

## **Road Development Authority – 2018**

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### **1.1 Qualified Audit Opinion**

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Audit of financial position of the “Authority” of the Road Development Authority as at 31 December 2018, comprising Financial Performance statement, changes in equity statement and cash flow statement and notes to the financial statements, summarized important accounting principles for the year ended 31 December 2018 was carried out under my directions in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with in terms of the National Audit Act No 19 of 2018 and the Finance Act No 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in the paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Program as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting standards

### **1.2 Basis for Qualified Audit Opinion**

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My opinion is qualified based on the matters set out in paragraph 1.5 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 opinion.

### **1.3 Responsibilities of the Management and those charged with governance for the Financial Statements.**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Authority or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Authority’s financial reporting process.

In terms of subsection 16 (1) of the National Audit Act, No. 19 of 2018, the Authority is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Authority.

#### **1.4 Scope of the Audit (Auditor's Responsibilities for the audit of Financial Statements)**

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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 Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- The relevance of using the company's going concern for accounting was determined based on the audit evidence obtained regarding whether there was material uncertainty about the company's existence as a result of the event or circumstances. If I conclude that there is material uncertainty, my audit report should focus on disclosures in the financial statements, and if that disclosure is not sufficient, my opinion must be modified. My conclusions are based on audit evidence obtained up to the date of the auditor's report. However, going concern may end on future events or circumstances.
- 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  
The scope of the audit has also been expanded to examine the following as often as possible and whenever necessary
- Whether its organization, systems, procedures, books, reports and other documents were systematically and adequately designed from the point of view presentation of information so as to continually assess the functions of the Authority and

- Whether such systems, procedures, books, records and other documents are maintained effectively;
- Whether that Authority has acted in compliance with any applicable written law or any other general or special directive issued by the Board of Governors of the Authority;
- Whether acted in compliance with its powers, duties and functions
- Whether Ensure that resources are procured and utilized in a timely efficient and effective manner in accordance with relevant rules regulations

## 1.5 Financial Statement

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### 1.5.1 Internal Control over Preparation of Financial Statements

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Operate with the general and specific authority of transactions management, record transactions and maintain accountability for the assets, prepare financial statements in compliance with applicable reporting standards, access to assets with the general and specific authority of management, it required to maintain an adequate “well-designed” internal accounting control system by the institution to ensure that the accountability for the assets recorded is comparable with the current assets in a timely manner and to take appropriate action if there are any changes

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
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Inter-company balances with those of subsidiaries of the Authority had not been reconciled	Finding written information on certain transactions between companies has become a problem	Accepted agreements and timely reconciliation must be made in the record of transactions between the subsidiaries of the Authority.

## 1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with Reference to the Applicable Standards	Comments of the Management	Recommendation
(a) In terms of the Accounting Unit Concept and the Public Sector Accounting Standard No. 01, 72,400 square feet from the Maganagama Mahamedura Building are being utilized by the Ministry of Highways & Road Development and Petroleum Resources Development and related cost amounting to Rs. 496.57 million and annual depreciation amounting to Rs. 24.83 million had not been adjusted.	It is informed that action will be taken future	According to Public Sector Accounting Standards No.1, the capital amount and its value of depreciation should be adjusted in the Authority's financial statements based on the floor area of the Maganeguma Mahamedura which is used by the Line Ministry
(b) Since the 3,580 square feet lecture hall in Maga Neguma MahaMedura building was not ready for use, it cannot be identified as an asset according to Public Sector Accounting Standard 01. But it was recognized as an asset and amounting to Rs. 25.7 million had been stated as at 31 December 2018 in the financial statements.	Action is being taken to converted this into a conference hall and currently is being used as a temporary store.	Take immediate action to utilize the relevant building blocks for their intended purpose and adopt a proper mechanism for depreciation.
(c) Although, amounting to Rs. 4.04 million per annum had been depreciated on the building constructed for the Thelagapatha Police at a cost of Rs. 80.8 million, these buildings and associated depreciations had not been excluded from the Authority's financial statements in accordance with Public Sector Accounting Standard 1 as Road Development Authority was not directly benefited from them	Thelagapatha Building had been established as a Police Post Complex for Highway Operations. However, it is informed that a policy decision will be taken in the future in discussion with relevant parties.	Action should be taken as per the Public Sector Accounting Standards No.1
(d) Depreciation amounting to Rs. 161,500 per each annum had been provisioned for lands amounting to Rs. 3.23 million which were included in the asset register of the Authority. its accumulated depreciation was Rs. 2.43 million as at 31 December 2018.	Do not agree with the matters in this paragraph. Land had not been depreciated. Action was taken to correct the information mentioned in the Schedule as land by mistake.	Action should be taken to correct the information set out in the land schedule.

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| (e) According to the assets register of the Road Development Authority buildings valued at Rs. 177 million had been completely depreciated as at 31 December 2018 and management had not taken steps to re-value or re-estimate to review the effective life time of the of them as per Public Sector Accounting Standard 3 and 7                       | The value of these buildings will also be assessed and action will be taken to account them in the future.                                                                                                                                                                                            | Comply with the Sri Lanka Public Sector Accounting Standard 03 or 07     |
| (f) Housing and office buildings costing to Rs. 71.15 had been handed over in the year 2018 to the Road Development Authority by the Outer Circular Highway Phase II Project. But these assets had not been taken into account during the year under review.                                                                                            | The detail information had been called from this Project by the letter No RDA / FD / FAS / 12 of the Director of Finance dated 12 June 2019 and after information in this regard is received, action will be taken to adjust to the account                                                           | Action should be taken promptly to account the relevant buildings.       |
| (g) Carrying value as at 31 December 2018 of laboratory and equipment of the Authority costing Rs. 5,129.5 million was Rs. 68.2 million. A significant percentage of these assets had ended its estimated useful life time. Action had not been taken to revalue these assets in accordance with Sri Lanka Public Sector Accounting Standards 01 and 07 | It is informed that it was decided to implement the revaluation activities installment wise in forthcoming years by preparing an appropriate mechanism for the revaluation of all assets.                                                                                                             | Steps should be taken promptly to revalue or restate the relevant assets |
| (g) There was a difference of Rs. 53.7 million between the financial statements and asset register relating to depreciation of machine & equipment grants & furniture & fittings as at 31 December 2018.                                                                                                                                                | It is informed that the depreciation of the machine & equipment and grants of the Road Development Authority and balance of allocation of depreciation should be corrected in the financial statements and action will be taken to made relevant adjustments to those depreciations in the year 2019. | Should be corrected and reported                                         |

- (h) The cost of 417 vehicles valued at Rs. 1,787 million had been fully depreciated as at 01 January 2018. Action had not been taken to revalue these assets and shown in accordance with the Public Sector Accounting Standard 07
- A professionally qualified committee of chartered engineering of the Mechanical Division had already assessed and inform that adjustment will be made to the monthly accounting reports by the July 2019.
- Make adjustments relating to vehicles in accordance with the Public Sector Accounting Standards

### 1.5.3 Accounting Policies

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<b>Audit observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Policy of bad debt provision had not been disclosed with the financial statements.	Action will be taken to disclose in the future.	Action should be taken to disclose this policy in the financial statements.
(b) Although there are 12,180 km of A, B and AB grade roads maintained by the Authority accounting policy had not been introduced to disclose their length, extent or value in the financial statements. However, steps had been taken to capitalize the cost of Rs 7,508 million of 03 roads during the year under review.	Action will be taken to identify an appropriate accounting policy to calculate the value of the roads and to disclose this policy in the financial statements	The relevant policy should be introduced and implemented.
(c) The annual depreciation for vehicles under the Foreign Aid Category had been stated as Rs. 7.03 million but as per the calculation, it should be Rs. 16.07 million. Therefore, amounting to Rs. 9.04 million had been understated in the annual depreciation	Since this vehicle is used for special purposes, and the estimated useful lifetime is 10 years. Therefore, a 10 per cent depreciation had been made. Depreciation policy in this regard will be disclosed in the financial statements in the future.	Relevant accounting policies should be disclosed in the financial statements.

### 1.5.3.1 Accounting Deficiencies

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Audit Observation	Comments of the Management	Recommendation
(a) According to the financial statements of the Authority, despite the amount of Rs. 283 million of outstanding debt balances were remained over 05 years, only Rs. 168,831 had been made for bad debt provision.	Provision for bad debt had not been made since prior to 2015, out of this a sum of Rs. 281 million is relevant to the provision of Ministry of Economic Development and the report of the committee appointed for that purpose was received in 2018.	Provisions should be made accurately considering the period of not provided
(b) According to the financial statements of the Road Development Authority as at 31 December 2018, the cost of the road section from Kaduwela to Kadawatha was amounting to Rs. 47,819 and as per financial statement of the Project its cost was Rs. 47,824.9 and there was a difference of Rs. 5.9 million.	Adjustments relevant to the difference were made in the year 2019 by the journal entries.	Internal control in this regard should be regulated and necessary comparisons should be made
(c) According to the financial statement of the Road Development Authority as at 31 December 2018, cost of the Southern Expressway was amounting to Rs. 113,709.7 million and according to the financial statement of the project, it was Rs. 116,347.2 million as at that date and there was a difference of Rs.2,637.5 million.	Adjustments relevant to the difference were made in the year 2019 by the journal entries.	Internal control in this regard should be regulated and necessary comparisons should be done
(d) Value of the head office building which had been handed over to the Road Development Authority by the National Highway Sector Project and a sum of Rs. 208.78 million of furniture and assets purchased were remained further under the cost of building.	Out of this a sum of Rs. 175.8 million had been accounted in the year 2019 and informed that the balance will be adjusted in the coming year.	Should be accounted properly.

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| (e) The value of 37 shops in Borella and Central Province owned by the Authority had not been assessed and taken into financial statements.                                                                                                                                                                                                                              | Informed that action will be taken to account in the future.                                                                                                                                                                           | The value should be assessed and accounted and action should be taken to charge a reasonable rent accordingly.                          |
| (f) Although, a sum of Rs. 9.1 million value of 112 laboratory equipment purchased under the Road Development Project had been donated to the Dean of the Faculty of Engineering of University of Peradeniya after the completion of the Project, fixed asset balance as at 31 December 2018 had been overstated by that amount due to not written - off from the books. | Informed that it will be removed from the books during the current year.                                                                                                                                                               | Taking steps to strengthen the internal control process in this regard.                                                                 |
| (g) Although, amounting to Rs. 123 million worth extent of 02 acres 03 rood 38 perches of land from the Attidiya land which was purchased with the intention of resettling the displaced persons had been given to the "Nipunatha Piyasa", and relevant adjustment had not been made in the financial statements for that.                                               | When the land was acquired for the construction of the new Kelani bridge, about one acre of land belonging to the state owned institution of "Nipunatha Piyasa" had been acquired and this land had been given on behalf of that land. | Take action to make the relevant adjustments in the financial statements.                                                               |
| (h) A sum of Rs. 795 million of assets of the Outer Circular Highway Project completed in the year 2018 had been transferred to the Road Development Authority as at 31 December 2018. Although an amounting to Rs. 8.2 million of land was included in such transferred assets, the value of these lands had not been taken into Authority's accounts.                  | Informed that action will be taken to assess the value and taken into authority's accounts.                                                                                                                                            | Action should be taken to regulate the internal control of transferring assets from the projects to the authority and proper accounting |



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| (i) Although, 10 plots of lands which were transferred with title deeds to the Road Development Authority by the Southern Transport Development Project (STDP) and its extension of Outer Circular Highway Project (OCH) and 2 lots of lands received from the free grants vested with the Road Development Authority action had not been taken to records those in the Authority's books | Informed that these two lands were accounted in July in the current year by Journal Notes No. 237 / J07                                                                                                                                                 | Action should be taken to streamline the accounting of assets and regulate the internal control over it.                    |
| (j) It was observed that a sum of Rs. 50 million was paid for the settlement of the consideration of land situated in the Densil Kobbakaduwa Street which was received to the Road Development Authority through the exchange of lands had been recognized as an expenditure at once, and had not been capitalized and amortized based on the lease agreement period                      | Since, this is an operating lease agreement and cannot be considered as an asset as it is non-recoverable cost.                                                                                                                                         | The Authority must depreciate this value over the term of the lease.                                                        |
| (k) During the limited audit carried out regarding the expenditure incurred by the head office of the Road Development Authority within first 03 months in the year 2019 expenditure had been understated and profit had been overstated as amounting to Rs. 26.05 million of expenditure relevant for the year 2018 had not been accounted for that year                                 | It is informed that sufficient allocations will be made in the future by bringing up soon unaccounted accrued expenditure from the respective departments, and advise had been given to the relevant authorities to pay close attention in this regard. | Strengthening the internal process to identify the related expenditure and revenue for the year in the same year.           |
| (l) Although, 11 vehicles costing Rs. 57.65 million added to the Road Development Authority proposes in the year 2018 had not been included in the assets. Relevant depreciation amounting to Rs. 7.72 million had also not been accounted.                                                                                                                                               | Informed that action will be taken to adjust in previous year profit an amounting to Rs. 2.08 million as depreciation pertaining to unaccounted 04 vehicles.                                                                                            | Strengthening internal control process of acquiring the assets from the Projects and accounting should be done accordingly. |

- (m) The Motor vehicle valued at Rs. 9.5 million included in the addition of the year 2017 had not been included in the Asset Register of the year 2018. Informed that this vehicle was removed from the asset register by mistake and action will be taken to rectify it after checking. Corrections should be made
- (n) Twelve vehicles costing Rs. 114.80 million stated as an addition in the year 2018 had been recorded that as received on 16 May 2017, and full depreciation amount from that date to 31 December 2018 had been adjusted for the year 2018. Since depreciation amount was not material, it was adjusted to the 2018 without adjusting for the year 2017. Respective accounting should be made by making decision regarding the materiality by the Management
- (o) Despite the amounting to Rs. 245,769 million spent for the construction of expressway had been disclosed as a loan in the Republic Account and basis for accounting as the government grant in the Authority's accounts had not been presented to the audit. The Authority is not obliged to pay for this and due to the highway is being treated as assets. Should be obtained relevant source documents from the Treasury to treat as a government grant.
- (p) According to the observations made by the Internal Audit of the Authority, a large number of office buildings, circuit bungalows and quarters which were constructed and handed over to the Authority by the several Projects had not been included in the Authority's asset register or financial statements. Relevant information had already been called from the relevant projects and action will be taken to account for that in the future after receiving the information. Accounting should be done following proper accounting procedures
- (q) Action had not been taken by the Road Development Authority to capitalize in the year under review the extent of 0.8218 and 6.4085 hectares of lands which are situated in Colombo Matara highway. The accounting policy of the Road Development Authority is to not to account lands until legal ownership is transferred by a deed to the Road Development Authority. Action will be taken to obtain the relevant information and to account for it in future. Action should be taken to disclose such land in the financial statements.

- (r) According to the schedule provided to the audit, there were 661 vehicles which had no value. When examining the financial statements with the schedules given to the audit, there were 661 vehicles with no cost and action will be taken to re-value these vehicles and account. Assessing the relevant vehicles and taking them into the books on fair value.

### 1.5.5 Un-reconciled Control Accounts & Records

Subject	Value According to financial statements Rs. million	Value According to the corresponding record Rs. million	Difference Rs. million	Comments of the Management	Recommendation
(a) There was a difference of amounting to Rs. 10.4 million in the cold Mix supply balance included in the current account shown in the financial statement of the Road Development Authority with the Maganeguma Consultancy and the Project Management Company	73.1	62.7	10.4	Due to the difficulty of finding details, it was delayed to find the reasons for this difference. Further, reconciliation is being in progress.	Internal control in this regard should be strengthened and reconciliation process should be done continuously.
(b) Certified works aggregating Rs. 23.8 million relating to the 07 project included in the final accounts of the Maga Neguma Consultancy and Project Management Company had not been included in the current account with Maga Neguma Consultancy and Project Management Company which was included in the		23.8	23.8	Amounting to Rs. 22.7 million of bills were not accounted due to the misplacement of bills, delays in approval of variance orders. Further, amounting to Rs. 1.1 million of bills had been returned to the Maga Neguma Consulting	Implement internal control procedures for recording inter-company transactions

financial statements of the Road Development Authority.				Company as they were not relevant for the Authority	
(c) Amounting to Rs. 5.31 million of two projects included in the financial statements for the year 2018 of the Maga Neguma Consultancy and Project Management Company, had not been included in the Authority's financial statements in its current account with Maga Neguma Consultancy and Project Management Company.	-	5.31	5.31	It is expected to make further adjustments .	Taking action to regulate the internal control procedures for recording inter-company transactions.
(d) According to the current account named Maga Neguma Road Construction and Machinery Company, which appears in the financial statements of the Authority, stated a sum of Rs. 2,612 million as payable to the company by Authority, while there was an un reconciled net difference of Rs. 880 million between the current account in the name of the Authority in the financial statement of the Company.	2612	1732	880	Further, comparisons are being made and the reason for delay is finding information .	Internal control in this regard should be strengthened and reconciliation process should be done continuously

### 1.5.6 Un authorized Transactions

Description of authorized Transactions	Comments of the Management	Recommendation
<p>In terms of Section 13 of the National Route Act No. 40 of 2008 and Section 7 of the Extraordinary Gazette No. 1732/12 dated 18 November 2011 the charges collected by the Highways shall be credited to the Authority's Fund and that money shall be utilized for the purpose of developing and maintaining National Highways but Rs. 36,074 million collected from the highway system up to 31 December 2018, amounting to Rs. 24,379 had been used for expenditures outside the requirements of the above Gazette. Further, amounting to Rs. 264 million of expenditure on behalf of the Sri Lanka Police for the period from 2015 to 2018 had been included in the above expenditure.</p>	<p>The above money was used for other purposes as the Treasury not properly funded for other activities. After 2015 it was used for the same purpose, with tight controls and it was used for deficit of funds in the payment of salaries with the permission of the General Treasury. Policy decision will be taken after discussing with relevant parties regarding the Expressway duties of the Police Division.</p>	<p>If the money is to be spent on permitted activities or to be used for the purposes of the authority, take action to obtain the proper authority.</p>

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
<p>(a) According to the Cabinet decision dated 15 August 2017, Rs. 4 billion obtained by the Treasury from the revenues received from the expressways had not been recovered further.</p>	<p>The Secretary to the Ministry of Highways &amp; Road Development and Petroleum Resources Development had been briefed on the matter and request had been made to recover that amounting to Rs. 4 billion.</p>	<p>Follow up to recover the relevant money.</p>

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| (b) | Since the lack of the provision from the Treasury to the Authority on behalf of the special loans / advances made to the Project Management Unit by the Authority, further loan receivable to the Road Development Authority was Rs. 5,667 million.                                                                                                  | The balance of Rs 5,667 million remained at the beginning of the year had been reduced to Rs. 4,467 million as at 31 May 2019.                                                  | Taking action to recover the money or to come to a policy agreement with the line Ministry, the treasury and the authority |
| (c) | Under the 2011 Budget Proposals, the Provincial Road Development Project was implemented by the Ministry of Economic Development in 2012/13. Accordingly, amount to be recovered from Ministry of Economic Development and four other State Institutions for the projects carried out in Matara District in the Southern Province was 1,060 million. | Comments had not been made.                                                                                                                                                     | Action should be taken to recover the relevant money. Further, follow up continuously on such charges in future.           |
| (d) | Out of the distress loans granted by the Authority a balance amounting to Rs. 1.83 million had been remained further un recovered.                                                                                                                                                                                                                   | Amounting to Rs. 229,975 from the un recovered balances is being recovered. Amounting to Rs. 99,600 had been recovered                                                          | Action should be taken to recover according to the Establishment Code.                                                     |
| (e) | Although, mobilization advance had been given for 20 contract works of the Road Development Authority implemented by the various sectors balance receivables due as 31 December 2018 was Rs. 36.23 million.                                                                                                                                          | Actions are being taken to encash the certain securities and bills had not been submitted for certain contracts. Further, the duration of certain securities had been extended. | Action should be taken to recover the money from encashing the bonds or bills.                                             |
| (f) | Number of contracts had been submitted by the Road Development Authority to take legal action were 07 and out of them balance to be recovered from the mobilization advance was amounting to Rs. 17.51 million                                                                                                                                       | Legal actions are being taken regarding those balances                                                                                                                          | Legal action should be expedited and recovery should be made.                                                              |
| (g) | The target date for completion of 79 contracts had been exceeded 31 December 2018 and the amount of mobilization advances to be recovered from those Rs. 394.8 million.out of this period of advances amounting to Rs. 17.04 million had been extended.                                                                                              | Action will be taken to settle the advances given by examining the matters related to contracts                                                                                 | Action should be taken in term of the agreements of the relevant contract and recover the mobilization advance due.        |

Further, an amounting to Rs. 38.17 million had been recovered from another 15 Projects and amounting to Rs. 338.79 million was to be recovered pertaining to the 58 Project.

## 1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
(a) eighty five million for 03 years to 04 years, Rs. 57 million for 04 years to 05 years and Rs. 130 million for over 5-year client deposits were remained pertaining to the employer works carried out by the head office and 4 provincial offices as at 31 December 2018 and as deposit without proper follow up action after completion of the activity the deposit continued for a long time	A follow up action regarding the client deposits had been done in every year and proper inspection was carried out regarding the deposits remained unchanged for a long term by conducting a deep test on such deposits in the year 2018. Further, it is informed that deposits received for completed client work amounted to Rs. 92.61 million write off against the income during the year under review.	Strengthening the internal control process by periodically reviewing client deposits and action are being taken to include those balances to the Authority's income.
(b) A sum of Rs. 366 million obtained for to be refundable and deposits relating to client works of the Authority had remained un settled for more than three years.	Out of the amounts shown in Annexure 03 of the Audit query, sum of Rs. 366 million obtained was relevant to refundable deposits on behalf of client works. Informed that steps will be taken to credit the long term deposit to the income or to repay by calling for information in this regard.	Should act in accordance with the management consent.
(c) Retention money amounting to Rs. 1,877 million stated under current and non-current liabilities of the Authority were exceeded by the 03 to 04 year, 04 to 05 year, over 05 year and their values were Rs. 405, Rs. 224, Rs. 406 million respectively. However, an amounting to Rs. 629 million was retained further without any reason and due to no request were made by the contractor.	No comments had been made.	Review the retention money and take appropriate action on according to the reason of non-settlement.

## 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

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Reference to the Laws, Rules & Regulations etc	Non compliance	Comments of the Management	Recommendation
(a) Section 26 of the National Roads Act, No. 40 of 2008	Although, approval of the Minister should be obtained before signing the agreement with the other party, the approval of the Minister had not been obtained.	Noted to comply in this regard in future	Taking actions in terms of Section 26 of the Act
(b) Administrative Circular of the Director General of Road Development Authority No. 2018 / CL / 35 dated 28 June 2018	Having completed 5 or more years in a popular workplace and having not worked for 3 years or more in a previously unpopular workplace, even the employees not apply for transfers, transfers should be made according to service requirements, but, it had not been so done.	Annual transfer policy is being systematically developed by the management.	Set up a transfer policy quickly and act accordingly.
(c) Section 04 of Chapter XXIV of the Establishment Code of the Democratic Socialist Republic of Sri Lanka	Amounting to Rs. 1.83 million of 31 balances of ten-month non-performing loan had not been recovered as at 31 December of the year under review.	Recoveries are being made from the surety and if it fails, legal action will be taken	Taking action as per Section 04 of the Establishments Code
(d) Code of Financial Regulation of the Democratic Socialist Republic of Sri Lanka	(i) F.R . 395 Bank reconciliation had been presented to audit with a considerable delay.	Although, bank reconciliations were prepared on due date, the bank reconciliations could not be able to submitted due to the not receipt of the bank statement to provincial office.	Action should be taken to submit the relevant bank reconciliations in every month to the government audit on or before the 15 of next month.



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| (ii)Financial Regulation Code 880 and 881                                                               | The money had not been taken as a security deposit from the officials in charge of the government money.                                                                                               | Action will be taken to prepare a mechanism for this in future.                                                     | Action should be taken to implement the relevant methodology promptly.                                |
| (e) Section 9.12 of the Public Enterprise Circular PED / 12 dated 02 June 2003.                         | The Treasury approval had to be obtained for the welfare activities but it had not been taken for the provision of staff transport services.                                                           | Further inquiries will be made and necessary action will be taken in the future.                                    | The Treasury approval should be obtained to maintain the welfare activities as per the above circular |
| (f)Section 04 of Chapter VI of the Establishment code of the Democratic Socialist Republic of Sri Lanka | Although the personal file should be maintained and updated completely for each officer, the Authority had not maintained the personal files as required in accordance with those rules.               | These files are already being processed and will take some time as there were cost of employees in the institution. | Action should be taken to regularize the maintenance of personal files.                               |
| (g) Public Administration Circular No. 09/2009 dated 16 April 2009 and Budget Proposal No. 373 of 2017  | According to the circular, fingerprint machines had not been used to record the arrival and departure of employees of the other provincial offices including the Western Provincial Director's office. | Action will be taken to purchase the fingerprint machine in the future.                                             | Steps should be taken to fixed the fingerprint machines as per the relevant circular.                 |

## 2. Financial Review

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### 2.1 Financial Result

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There was a deficit amounting to Rs 2,213 million in the Profit After Tax and deficit in corresponding previous year was amounting to Rs. 779 million. Accordingly, decline of amounting to Rs. 1,434 million was observed in the financial result. This decline was mainly due to increase in personal allowance and income tax expenditure compared to the previous year.

## 2.2 Ratio Analysis

	2018	2019
Current Ratio	2: 1.54	2: 1.14
Quick Assets Ratio	1: 1.52	1: 1.13

Positive growth was reflected in the current ratio during the year compared to the previous year while quick asset ratio had also been reached to the desired level and it had also been shown a growth compared to the previous year.,

However, these rates had been increased as a result of the re-classification of the loan amounting to Rs. 12,000 million obtained from the People's Bank for Colombo- Kandy Expressway Project as non-current liabilities

## 3. Operational Review

### 3.1 Uneconomic Transactions

Audit Observation	Comments of the Management	Recommendation
A sum of Rs. 24.19 million had been spent on behalf of the Ministry out of the total expenditure incurred for maintenance and utility of the Maga Neguma Maha Medura building.	Comments had not been given in this regard.	Payments which give direct benefits to the Authority should be recognized as expenditure and action should be taken to reimburse such other payments.

### 3.2 Identified Losses

Audit Observations	Comments of the Management	Recommendation
(a) One thousand three hundred pair of shoes for Rs. 3.77 million during the year under review for the employees of Highway Operations, Maintenance and Management Division in the year 2017. Even though 734 pairs of shoes supplied by the supplier were contravened to the supply specification and those were not rejected by the Technical Evaluation Committee, and a loss was occurred to the Road Development Authority.	Officers had been advised not have such weakness in procurement in future and that action will be taken to rectify the low quality standard of shoes by sending them back to the supplier.	Supplies that contravene to specifications should be rejected and action should be taken to not to pay money if it does not meet specifications.

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|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|-----------------------------------------------------------------------|
| (b) A loan of Rs. 116,166 had been made occurred a result of getting holiday pay and paying for fuel other than the normal working days to the lady officer who is working in the Highways Operations, Maintenance and Management Division of the Authority for misusing the vehicle of the Authority without proper approval                         | Management had not commented.              | Taking appropriate disciplinary action against the officer concerned. |
| (c) Since out of 252,055 square feet of Building which was constructed for the Road Development Authority 72,400 square feet are being utilized by the Line Ministry and some section of the Road Development Authority had been functioned in 16,250 square feet in the Sethsiripaya Building and the Authority had to pay Rs. 33.5 million as rent. | Comments had not been made in this regard. | This money should be reimbursed by the Line Ministry.                 |

### 3.3 Inefficiencies

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) when entering into an agreement by the Authority following were observed such as not specify contract dates renting out the authority's main cafeteria and other agreement which are entered between Authority by the external parties, disregard the legal personality, not obtaining the assistance from the legal section of the Authority in preparing agreements, not mentioning actions when monthly rent is not paid, entering into an agreement on behalf of the Authority the parties who does not have the contractual obligations.	The shortcomings shown will be corrected in the future.	Entering in to an agreement in order to get maximum benefit to the Authority and obtaining the required professional assistance

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|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
| (b) | Although, every cashier employed in the Road Development Authority's Highway Maintenance Management unit should kept the security deposit in accordance with F.R 880 of the Financial Regulations code of the Democratic Socialist Republic of Sri Lanka, such deposit had not been kept | Management had not commented.                                                                                                                                                                                                          | Action should be taken in accordance with F.R 880.                                                         |
| (c) | Although, amounting to Rs. 197.3 million investments made by the Self Life Insurance Fund comprising the deductions from the monthly salary of the Authority's employees had been shown as the investment of the Authority, proper action had not been taken for that                    | The Authority's Self Life Insurance Fund is not considered as a legal person and that had been invested in the name of the Road Development Authority. However, it is informed that a proper procedure will be adopted in this regard. | Required structure needed to be prepared by treated as a separate unit                                     |
| (d) | Payment of monthly rent the shops No 01 and 02 in Borella Tunnel had been evaded by the tenant and the Authority was not able to recover the money and possession of clear ownership of those shops                                                                                      | Arrangements had been made to settle arrears and to issue notices to remove the relevant persons from the shops.                                                                                                                       | Relevant legal action should be expedited and ensure that such a conditions does not reoccur in the future |

### 3.4 Operational Inefficiencies

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#### Audit Observations

#### Comments of the Management

#### Recommendation

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|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (a) | Regarding the renting out the road Reservation and lands owned by the Authority, the Authority had not entered into a formal agreement relating to lease of land and property with the approval of the Secretary of Line Ministry, Board of Directors by the 31 December year under review. Further, action had not been taken in accordance with the provisions of Section 6 of the National Roadway Act No. 40 of 2008. Also, the valuation of the government valuer had not been obtained in determining the rent amount. | Agree with the facts. Corrective action will be taken in the future. | Action should be taken to enter into a formal agreement and to act in accordance with the provisions of the National Road Act No. 40 of 2008, relating to the road reservations owned by the Authority. |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

- (b) According to the Financial Statement of the Authority as at 31 December there was a customer deposits amounting to Rs 2,771 million customer deposits. A formal process had not been prepared from the time of request until such works is over by any public or private party.
- Although it is not possible for the Authority to take action on the matters referred to in the audit query No 1.1.1, 1.1.2 and 1.1.4 during the year under review, steps will be taken to prepare and implement a proper program.
- This process should be planned and implemented with a proper internal control program.

### 3.5 Procurement Management

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Audit Observation	Comments of the Management	Recommendation
(a) According to Section 3.8 of the Government Procurement Guidelines 2006, the Emergency Procurement Scheme can be used even in cases of man-made or natural disasters, or in cases where procurement is urgently required and procurement decided by the Government of Sri Lanka. But, the Authority had purchased Rs. 187.96 million worth of road marker materials for road marking in five provinces as a matter of urgent procurement.	The need for white thermoplastic paints were emerged under the national policy of pavement whitening. Accordingly, bids were invited for all provinces of the country under the National Competitive Bidding through the paper advertisement of 06 July 2018. It takes more time for procurement when it is awarded as a single contract to purchase the material needs for the five provinces, under the procurement committee of the Ministry.	Emergency procurement should be determined in accordance with Section 3.8 of the Guidelines and should be dealt with under General Procurement whenever possible.
(b) Although a procurement division has been established to carry out procurement activities, the procurement activities such as construction maintenance management, mechanical and highway operations management done separately by the maintenance unit of the Authority. As a result, there was no uniformity in the procurement activities of the Authority and the maximum economic benefits had not been received from the procurement.	All procurement activities of the Maintenance Management Division were handled by this division up to now. On the advice of the Chairman and the Director of Internal Audit, inform in future that the Procurement Division will be responsible for the supply of goods.	Procurement needs to be centered as much as possible in order to take maximum advantage of procurement

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|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| (c) In accordance with Section 5.313 (i) of the Government Procurement Guidelines, it is stated that the guarantee for a bid shall be made in the form of a certificate as a lump sum payment up to 1 per cent of the estimated contract value.                                                                                                                                                                   | No comment   | Guarantee securities must be obtained in accordance with Guidelines 5.3.13                                                                 |
| (d) The Procurement Committee and the Technical Evaluation Committee are responsible for the entire procurement process in accordance with 2.4 of the Government Procurement Guidelines. However, it was observed that the role of reviewing the specifications, procurement documents and approval had not been done by the Technical Evaluation Committee appointed after the paper advertisement was published | No comment.  | Support of the Technical Evaluation Committees should be obtained in procurement activities as set out in paragraph 2.4 of the Guidelines. |
| (e) In the event of a time extension is made in the time required to be completed the contract, the procurement entity shall be required to ask the contractor to extend performance security in accordance with clause 5.4.8 of the Procurement Manual. However, there were instances such securities had not been extended in that manner.                                                                      | Not comment. | Action should be taken to extend the period of performance guarantees in accordance with the relevant guidelines 5.4.8.                    |
| (f) Although, Procurement plan should be prepared by detailing each step from start to finish in accordance with Section 4.2.2 of the Government Procurement Guidelines, such procurement plan had not been prepared.                                                                                                                                                                                             | No comments  | Preparation of procurement plans as per Procurement Guidelines 4.2.2.                                                                      |

(g) Although authority limits had been stated in the section 2.14.1 of the Procurement guideline the maximum limit of procurement for a Regional Committee is Rs. 10 million for government capital contribution, 10 procurements beyond this limit had been made by the Highway Operations Maintenance and Management Division	No comments.	Should be complied with the Procurement Guidelines.
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### 3.6 Deficiencies in Contract Administration

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Amounting to Rs. 5,224,779 retained in respect of contracts due to not correcting the shortcomings and they were retained for over six years, but action had not been taken to rectify.	No comments	Action should be taken to black list the contractors who do not rectify the requirements in existing contracts promptly and their bids should not be considered in future procurement.

### 3.7 Human Resource Management

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) The Authority had not prepared and approved a new scheme for recruitment	Prompt action will be taken to get approval.	Action should be taken immediately to approve the recruitment procedure applicable to all posts of the Authority.
(b) The vacancies were existed of position of Directors from 20 July 2017 in the Administrative Division that is the main body of the Authority.	Action is being taken to recruit.	Vacancies in the Administrative Division of the Authority to be filled promptly with a permanent officer.

- (b) Out of the 597 engineers in the approved carder of the Authority 174 had been released for various projects. Due to this, there were considerable vacancies in the offices of Executive Engineers and Chief Engineers officers in relation to road maintenance.
- They had been released for a project requirement.
- Release should be made only if it can be managed and that does not impede the expansion and maintenance of the Authority

#### 4. **Accountability & Good governance**

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##### 4.1 **Annual Action Plan**

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###### **Audit Observation**

Although an action plan should be prepared covering all aspects of the authority according to the PED / 12/2003 Public Enterprises Circular dated 30 May 2003, administrative, financial, planning, research development, land and mechanical units had not been included in the action plan prepared by the Authority.

###### **Comments of the Management**

Action will be taken to prepare comprehensive plan in the future

###### **Recommendation**

An action plan should be prepared covering all aspects

##### 4.2 **Effectiveness of the Management Information System**

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###### **Audit Observation**

Integrated information system such as accounting, budgeting, maintenance, public complaints, personnel management, etc., had not been prepared for the requirement of the Authority.

###### **Comments of the Management**

Intending to introduce an information system in the future.

###### **Recommendation**

The Authority should have an integrated information system that facilitates communication between the divisions of the organization and regional offices that link them.



### 4.3 Sustainable Development Goals

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Audit Observation	Comments of the Management	Recommendation
(a) In this regard, the parties that should cooperate with the Road Development Authority such as National Building Research Organization, the Urban Development Authority, the Ministry of Sustainable Development, Wildlife and Regional Development and the Ministry of Town Planning and Water Supply had not been in an adequate level	Further, it was noted to inform in this regard with the direct involvement of the line ministry.	Action should be taken to establish close working relationships with relevant agencies.
(b) Although it is necessary to have an accurate data base to measure the performance of a task, the Authority had not worked out an accurate database to measure the achievement of the Sustainable Development Goals.	Further, it was noted inform in this regard with the direct involvement of the line ministry informed	Performance indicators should be identified for all functional aspects of the Authority and a data base should be created for measuring and evaluating them
(c) The activities identified by the Authority for achieving the Sustainable Goals are not included in the Annual Plan and the financial provisions required to accomplish those tasks had not been included in the Annual Budget.	Action will be taken to include the activities already identified in the Annual Plan and made provisions in Annual Budget.	The activities identified to achieve the Sustainable Development Goals should be included in the Annual Plan and the provision should be included in the Annual Budget