

Road Development Authority – 2017

The audit of financial statements of the Road Development Authority for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of financial performance, statement of changes in equity and statement of cash flows and a summary of other explanatory information, 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 13(1) of the Finance Act, No. 38 of 1971 and Section 16(3) of the Road Development Authority Act, No.73 of 1981. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14 (2) (c) of the Finance Act appear in this report.

1.2 Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards (SLPSAS) and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial position, statement of financial performance, statement of changes in equity and statement of cash flows.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Presentation of Consolidated Financial Statements

The Authority had not prepared consolidated financial statements for the year under review taking into account the Maga Neguma Construction and Equipment Company (Pvt) Ltd, Maga Neguma Consultancy and Project Management Services Company (Pvt) Ltd, Emulsion Production Company (Pvt) Ltd and Expressway Transport Company (Pvt) Ltd in which more than 50 per cent of administrative and finance activities are controlled by the Road Development Authority.

2.2.2 Disclosure of Transactions with related parties

The following observations are made.

- (a) Certified works aggregating Rs. 23.86 million relevant to 05 projects that are included in the Financial Statements of the Maga Neguma Consultancy and project Management Company, had not been included in the current account for Maga Neguma Consultancy and Project Management Company presented in the financial statements of the Road Development Authority.
- (b) A difference of Rs. 1,380 million was observed between the current account of the Road Development Authority and the current account of the Maga Neguma Road Construction Equipment Company which was disclosed as a subsidiary in the financial statements of the Road Development Authority. Only an analysis regarding the difference was submitted to the audit without a reconciliation statement for the difference.
- (c) Related party transactions had not been categorized according to a commonly agreed basis and an accepted procedure had not been implemented by both parties. Further, considerable differences were observed between balances due to the delay occurred when certifying bills submitted by the company to the Authority.

2.2.3 Sri Lanka Public Sector Accounting Standards

The following observations are made.

- (a) Plant & Machineries with a cost of Rs. 5,098.97 million had been depreciated entirely by 98.9 per cent as at 31 December 2017. Accordingly, action had not been taken to revalue those assets or review the estimated useful life time in accordance with SLPSAS 03 or SLPSAS 07.
- (b) Action had not been taken to revalue in accordance with SLPSAS 07 or to account as an estimate change as per SLPSAS 03, 410 fully depreciated vehicles as at 01 January 2017 with a cost of Rs. 1,591.66 million which are still being used.

- (c) The Authority had incurred a sum of Rs. 93.84 million for vehicle repairing and out of that, vehicle repairing expense of Rs. 4.71 million had been for vehicles used by the Ministry of Higher Education and Highways. Disclosure had not been made in the accounts as per SLPSAS 01 regarding the maintenance of assets utilized by an external party.
- (d) During the year 2017, expenditure of Rs. 81.57 million had been incurred for the maintenance of Maga Neguma Maha Medura Building and out of that, Rs. 3.50 million were pre-payments for the year 2018. However, the authority had accounted the entire payment as expenses for the year 2017. Further, all these expenses had been generally borne on behalf of the Road Development Authority and the Line Ministry. If the expenditure was allocated between the Authority and the Ministry in terms of the floor area of the building being used, the Authority's expense would be Rs. 58.14 million while the Ministry's expense would be Rs. 23.42 million. Adjustment had not been made in the financial statements in this regard according to SLPSAS 01.
- (e) According to the sampled audit test carried out relating to the expenses of the Authority in 2018, a sum of Rs. 26.4 million which was not recognized as accrued expenses for the year 2017, had been paid in 2018. It would be a higher value than this when considering the accrued expenses of 10 Provincial Director's offices and Expressway Maintenance and Management Units of the Authority.
- (f) According to the financial statements for the year 2017, the conference hall having 3,580 square feet in the head office building of 252,055 square feet and a cost of Rs. 2,664.54 million was not in a usable condition. Thus, the cost of Rs. 245 million and depreciation amounting to Rs. 12 million relevant to the conference hall had been overstated in the accounts.
- (g) Out of the total floor area of 252,055 square feet of the Head Office building, 72,400 square feet or 29 per cent of total square feet was being utilized by the Ministry of Highways & Road Development. Any adjustment had not been made in the accounts as per the SEPSAS 01, for the cost of Rs. 496.5 million and depreciation thereof amounting to Rs. 24.83 million in respect of the aforesaid floor area.
- (h) Even though annual depreciation amounting to Rs. 4.04 million had been provided for the Thelagapatha police building included in the building cost which had been constructed by incurring a cost of Rs. 80.8 million, direct benefits of the building were not received by the Road Development Authority. However, action had not been taken to remove legally these buildings from the Authority's assets and relevant depreciation from the financial statements as per SLPSAS 01.
- (i) Mobilization advances amounting to Rs. 154 million relevant to 13 contracts of which the completion was uncertain as at 31 December 2017, had been categorized as non-current assets in contrary to the SLPSAS 01.

2.2.4 Accounting Policies

The following observations are made.

- (a) The policy for provision of doubtful debts, had not been disclosed in the financial statements.
- (b) Even though there were A,B, and AB graded roads of 12,180 kilometers maintained by the Authority, an accounting policy had not been introduced to indicate the length, quantity or value of those roads in the financial statements.
- (c) Action had not been taken to do a proper review and introduce an appropriate accounting policy with regard to liquidated damages relevant to Payment Division, Rural Bridges Division & Provincial Officers of the Road Development Authority amounting to Rs. 174.47 million, Rs. 95.87 million and Rs. 21.36 million outstanding over 03 to 04 years, 04 to 05 years and over 05 years respectively.
- (d) A sum of Rs. 112 billion had been recognized as deferred expenses relevant to the local bank funded projects and accounted up to the end of the year under review in the statements of financial position. Even though, road improvement & rehabilitation expenses made out of local banks funds had been recognized and accounted as deferred expenses, road improvement & rehabilitation expenses incurred by the Authority from the normal budget allocations, had been written off as a normal expense in the income statement. Accordingly applying 02 accounting policies for the recognition of expenses incurred for similar activities based on their source of funds, was observed to be a contentious selection of accounting policies.
- (e) Since depreciation amounting to Rs. 177.90 million had been provided by the Authority for 201 vehicles with a cost of Rs. 955.88 million being used by the Ministry and various projects in contrary to the SLPSAS 01, financial results had been understated.

2.2.5 Accounting deficiencies

The following observations are made.

- (a) The Authority had applied cash basis accounting policy up to the year 2016 with regard to the funds given by the General Treasury for the repayment of installments and interest of the loan obtained from the local banks for widening and improvement of roads. Thereafter, accrual basis had been adopted with effective from the financial year 2017. Accordingly, a sum of Rs. 7,795 million received from the General Treasury in January 2016 for the payment of loan installments and interest relevant to the latter 06 months of the year 2015, had not been deducted from the receivable amount from the treasury when restating the balances with the financial statements of the year 2017. Thus, profit before tax that had been adjusted retrospectively for the year 2016, had been overstated by Rs. 7,795 million in the financial statements.

- (b) Accrued interest in treasury bills amounting to Rs. 76.30 million had been stated in the financial statements of the year under review. However interest receivable amounting to Rs. 1.10 million relevant to self-insurance fund accumulated from the deductions made out of the salaries of the Authority's employees, had not been deducted from the above accrued interest and as a result, the actual interest had not been shown in the financial statements.
- (c) According, to the age analysis of debtors, though 26 per cent of the total debtors' balance was over 01 year, provision for bad debts had been made without analyzing the risk of incurring future bad debts based on the ageing analysis. Accordingly, current provision of Rs. 168,831 was observed as inadequate.
- (d) The cost incurred on rehabilitation of local roads and associated expenses as approved by the Cabinet decision dated 11 April 2006 by utilizing the benefit arrived from the conversion of foreign currency to local currency due to appreciation of the dollar value during the construction period of the Southern Transport Development Project, amounted to Rs.532.4 million. However, these expenses had been capitalized and as a result, the cost of the Expressway had been over stated by that amount and the depreciation thereof had been over stated by Rs. 159.73 million.
- (e) According to the financial statements of the Authority for the year 2016, furniture and equipment valued at Rs. 108.95 million had been given to the Road Development Authority by the National Highway Sector Project. Even though furniture and equipment with a value of Rs. 25.8 million of the above, are belonging to the Ministry, action had not been taken to readjust the cost and depreciation of those assets included in the accounts.
- (f) Vehicles with a cost of Rs. 25.27 million and a carrying value of Rs. 11.46 million had been stated twice in the assets register and in the accounts.
- (g) Even though 13 vehicles with a cost of Rs. 112.69 million obtained from the Local Bank Funded Project during the year 2017 had been included in the financial statements, 07 vehicles deployed by the Authority with a cost of Rs. 33 million and depreciation amounting to Rs. 4.89 million had not been accounted thereon.
- (h) Even though the opening balance as at 01 January 2017 of the cost of vehicles obtained from the Local Bank Funded project had been stated as Rs. 176.62 million in the financial statements, the opening balance of those vehicles amounted to Rs. 170.02 million according to the schedule submitted by the Finance Division. Thus, a difference of Rs. 6.60 million was observed between the opening balances.
- (i) Although depreciation for vehicles obtained from the Local Bank Funded Project had been stated as Rs. 121.14 million in the financial statements for the year under review, according to the calculation of the audit, it was Rs. 57.64 million and as a result, a difference of Rs. 63.50 million was observed.

- (j) Vehicles with a cost of Rs. 112.70 million purchased during the years 2012, 2013 and 2014 had been included in the accounts in the year 2017. However the depreciation amounting to Rs. 81.81 million relevant to those vehicles had not been adjusted in the accounts as prior year adjustments.
- (k) According to the statement of changes in equity for the year ended 31 December 2017 of the Authority, the total equity as at 31 December 2017 amounted to Rs. 206,485 million and as per the statement of financial position as at 31 December 2017, it was Rs. 204,813 million. The profit before deferred tax had been included in the statement of changes in equity instead of the revised profit after deferred tax for the year 2017 and as a result, a difference of Rs. 1,672 million was observed between the total equity (total net assets) shown in the statement of financial position and the statement of changes in equity.
- (l) The value of 31 trade stalls owned by the Authority in the Central province and Borella had not been assessed and taken to the financial statements and as a result, assets of the Authority had been understated.
- (m) Self life insurance fund amounting to Rs.139 million which consists of a cash balance of Rs. 2 million and an investment of Rs. 137 million in treasury bills had been stated in the financial statements of the Authority. Since the above assets are belonging to the members of the fund, the assets of the Authority had been overstated by that amount.
- (n) Even though mobilization advances below 01 year, between 01 to 04 years and over 05 years amounted to Rs. 698.77 million, Rs. 768 million and Rs. 171 million according to the age analysis, adequate provisions considering the delay in recovery had not been made by the Authority. Further, an appropriate accounting policy or recovery procedure had not been applied by the management in this regard.
- (o) Required disclosures had not been made in the financial statements as at 31 December of the year under review, regarding the land of 02 acres, 03 roods and 27.02 perches and with a value of Rs. 53.6 million according the report of the Land Division of the Authority.
- (p) It had not been disclosed in the financial statements, the purchase and disposal of 15 lands with an extent of 44 acres and a value of Rs. 210 million according to the information received from the Legal Division of the Authority.
- (q) Even though there is no legal ownership upon the Authority, adequate disclosures had not been made in the financial statements regarding lands of 1026.54 acres being utilized by the authority without any obstruction.
- (r) Purchase advances, contract and survey advances totaling Rs. 152 million had not been recovered as at 31 December of the year under review and as a result, current assets and financial results had been overstated by that amount.

- (s) Furniture and office equipment with a value of Rs. 935.7 million had been included under the value of the Head Office building. Thus, buildings had been overstated and office equipment had been understated by that amount. Further, depreciation for office equipment amounting to Rs. 154.65 million had been understated in the accounts.
- (t) Even though 09 quarters and 03 office buildings constructed by the Northern Road Connectivity Foreign Funded Project by incurring a sum of Rs. 90 million, had been entrusted to the Authority in 2017, these assets had not been taken to the accounts in the year under review.
- (u) The Authority had not disclosed the basis for classification of retention money payable to the contractors as current and non-current liabilities. According to the sample audit test, it was revealed that retention money amounting to Rs. 270.63 million relevant to road widening and improvement projects in the Western province had been equally divided as current and non-current liabilities in the financial statements.
- (v) According to the schedule submitted to the audit for investments, though investments of Rs. 32 million had been made from the building fund, such a building fund had not been stated in the financial statements.
- (w) The authority's liability on refundable deposits, retention money and retention money relevant to road widening and improvements amounted to Rs. 3.53 billion out of which Rs. 672 million had been invested in repurchase agreements. Accordingly, the balance of Rs. 2.85 billion had not been used for investments due to lack of funds. However, an appropriate accounting treatment had not been taken with regard to Rs. 359 million outstanding for over 05 years out of the above liabilities.
- (x) The total amount of liabilities stated in the financial statements as at the end of the year under review on client deposits obtained to undertake client services and other receipts, amounted to Rs. 2,332 million. Investments of Rs. 3,608 million and deposits amounting to Rs. 13.25 million in current accounts made in respect of these liabilities had been stated in the financial statements as at the end of the year under review. However, information and reasons for maintaining such a specific fund had not been explained to the audit.

2.2.6 Contingent Liabilities

 Even though contingent liabilities amounting to Rs. 674 million in respect of court cases filed by employees against the Authority had been disclosed in the financial statements, action had not been taken to timely review the reliable estimates and professional judgments made in respect of those liabilities and to submit the relevant details to the audit.

2.2.7 Unexplained Differences

The following observations are made.

- (a) According to the note for debtors in the financial statements, although salaries of Project Management Units amounting to Rs. 108.92 million remained as recoverable, such liabilities were not disclosed in the accounts of projects. Thereafter, it was informed to audit that a sum of Rs. 99.89 million out of the above had been reimbursed by the Project Management Units to the Authority.
- (b) Even though the cost of the Southern Transport Development Project had been stated as Rs. 116,381 million in the financial statements of the Authority as at 31 December of the year under review, the cost was Rs. 117,163 million according to the financial statements of the Project as at that date. Accordingly, a difference of Rs.782 million was observed and reconciliations were not submitted in this regard.
- (c) According to the financial statements of the Road Development Authority, the cost of the vehicles as at 31 December 2017 amounted to Rs. 3,363 million whilst it was Rs. 3,450 million as per the schedule. Thus, there was a difference of Rs. 87 million.
- (d) A difference of Rs. 57.27 million was observed between the opening balance of provision for depreciation as per the financial statements and schedules for the year under review relevant to vehicles under the category of Local Bank Funded Projects.
- (e) The cost of the Maga Neguma Maha Medura Building entrusted to the Road Development Authority by the National Highway Sector Project was Rs. 2,506 million in the statement of financial position of the project as at 31 December 2017 and it had been stated as Rs. 2,664 million in the financial statements of the Authority. Accordingly, a difference of Rs. 158 million was observed between the two balances.
- (f) A difference of Rs. 55.04 million was observed between the value of building excluding Head Office Building stated in the financial statements and the assets register.
- (g) There was a difference of Rs. 1,425 million between the unsettled balance as at 31 December of the year under review out of the loan obtained for Local Bank Funded Projects and the assets relevant to those loans stated in the financial statements of the Authority as at that date.

2.2.8 Account Receivable and Payable

The following observations are made.

- (a) As stated in the letter dated 15 September 2017 of the Director General - National Budget a sum of Rs. 04 billion of the income received from expressways of the Authority had been credited to the consolidated fund and accounted the Treasury as a debtor according to the Cabinet decision dated 15 August of that year. However, a

confirmation had not been provided by the Treasury whether those funds could be recovered to the Authority.

- (b) It had been informed to the audit that a sum of Rs. 303.6 million relevant to 04 Projects out of the loan/advance of Rs. 1.909 billion given by the Authority for 05 Projects completed as at 31 December 2017, had been settled in 2018. Accordingly, a sum of Rs. 1.695 billion still remained to be recovered.
- (c) A sum of Rs. 1.048 billion was stated as recoverable from then Ministry of Economic Development according to the Financial Statements of the Authority. However, there was an uncertainty in recovering that loan balance since the Ministry was not in operation at present.
- (d) Even though a total recoverable amount of Rs. 260.73 million from the Ministry of Civil Aviation, District Secretariat Office - Hambanthota, Board of Investment of Sri Lanka and the Ministry of Public Enterprise Development, had been stated in the financial Statements, such liabilities had not been stated in the financial statements of the respective institutions. Accordingly, there was an uncertainty in recovering those balances.
- (e) An advance amounting to Rs.29.14 million had been given to the Divisional Secretariat – Thihagoda on 09 April 2015 on the reimbursement basis for the payment of compensation for the lands acquired under widening of Matara – Hakmana road during the year 2015. Out of that, a sum of Rs.1.37 million had been received on 19 August 2016. Accordingly, a sum of Rs.27.77 million still remained to be recovered. Even though the Project had been completed entirely the money had not been reimbursed.

2.2.9 Lack of Evidence for Audit

The following evidence as indicated against the each item shown below had not been submitted for audit. Thus, those items could not be satisfactorily verified.

Item -----	Value ----- (Rs. Million)	Evidence not made available -----
(a) Assets obtained from the Southern Expressway Project in 2015.	2,124	Details of assets accounted.
(b) Motor vehicles - 658	Not Stated	Assets register.
(c) Motor vehicles - 224	Not Stated	Details of registration in the Department of Motor Traffic.
(d) Security deposits	14.7	Security deposit register and supporting documents.
(e) Buildings (without the Head Office building)	1,000 (Cost)	Details such as location of the building, value, extent.
(f) Capitalization of expressways.	243,385	Documents for considering as government grants simultaneous to the capitalization of expressways.

2.3 Non - compliance with Laws, Rules, Regulations and Management Decisions

Instances of non- compliance with the laws, rules and regulations in audit are given below.

Reference to Laws, Rules, Regulations and Management Decisions	Non Compliance
(a) Public Enterprises Circular No: PED/12 of 02 June 2003: Section 9.12	Even though the approval of the General Treasury should be obtained for welfare activities such approval had not been obtained for the staff transport services.
(b) National Budget Circular No: 142 dated 31 December 2008 of the Ministry of Finance: Paragraph 5.2 (iii) and Establishment Code of the Democratic socialist Republic of Sri Lanka: Section - xxiv	Distress loans had been given to officers exceeding the maximum limit of Rs.250,000. Action had not been taken according to the circular instructions with regard to 22 unrecoverable loan balances amounting to Rs.1.5 million.
(c) Establishment Code of the Democratic Socialist Republic of Sri Lanka:	
(i) Chapter II – Section 06	Even though the appointing authority should be satisfied that the prerequisites for the appointment or promotion have been fulfilled, appointments had been given to 82 permanent officers on contract basis without complying to such prerequisites.
(ii) Chapter II – Section 13.2	An officer can be appointed to act in a post only when the duties of the temporary vacant post cannot be distributed among the other officers without affecting the job requirements of that post. However, an officer in the position of Clerk – Grade I, had been appointed to act in the post of Administrative Assistant which had been vacant in the Chief Engineer’s Office of the Authority at Akkaraipattu even after calling applications to fill that vacant post and fixing dates for the interviews.
(iii) Chapter VI – Section 04 and Procedural Rules of the Public Service Commission: paragraph 88	Even though a personal file should be maintained in complete form and updated for each officer, the Authority had not maintained personal files in accordance with those rules.

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| (d) Financial Regulations of the Democratic Socialist Republic of Sri Lanka - Financial Regulation 395 | Even though monthly bank reconciliation statements for each current account should be submitted to the Auditor General on or before 15 of the following month, certain divisions and sub-offices of the Authority had not acted accordingly. |
| (e) Payment of Gratuity Act No. 12 of 1983 | <ul style="list-style-type: none"> i. A clarification had not been obtained from the Department of Labour regarding the allowances at the termination of service as per the Act. ii. A sum of Rs. 4.6 million had been deducted from the gratuity allowance payable to the officers during the year under review contrary to the Section 13 of the Act. |
| (f) Public Administration Circular No. 09/2009 dated 16 April 2009 and the budget proposal No. 373 for the year 2017. | Even though finger scanners should be used in every public institution, finger scanners had not been used to confirm the arrival and departure of the employees at the Western Provincial Director's office and other Provincial Offices. |

2.4 Transactions not verified by a Proper Authority

The following observations are made.

- (a) The approval of the Board of Directors had not been obtained for renting out the land with an extent of 01 rood and 38.4 perches in Weligama – Goviyapana area belonging to the Executive Engineer's Office of the Authority at Matara and the rent agreement had been signed by an officer not having the proper authority.
- (b) According to the paragraph 5.2(iii) of the National Budget Circular No.142 dated 31 December 2008 of the Ministry of Finance and Planning, action had not been taken to limit the maximum amount of the loan to Rs. 250,000 and as a result, a sum of Rs. 64 million had been given to 549 officers as at 31 December 2017 exceeding the entitled amount and without a proper authority.
- (c) According to the Section 13 and 14 of the National Thoroughfares Act No. 40 of 2008 and the paragraph 07 the Extraordinary Gazette Notification No. 1732/12 dated 18 November 2011, charges collected from expressways should be credited to the Authority's fund. Even though those charges should be utilized for the purpose of development and maintenance of expressways, out of the income amounting to Rs. 27,236 million collected from expressways up to 31 December 2017, a sum of Rs. 13,093 million had been used for extraneous expenses contrary to the instructions in the above gazettee notification.

03. Financial Results

According to the financial statements submitted, the profit before tax of the Authority for the year ended 31 December of the year under review amounted to Rs. 85 million and the comparative profit before tax for the preceding year amounted to Rs. 7,872 million. Thus, profit before tax for the year under review had been deteriorated by Rs. 7,787 million compared to the previous year. This was due to the decrease in revenue by Rs. 2.52 million and increase in expense by Rs. 5,720 million in the year under review when compared with the previous year. The allocation received from the treasury for maintenance and improvement of roads and for the National Savings Bank loan amounted to Rs. 3,300 million, the deferred expense under the road maintenance expense head amounting to Rs. 1,840 million and incurring a sum of Rs. 1,460 million from advances of the Ministry had also affected for this situation.

04. Performance

4.1 Operation and Review

The following observations are made.

- (a) Even though an action plan should be prepared covering all divisions of the Authority according to the Public Enterprises Circular No. PED/12/2003 dated 30 May 2003, Administration, Planning, Training, Finance, Land, Research Development and Mechanical divisions had not been included in the action plan prepared by the Authority.
- (b) The measures to be taken to mitigate the impact on the environment through the activities undertaken to achieve the main goals and targets of the Authority, had not been included in the action plan.
- (c) Even though a sum of Rs. 6,842 million from the budget estimate, Rs. 1,452 million from supplementary estimates and Rs. 2,440 million by transferring funds as per the Financial Regulations 66 and 69 which aggregated to Rs. 10,734 million had been allocated for widening and improvement of roads in the year under review, only Rs. 9,211 million had been spent out of that. Accordingly, 14.19 per cent of the net provisions remained during the year under review.
- (d) During the period from 2013 to 2016, the Authority had awarded 234 road contracts under the purview of the Authority, and 287 road contracts not under the purview of the Authority. During the year 2017, 75 contracts with a value of Rs. 2,155.2 million had been performed by the Authority for 126.09 kilometres of roads out of which 51 roads or 68 per cent were not under the purview of the Authority.

4.2 Management Activities

The following observations are made.

- (a) A sum of Rs. 1.69 million receivable for renting out a trade stall belonging to the Authority at Borella underpass to a private business person for the period from 01 November 2004 up to 31 December had not been recovered. Further, unrecovered rentals up to 31 December of the year under review relating to other 17 trade stalls of the Road Development Authority amounted to Rs. 720,370.
- (b) Even though a penalty of 05 per cent of monthly rental should be charged for any delay or default in the payment of monthly rentals according to the condition No. 03 of the rent agreements relevant to the trade stalls in the Central province and Borella underpass, the manner of charging penalties considering the delayed period had not been specified.
- (c) Although unauthorized persons had been settled in the Authority's lands with an extent of 21 acres approximately according to the information received from the Provincial Directors of the Authority, action had not been taken to effectively utilize the lands removing the unauthorized settlements.
- (d) Although 13 buildings obtained on rental basis by several divisions of the Authority had been entrusted to the respective owners, security deposits made in that regard amounting to Rs. 3.16 million had not been recovered.
- (e) Despite from the investment made in the Housing Development Finance Corporation, no dividends had been received by the Authority up to the end of 2017 from the investments made in assets & shares of companies in 2004.
- (f) Gratuity payments for 86 officers during the year 2017 had been made exceeding 30 days and surcharges for the delays that should have been made by the Authority amounted to Rs. 5.06 million.
- (g) Although the lessor had stated that the building obtained on lease by the Authority for the Western Provincial Director's Office was of 8100 square feet, the copies of the ground plan were not submitted to audit. Further, action had not been taken to get the renovation done through the lessor before accepting the building.

4.3 Operational Inefficiencies.

The following observations are made.

- (a) Target completion dates for 60 contracts commenced in 2016 and thereafter relevant to the Construction Division of the Road Development Authority had been expired. A sum of Rs. 278.74 million remained unrecovered as at 31 December 2017 out of the mobilization advances given to those contractors. Further, advance bond validity period of those contracts had been expired or being expired as at that date.

- (b) The Authority had agreed to recover mobilization advances amounting to Rs. 28.49 million granted to 04 contracts implemented under the Construction Division from contracts other than the relevant contracts. Further, 02 contracts implemented by the Rural Bridges Construction Division had been abandoned halfway and the unrecovered balance of mobilization advances amounted to Rs. 1.4 million. Accordingly, the management had allowed receivables to the Authority aggregating Rs.29.89 million to remain in the hands of contractors.

4.4 Transactions of Contentious Nature.

The following observations are made.

- (a) Out of the Rs. 28 billion obtained from the National Savings Bank in 2014 for widening and improvement of 64 roads specified by the Authority, a sum of Rs. 6.09 billion had been deployed for 20 other projects.
- (b) A vehicle purchased by the Integrated Road Investment programme for that project's activities, had been deployed for the personal use of the Chairman of the Authority.
- (c) The cost of the vehicles purchased under the Local Bank Funded Project, had been stated as Rs. 51.27 million under one category while being shown as Rs. 44.43 million under another category.
- (d) When obtaining a building on lease for the Western Provincial Director's office, a sum of Rs. 1.35 million as refundable deposits and a sum of Rs. 5.4 million equivalent to annual lease rental as advances had been paid to the lessor. According to the information furnished to audit, it was unable to verify the requirement for the payment of both refundable deposit and the advance.
- (e) A sum of Rs. 371 million out of the income collected from the expressways for the years 2015,2016 and 2017, had been incurred for the purchase of various assets, obtaining houses on lease basis and for the supply of fuel to the Sri Lanka Police.

4.5 Apparent Inefficiencies.

The following observations are made.

- (a) Action had not been taken to enter into the agreement, the annual lease rental for the land with an extent of 01 rood and 38.4 perches situated in the Weligama Goviyapana area belonging to the Authority's Executive Engineer's Office in Matara.
- (b) According to the letter No. RDA/DG/EST dated 25 September 2017 of the Director General, 82 officers had been recruited under contract basis for the posts in the permanent cadre without the approval of the Department of Management Services and contrary to the scheme of recruitment. Even though these promotions had been cancelled later on, additional salaries and allowances amounting to Rs. 3.1 million had been paid to those officers.

- (c) An aggregated sum of Rs. 35.09 million had been paid by the Authority during the period from 2014 to 2017 to 25 tax inactive persons and 2 unregistered persons for tax. According to the information furnished to audit, only a sum of Rs. 13.5 million out of that had been recovered. Accordingly, the loss incurred amounting to Rs. 21.59 million through this improper tax reimbursement had not been recovered yet.

4.6 Idle or under – utilized assets

The following observations are made.

- (a) Out of the expense incurred for the supply of uniforms and materials to the officers in the junior staff of the Authority during 2014 to 2017, uniforms and materials equivalent to Rs. 02 million remained idle without distributing to the employees even as at 08 November 2018.
- (b) After distributing uniforms to the employees in the Expressway Operation, Maintenance and Management Division of the Road Development Authority, uniforms had been purchased again by that division. Hence, white shirt material and shoes with a value of Rs. 693,050 remained idle at the Udumulla storehouse of the Authority.

4.7 Resources of the Authority made available to other institutions

The following observations are made.

- (a) Two hundred and one vehicles with a cost of Rs. 955.88 million which had been stated under the fixed assets of the Authority had been given for the use of the Ministry and various Projects.
- (b) The Authority had offered another 37 vehicles that it owns to the Line Ministry. Vehicle maintenance and repair expenses amounting to Rs. 4.71 million had been incurred by the Authority during the year under review in respect of those vehicles.

4.8 Staff Administration

The scheme of recruitment had been used for the staff administration without being updated and approved. The approved cadre and the actual cadre of the Authority as at 31 December of the year under review were 10,407 and 10,894 employees respectively.

The following observations were made in this regard.

- (a) The post of the Director (Administration) of the Authority remained vacant since 20 July 2017 up to the date of this report. Even though the vacant post had directly affected for the staff administration of the Authority, the management and the Ministry had not taken prompt action in that regard.

- (b) There were 304 vacancies for permanent labourers who directly involve in maintenance activities of highways as at 31 December of the year under review.
- (c) Even though there were no temporary maintenance labourers in the actual cadre, 1158 such labourers had been recruited as at 31 December of the year under review.
- (d) Even though a cadre of 2550 employees had been approved for ancillary services of the Authority, the staff recruited on permanent & contract basis for that service category was 2540. Accordingly, 94 employees had been released to project management units whilst there were 10 vacancies.
- (e) While there were 163 vacancies in the technical and engineering services which are responsible for the performance of the Authority, 250 officers had been released to project management units and 211 officers of them were officers of the Engineering staff.
- (f) According to the Administration Circular No. 2018/CL/35 dated 28 June 2018 of the Director General of Road Development Authority, it has been stated that those who have been in a popular service station for a period of 05 years or more and who have not served in a non-popular service station for a period of 03 years or more would be transferred based on the service requirement as a policy guideline followed in annual transfers, though they have not applied for transfers. However, there were 37 officers working for more than 05 years in the same service station without any annual transfer in the Western and Sabaragamuwa Provincial Director's offices.
- (g) Even though the total staff amounted to 81 in the Western and Sabaragamuwa Provincial Director's offices, duty lists had been given only for 38 employees.

4.9 Utilization of Vehicles

The following observations are made.

- (a) The registration number, date of purchase, received from whom, had not been specified in the assets register maintained by the Authority with regard to 19 vehicles with a cost of Rs. 271 million categorized under "Road Development Authority".
- (b) When it is compared the assets register of the Authority with the information obtained from the Department of Motor Traffic by the audit, type and model of 06 vehicles did not agree with each other. Further, these vehicles had not been registered under the Road Development Authority.
- (c) One hundred and seventy vehicles included in the assets register stating as owned by the Authority had been registered under other individuals or private institutions when those vehicles were compared with the information of the Department of Motor Traffic. Further, 35 vehicles stated in the assets register of the Authority had not been registered in the Department of Motor Traffic.

05. Achievement of Sustainable Development Goals

Every public enterprise should act according to the 2030 Agenda of the United Nations for Sustainable Development Goals, and the Road Development Authority had been aware of the actions that should be taken on the matters under its scope relevant to the year under review.

- (a) Based on the awareness of the 2030 agenda as above, the sustainable development goals which includes promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss and strengthen the means of implementation and revitalize the global partnership for sustainable development, had not been identified by the Road Development Authority under its scope.
- (b) The Authority had not integrated its work with the National Building Research Organization, Urban Development Authority, Ministry of Sustainable Development, Wildlife & Regional Development and the Ministry of City Planning & Water Supply with regard to the implementation of the sustainable development goals.
- (c) Even though an accurate data basis should be essential to measure the performance of a certain activity, action had not been taken by the Authority to develop an accurate data basis to measure the achievement of sustainable development goals. Inadequate financial allocations and lack of trained employees had been the reasons for this situation.
- (d) The identified activities to achieve sustainable development goals by the Authority had not been included in the annual plan and the required financial allocations had not been included in the annual budget.
- (e) It was observed that the planning and the preparation process to achieve targeted goals was functioning in a very slow and poor manner due to lack of proper co-ordination with other institutions.

06. Audit and Management Committees

According to the Circular No: DMA/2009/01 dated 07 June 2009 of the Department of Management Services, as a minimum, one Audit and Management Committee meeting should be held per quarter. However, only 03 Audit & Management Committee meetings had been held for the year under review. Further, decisions taken at those meetings had not been followed up adequately.

6.1 Internal Audit

According to the internal audit programme of the Authority for the year 2017, audits had been planned in Provincial Director's offices, Chief Engineer's offices and Executive Engineer's offices under finance and management audits. Further, districts of Chief Engineer's offices, asphalt plants, crusher plants, local bank funded road projects had been included under field audit. However, high risk areas such as land acquisition, system audits, audits of Maga Neguma Companies which has been disclosed as owned by the Authority in the financial statements. Expressway Transport Company (Pvt) Ltd and technical audits in construction projects had not been covered by the internal audit and risk weighting had not been done. Further, guidelines and circulars issued by the Department of Management Audit, had not been considered when preparing the annual internal audit programme.

6.2 Procurement and contracting process.

6.2.1 The procurement process relevant to purchase of assets

The following observations are made.

- (a) Even though a Procurement Section had been established in the Authority, only 47 procurement activities had been carried out during the year under review. The value of those procurements amounted to Rs. 816 million only. Out of that, Rs. 487 million was for the purchase of aggregate and asphalt and Rs. 33.72 million for the purchase of assets. However, the cost of total assets purchased from the funds of the Authority during the year under review was Rs. 87.66 million and thus the contribution of the Procurement Division had been limited to 38.46 per cent of cost of total assets.
- (b) Even though a Master Procurement Plan should be prepared as per the paragraph 4.2.1 of the Procurement Guidelines, such a plan had not been prepared for the year under review.

6.2.2 Procurement process relevant to obtaining of services and lease of assets

The following observations are made in this regard.

- (a) The following deficiencies had occurred in the procurement process for the selection of buses for the staff transport from Sethsiripaya to Galle and Matara via the Expressway by the Road Development Authority.
 - i. The Authority had not taken action to obtain competitive prices and to obtain the assistance of a technical evaluation committee.
 - ii. The specifications relevant to buses had not been prepared by the Authority and the condition of buses had not been inspected and reported by a Mechanical Engineer.

- iii. Even though bid securities should be submitted according to the paragraph 5.3.11 of the Procurement Guidelines, such bid securities had not been submitted by the bidding entities.
 - iv. Service agreements had not been entered between the Road Development Authority and service provider organizations for obtaining transport services.
- (b) Appropriate procurement procedures such as calling competitive bids, technical evaluation, procuring through a procurement committee had not been followed when leasing out a land with an extent of 01 rood and 38.4 perches belonging to the Matara Executive Engineer's office of the Authority in Goviyapana area at Colombo – Galle - Hambanthota -Wellawaya (A02) road. Instead, a rent agreement had been entered with a person resident in Gothatuwa New Town on 15 March 2007.
 - (c) Even though the procurement decision relevant to shifting the Western Provincial Director's office to a building at No. 32/2, School Lane, Nawala, Rajagiriya from 07 November 2017 onwards, had been given for one year on 02 October 2017, the agreement had been signed for 22 months and the specifications had not been prepared for obtaining the building on rental basis.

6.2.3 Deficiencies in Contract Administration

The following observations are made.

- (a) Retention money payable amounting to Rs. 55.5 million had been stated in the financial statements rather than being written off against the income even though it had been confirmed that they should not be paid back to the contractors. Of this, a sum of Rs. 55 million was retained for projects which were stopped halfway.
- (b) Even though it had been stated that retention money amounting to Rs. 6.07 million in respect of certain contracts had been retained due to non-rectified defects, it had been retained for more than 05 years without getting the deficiencies rectified.
- (c) Without identifying whether the relevant contracts had been terminated, it was reported to the audit that retention money amounting to Rs. 683.01 million was kept since the contractors had not applied for them. However, retention money amounting to Rs. 640.92 million had been paid during the current year on the request from the contractors.
- (d) As at 31 December 2017, there were refundable deposits amounting to Rs. 50.4 million, Rs. 28.5 million and Rs. 61.5 million outstanding for 03 to 04 years, 04 to 05 years and over 05 years respectively relevant to the Head Office's Finance Division and 04 Provisions. The Authority had retained the money without paying back after completion of the work or after the expiry of time and without any follow up and supervision.

6.2.4 The performance relevant to widening and improvement of roads

The following observations are made.

- (a) The works of 181 contracts with an estimated cost of Rs. 4,332.88 million which commenced during the year 2017 and earlier, and scheduled to be completed by 31 December 2017, had not been commenced even during the year under review.
- (b) As at 31 December 2017, there were 110 contracts with an overall progress less than 50 per cent and the estimated cost of those amounted to Rs. 6,053.33 million.
- (c) There were 178 contracts with an overall progress between 50 per cent and 100 per cent as at 31 December 2017 and the estimated cost amounted to Rs. 8,807.95 million. The total expenditure incurred for these contracts as at 31 December 2017 was Rs. 1,224.6 million.
- (d) Twenty seven contracts included in the action plan for the year 2017 had been completed in the same year. The number of contracts that have been completed 100 per cent was 3.1 per cent of the targeted total contracts. The estimated cost of the these 27 projects was Rs. 1,468 million and the total expenditure incurred on these contracts as at 31 December 2017 was Rs. 962.35 million.

6.2.5 Local bank funded projects and Expressway projects

The unsettled balance as at 30 July 2018 out of loans obtained from local banks by the Road Development Authority amounted to Rs. 214,262 million. The loans had been obtained from 07 major local commercial banks and the National Savings Bank for the purposes of widening and improvement of highways, construction of expressway and payment of compensation for land acquisition.

The Cabinet of Ministers had authorized to obtain loans amounting to Rs. 152 billion from local banks to rehabilitate 64 priority roads in the island covering a length of 1,433.85 kilometres. Accordingly, contracts valued at Rs. 152 billion had been awarded by the Authority to rehabilitate those 64 roads.

The following observations are made in this regard.

- (a) The amount of loan agreed with the National Savings Bank for the construction of 28 roads out of the 64 roads relevant to this project was Rs. 55,392 million. Out of that, a sum of Rs. 28,000 million had been obtained as at December 2014 for other purposes contrary to the loan agreement. The amount of Rs. 28,000 million obtained in contravention of the above loan agreement, had been used by the then Ministry of Ports and Highways, for road construction activities of other foreign funded projects, administrative expenses and other activities. As a result, the expected performance of these roads could not be achieved. Further, 06 projects had not been completed even as at 31 December 2017.

- (b) On the approval of the Cabinet of Ministers, a sum of Rs. 5,400 million in 2015, Rs. 6,250 million in 2016 and Rs. 3,300 million in 2017 which aggregated to Rs. 14,950 million had been obtained from the Treasury to cover the additional expenses of Rs. 28,000 million. However, the scope of some work items, such as proposed road construction activities, road length, width, concrete drainage, culverts, side walls and construction of the road surface had been carried out less than originally planned.

6.3 Unsolved audit paragraphs

The following observations are made.

- (a) Eight bridges had been constructed by incurring a sum of Rs. 3,495 million on the Outer Circle Road in Trincomalee which connects Batticaloa - Thirikkondai, Aru - Trincomalee (A-15) and Ambepussa - Kurunegala – Trincomalee (A-6) beyond the town under the Steel Bridge Project of United Kingdom during 2009 and 2010. However, the constructions of the roads connecting the bridges had not been completed due to lack of funds even after elapse of 07 years as at 31 May 2018.
- (b) A loan of Rs. 2,172 million had been obtained from the National Savings Bank for the rehabilitation of the Pelmadulla – Embilioitiya – Nonagama road by the Local Bank Funded Project. According to the variation order 01 submitted by the contractor in the rehabilitation of this road, a sum of Rs. 18 million had been stated as the construction cost relevant to the President’s House at Embilipitiya.
- (c) Even though the audit had indicated 07 narrow and dilapidated bridges on the Galigamuwa – Ruwanwalla – Karawanella road, out of that bridges as at the date of 31 July 2018, 06 of those bridges had not been reconstructed even by the end of October 2018.

6.4 Non-compliance with the directions given by the Committee on Public Enterprises and the Cabinet of Ministers

The following observations are made.

- (a) According to the Cabinet decision dated 14 February 2013, the Maga Neguma companies had been instructed to amend the Articles of Association of the three Maga Neguma Companies to give the majority of the shares to the Treasury and the remainder to the Road Development Authority. However, action had not been taken accordingly.
- (b) The following directives given by the Committee on Public Enterprises on 10 August 2016 with regard to those companies, had not been implemented even upto the end of November 2017.

- i. To obtain the ownership of the Maga Neguma Road Construction Equipment Company and the Emulsion Production Company upon the Authority.
 - ii. Issuing of share certificates even as at 31 December 2018 for the equity investment of Rs. 1,000,000 made on 05 June 2004 in the Maga Neguma Emulsion Production Company on 05 June 2004.
 - iii. To make a decision by the Board of Directors of the Authority with regard to awarding of contracts to the companies incurring a loss of 28 per cent upon the Authority while allowing the companies to use the Authority owned assets for the awarded contract activities.
- (c) Even though it had been directed to prepare the scheme of recruitment of the Authority within 03 months at the Committee on Public Enterprises held on 19 September 2017, action had not been taken accordingly up to the date of this report.

07. Systems and Controls

Deficiencies in systems and controls observed during the course of Audit were brought to the notice of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of control.

System and Control Area	Observations
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(a) Invoicing Process.	The invoicing process had not been carried out properly and in a timely manner as per agreements.
(b) Asset Utilization	Reporting, utilization and control of assets including land, buildings, vehicles and compliance with rules, regulations had been done without a proper control.
(c) Activities of the payment unit	Formalization of the payment process and paying attention to the basic documents to verify the accuracy of the payment.
(d) Settlement of advances	Not being done orderly and timely.
(e) Accounting	Non-maintenance of individual account for the source of expenditure, not introducing appropriate accounting policies and non-compliance with Sri Lanka Public Sector Accounting Standards. Major attention on accounting deficiencies.
(f) Payment of value Added Tax	To check the validity of real time registration of the Department of Inland Revenue when paying for VAT.
(g) Staff Management	Personal filling, filling of essential vacancies, streamlining the transfer procedure.
(h) Procurement	Taking advantage of procurement upon the procuring entity, progress review and dealing with centralized procurement whenever possible.