

Reconstruction of 25 Bridges Project - 2025

The audit of the winding up financial statements of the Reconstruction of 25 Bridges 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 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, the Ministry of Highways, Ports and Shipping presently, 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 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 2025.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the paragraph 2.1 of my report, the accompanying winding up 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 Winding up 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 Winding up financial statements

Management is responsible for the preparation of winding up 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 winding up 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 Winding up financial statements

My objective is to obtain reasonable assurance about whether the winding up 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 winding up financial statements.

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

- Identify and assess the risks of material misstatement of the winding up 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 winding up financial statements, including the disclosures, and whether the winding up 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 Audit Issue	Deficiency / Amount Rs. Million	Response of Management	the Auditor's Recommendations
(a)	As per the Section 5 of the circular No. DMA/02/2024 issued by the Department of Management Audit, when winding up a project, all assets should be realized and all liabilities should be settled prior to the closure of accounts. However, the assets shown in the winding up financial statements amounting to Rs. 2,565.35 million had not been handed over to the Road Development Authority and liabilities amounting to Rs. 396.91 million had not been settled.	2,962	Disagreed. Project Management Unit of Special Projects Management Unit (SPMU) had been closed 31/01/2023. After closing of the PMU this project is handled by the DG RDA as a unit of RDA. The remaining works have been continued using local funds. Winding up Financial Statement has been prepared based on that decision. It is decided to the balance work of the project to be transferred to Road Development Authority.	All assets should be realized and all liabilities should be settled prior to the closure of accounts as per the circular.
(b)	The construction value of 20 bridges totaling Rs. 3,041.87 million was transferred to the Road Development Authority in 2021 and 2022 was shown in the winding up financial statements as Rs. 2,702.63 million. Therefore, a difference of Rs. 339.24 million had been observed between these balances.	339.24	Agreed.	The Accountant should ensure compliance with Sri Lanka Public Sector Accounting Standards (SLPSAS) 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)	Department of Management	The project handed over computers, laptops, and the	Disagreed. These assets had been	Assets of the project should be transferred

Audit under traffic counter system transferred during in accordance with circular no. amounting to Rs. 20.28 million using incomplete forms. The documents used issuing the Project Management Guideline by the Department of Management Audit under circular no. DMA/02/2024 dated 24 October 2024 and supplementary over the assets were incomplete when compared with General Formats No. 141 and 219, which are used for issuing and receiving assets in accordance with Financial Regulations No. 753(1) and (2) and also those assets had not been transferred according to the sentence 5.5 of the Project Management Guideline	the period of 2018 – 2021 and before the Project Management Guideline by the Department of Management Audit under circular no. DMA/02/2024 dated 24 October 2024 and supplementary guideline on assets transfer issued on 27 may 2025 by the Department of Management Audit. All these transfers had been done according to the circulars active at the period of 2018-2021.
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3. Physical Performance

3.1 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
(a) A sum of Rs. 10.1 million had been paid 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 Rs.10.1 million had paid without obtain any goods or services by violating the financial regulations 127,128 & 129. Further, it was observed that the project had not recovered this amount before winding up the project.	A protest campaign was initiated by the landowners of the plots acquired for the Pollattumodara Bridge during that period. Owing to insufficient imprest funds under the MBCP vote, it was decided to utilize the imprest available under the 25 Bridges Project. However, the required approval was inadvertently not obtained. Subsequently, the MBCP was closed in 2020, and as a result, the amount could not be recovered from that project.	The Chief Accounting Officer should review this transaction and action should be taken against the responsible officers.

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| <p>(b) 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.</p> | <p>Agreed.</p> | <p>Special attention should be paid and written instructions should be issued by the chief accounting officer for recovering mobilization advance and payments in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018.</p> |
| <p>(c) 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 had given opportunity to earn undue benefits to the contractor.</p> | <p>Agreed.</p> | <p>Special attention should be paid and written instructions should be issued by the chief accounting officer when issuance of the Performance Certificate in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018. Further, action should be taken against the responsible officers.</p> |
| <p>(d) According to Chapter 5 of Project Management Guideline issued under Management Audit Circular No. DMA/2/2024 dated 24 October 2024, it is clearly explained the procedures for the completion of projects and the transfer of assets. However, the completion of this</p> | <p>The PMU was closed from 31 January 2023. The Project Management Guideline issued under Management Audit Circular No. DMA/2/2024 has been issued in 2024. Therefore, this guideline is not applicable. However, RDA guidelines</p> | <p>Special attention should be paid and written instructions should be issued by the chief accounting officer for following and compliance with the guideline issued by the Department of</p> |

project had not been carried out in compliance with the Guideline. The following observations are made in this regard.	which was active at that time was followed in handing over the assets.	Management Audit for winding up Projects.
i. According to the section 5.2, at the completion of the project and transfer of assets, a comprehensive plan should be developed for the completion of the project based on the nature of the tasks. It is required to identify the relevant parties, define clearly their responsibilities and duties and establish a specific time frame for completion. However, such a comprehensive plan had not been prepared for winding up this project.	Agreed.	Special attention should be paid and written instructions should be issued by the chief accounting officer to comply with the circular issued by Department of Management Audit for completion and winding up the projects.
ii. According to the section 5.7, all statutory payments related to the project as well as utility bills and other liabilities should be settled at the winding up a project. However, accrued expenses amounting to Rs. 63.21 million and foreign aid payable amounting to Rs. 252.04 million had not been settled even by 31 March 2026.	Agreed.	Special attention should be paid and written instructions should be issued by the chief accounting officer to comply with the circular issued by Department of Management Audit for completion and winding up the projects.
iii. According to the section 5.8, the form No TOD/BA/03 issued by the Treasury Operation Department (TOD), along with any other relevant documents, should be submitted to the TOD to close bank account. This submission should comply with the instruction specified in paragraph 6 of the public finance circular No 2/2022, after ensuring that the balances of all bank accounts opened on behalf of the project have been zeroed. However, the project bank Account bearing No. 7040419 at Bank of Ceylon had not been closed even by 31 March 2026.	The project bank Account had not been closed up to Preparation of Winding up Financial Statements. Now action has been taken to close the BOC A/C No 7040419.	Special attention should be paid and written instructions should be issued by the chief accounting officer to comply with the circular issued by Department of Management Audit for completion and winding up the projects.

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| iv | <p>According to Section 5.12, upon completion of the project, all supplementary documents, records, and books related to payments shall be transferred to the executing agency. However, such documents, records, books, and payment details had not been handed over to the relevant entity. Due to that, entity may face difficulties in verifying the accuracy and completeness of past payments, validating outstanding liabilities, reconciling financial records and also lack of proper records and documents could result in compliance issues, disputes and challenges in decision making.</p> | <p>Disagreed. All payments are executed by the Finance Division of RDA as the Reconstruction of 25 Bridges Project functions as a unit in RDA. Action will be taken to hand over the said documents, records and books when this unit properly hand over to RDA in the future.</p> | <p>Special attention should be paid and written instructions should be issued by the chief accounting officer to comply with the circular issued by Department of Management Audit for completion and winding up the projects.</p> |
| v | <p>According to Section 5.13, the Project Director is required to submit a comprehensive report to the Chief Accounting Officer, including the project objectives, challenges encountered, lessons learned, proposed future steps, and sustainability aspects. Additionally, a reconciliation statement should be provided with the final report, detailing the balances of assets carried forward from the preceding year, the project's completion and the actual balances transferred. Any variance between these values should be accompanied by a thorough explanation. This may affect to identify lessons learned for future projects, decrease the risk of misstatements, misappropriation and loss of assets and also it enhances transparency, accountability and effective governance in project closure. However, such a report and explanation had not been submitted to the Chief Accounting Officer.</p> | <p>Agreed. A comprehensive Project Completion Report will be prepared after assigning the Unit Head by the Director General RDA for this project unit.</p> | <p>Special attention should be paid and written instructions should be issued by the chief accounting officer to comply with the circular issued by Department of Management Audit for completion and winding up the projects.</p> |

- vi According to Section 5.15, the Chief Internal Auditor of the relevant line ministry is required to submit a comprehensive report to the Chief Accounting Officer, covering the achievement of project targets, project performance, the transfer of all assets, the settlement of liabilities, and the measures taken to ensure the project's sustainability. However, such a comprehensive report had not been submitted in respect of this project.
- Disagreed. After closing of the PMU on 31 January 2023, this project is handled under the DG RDA as a unit of RDA.
- Special attention should be paid and written instructions should be issued by the chief accounting officer to comply with the circular issued by Department of Management Audit for completion and winding up the projects.

3.2 System and Controls

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	The project had not maintained a register for compensation payment for land acquisition, interest payment and provision. Thereon, details of land acquisition of this project had not been furnished to audit even after 1 month from the requested letter dated 31 March 2026. Therefore, completeness and accuracy of payment and provisions of Rs. 68.92 million for compensation and interest at the end of the year under review could not be verified in audit.	Agreed.	The Project Director should submit the requested information to Audit. Chief Accounting Officer should ensure that an effective internal control system for land acquisition process and written instructions should be issued in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018.
(b)	The PMU had been closed by 31 January 2023 based on a decision taken by the Secretary to the Ministry of Transport and Highways due to the suspension of loan disbursements by the donor. However, the PMU continued to maintain an office at the Urban Development Authority, Battaramulla without being closed, incurring an expenditure of Rs. 3.36 million as building rent for the year 2025.	Although the Project Management Unit (PMU) was closed in accordance with the Secretary's decision, the unit office was retained to safeguard project documentation and to facilitate ongoing operational functions. After closing the PMU this project is handled by the DG RDA as a unit of RDA. Furthermore, in line with the decision taken at	The PMU should not be continued without proper approval. Chief accounting officer should conduct a proper investigation on this matter.

NOR Meeting No. 33 held on 18 March 2024, the remaining works have been continued using local funds. Accordingly, the same office premises have been utilized up to 31 March 2026. These expenses have been incurred by the RDA.