Division of the Sri Lanka Army was informed to submit a formal request regarding the allocation of Rs. 14.16 million. Accordingly, the request has been received. Action will be taken to allocate funds from 2026 budgetary Provisions.</p> | <p>The Chief Accounting Officer and the Project Director should take the necessary action to ensure that possession of the site is handed over to the contractor on time.</p> |

the provision had not been spent for the relevant purpose, it was given back to the Ministry of Transport and Highways. As informed by the Project Director in his letter No. RDA/MFAP/HUN/FO/GAT/LAO and dated 21 February 2025, the Secretary to the Line Ministry stated that the Ranaviru Park land is a very important piece of land for the construction of the flyover project, and if there is a delay in providing this land for the construction of the bridge, the contractor will have to pay an additional amount, which is at least Rs. 16.5 million per month. However, the funds had not been transferred to the Ministry of Defense and the Army Headquarters had not constructed the building up to 27 March 2026. Furthermore, the building located on both sides of the canal in the middle of the children's park had not been removed by the Army. According to that, it was observed that the project site was not handed over to the contractor in a timely and complete manner as per the contract requirements.

- | | | |
|--|---|--|
| <p>(e) According to the supplementary agreements signed by the employer and the contractor to implement the MOU for mutual suspension of the contract for design and construction of kohuwala flyover signed on 25 October 2023 by same parties, the contractor had agreed to complete the deck concreting of kohuwala flyover, maintaining security and safety measures at project site. However, the PMU had taken action to open Kohuwala Flyover to general public on 17 July 2024 without completing balance work. Therefore, it might be a cause to happen road accidents.</p> | <p>The Contractor has commenced the initial setting-out works required for the drainage construction activities, and the construction work is expected to commence once the commencement date is finalized.</p> | <p>The Chief accounting officer should develop and implement standard protocols for risk assessment and procedures before opening any public infrastructure, particularly when works related to public safety remain incomplete.</p> |
|--|---|--|

- | | | | |
|-----|--|--|---|
| (f) | <p>According to the Paragraph 8.9.3 of Procurement guideline, contract agreement relating to 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 amounting to Rs.10,192 million had been signed on 20 June 2019, by the Chairman of the Road Development Authority without proper authorization. Furthermore, the supplementary agreement for the design and construction of the Kohuwala and Gatambe flyovers worth Rs. 17,968 million had also been signed by the Chairman of the Road Development Authority on 10 February 2026.</p> | <p>It has been observed that on behalf of Ministry of Highways, Road Construction contracts were signed by the Chairman/ RDA as per the authority given by Road Development Authority act. However as per the section 5.25 of the Procurement Guideline 2025, there is a provision to delegate authority.</p> | <p>A formal inquiry should be conducted to determine the circumstances under which the Chairman exceeded his authority.</p> |
| (g) | <p>The PMU had completed the payment of compensation and interest amounting to Rs 29.13 million over 07 lots out of total land lots of 152 acquired for the Gatambe flyover and an amount of Rs.1,140.27 million over 108 land lots out of total land lots of 167 acquired for the Kohuwala flyover. However, the progress of land acquisition are 5 percent of Gatambe and 65 percent of Kohuwala. Therefore, it was observed that the progress of land acquisition had remained at a low level for both flyovers.</p> | <p>The delay in the LAQ process was mainly due to the uncertainty regarding the recommencement of the Project. However, several LAQ coordination meetings have been conducted with the Divisional Secretary (DS), Kandy, with the participation of the Departments of Survey, Valuation, Agrarian Services, and other relevant stakeholders.</p> | <p>Action should be taken to establish internal control procedures with required documents for all the steps of land acquisition process and instruct to officers who are engaging in such process.</p> |
| (h) | <p>Even though, the PMU had completed the payment of compensation for 107 land lots acquired for the Kohuwala flyover, the certificate as per section 44 of the Land Acquisition Act had not been obtained by the PMU until end of the year under review.</p> | <p>The relevant Divisional Secretariats (DSs) act independently in carrying out the Section 44 process in accordance with the applicable legal provisions, and the PMU has limited authority to intervene in such procedures.</p> | <p>Action should be taken to establish internal control procedures with required documents for all the steps of land acquisition process and instruct officers who are engaging in such process.</p> |

- (i) The Land Acquisition and Relocation Committee (LARC) and the Special Land Acquisition and Relocation Committee (SLARC) was designated as the Authorizing Officer for the payment of compensation, statutory payment and interest on land acquisition in terms of Financial Regulation 135. In terms of Order 3 (1) of the Gazette No. 1864/54 of the Democratic Socialist Republic of Sri Lanka dated 30 May 2014, the market value of any land and the compensation to be paid for any adverse impact due to the acquisition of land for any specific project shall be assessed by the Land Acquisition and Relocation Committee appointed for the Divisional Secretariat Division in which the acquired land is located. However, for the lands acquired for the Kohuwala and Gatabe flyovers, a compensation of Rs.39.48 million and interest of Rs.57.64 million had been paid in the year 2025 based on recommendation which were given by the Land Acquisition Officer without obtaining the assessment of the Land Acquisition and Replacement Committee (LARC) in terms of Financial Regulation 136 and Gazette No.1864/54.
- According to Extraordinary Gazette No. 1864/54 dated 30 May 2014, land acquisition activities relating to 18 projects implemented under the LARC and the Horana–Pamankada Road Project was included among those projects. Since the proposed Kohuwela Flyover is located within the said road corridor, additional land acquisition became necessary for the construction of the flyover. Accordingly, in order to maintain consistency and avoid procedural disparities, the land acquisition activities related to the flyover were also carried out under the LARC.
- However, land acquisition activities initiated after 17 March 2009 are required to be carried out in accordance with Extraordinary Gazette No. 1596/12 dated 07 April 2009. Accordingly, the land acquisition activities related to the Gatambe Flyover are being implemented in compliance with the provisions of the said Gazette, and compensation payments shall be made accordingly.
- Chief accounting officer and project management unit should ensure compliance with Financial Regulations and relevant Gazette provisions before making such payments.