

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the Maga Neguma Road Construction Machinery (Private) Company Ltd for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy 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 provisions of the National Audit Act No. 19 of 2018.

In my opinion, because of the significance of the matters described in Basis for Adverse Opinion of this report, the financial statements do not give a true and fair view of the financial position of the Company as at 31 December 2022 and its financial performance, and cash flows for the year then ended in accordance with Sri Lanka Financial Reporting Standard for Small and Medium-sized Enterprises (SLFRS for SMEs).

1.2 Basis for Adverse Opinion

I expressed adverse opinion on the matters described 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 this report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Financial Reporting Standard for Small and Medium-sized Enterprises (SLFRS for SMEs), 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 Company's 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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company 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 of the Company.

1.4 Audit Scope (Auditor's responsibility regarding the audit of Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- 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 also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in comply with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements.

1.5.1 Non-compliance with Sri Lanka Financial Reporting Standards (SLFRS) by Small and Medium Enterprises (SMEs).

Non Compliance with the reference to particular Standard	Comments of the Management	Recommendation
(a) The Company had changed its “Revenue Recognition Policy at the time of presentation of Inter-Payment Certificates to the Customer” in 2021 to “Revenue Recognition on the basis of Inter-Payment Certificates certified by the Customer”, but the change in accounting policy had not been accounted for retrospectively in accordance with Section 10.11.(c) of the Sri Lanka Financial Reporting Standards for Small and Medium-Sized Entities (SLFRS for SMEs)..	The revenue recognition policy was changed in 2021, but the Institution does not currently have the necessary staff to perform all retrospective accounting.	Changes in accounting policies in accordance with the referenced standard should be adjusted retrospectively in the financial statements.
(b) According to Section 20.9 of the Sri Lanka Financial Reporting Standards for Small and Medium-Sized Entities (SLFRS for SMEs) - Leases "At the beginning of the lease period, a lessee shall recognize a right-of-use asset and a lease liability as a lease asset and a lease liability in the statement of financial position at the lower of the fair value of the asset and the present value of the lease payments". However, the company had understated the cost of the leased asset by Rs.45,436,879 as it had only recorded leased assets of	Lease values for motor vehicles were incorrectly included in the cost of assets and actions will be taken in relation to this when preparing the revised financial statements for 2022.	Lease assets and liabilities should be accounted for correctly in accordance with the referenced standard.

Rs.55,989,730 out of the leased assets of Rs.101,426,609.

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| <p>(c) Although information related to the time frame for decision-making should be disclosed in the financial statements as per Section 2.12 of the Sri Lanka Financial Reporting Standards for Small and Medium-Sized Entities (SLFRS for SMEs), the value of the Treasury Bonds amounting to Rs.11,600,000,000 issued in 2023 to settle the payable balance of Rs.11,600,000,000 for the 100,000 km road project as at December 2022, was disclosed under current assets and current liabilities in the financial statements of the company for the year ended 31 December 2022, therefore the assets and liabilities were overstated by that amount.</p> | <p>The value of Treasury bonds was incorrectly recorded in the accounts for the year 2022, actions will be taken to correct this when preparing the revised accounts for 2022.</p> | <p>Only transactions related to the accounting year should be adjusted in the financial statement.</p> |
| <p>(d) Contrary to Section 2.52 of the Sri Lanka Financial Reporting Standards for Small and Medium Enterprises (SLFRS for SMEs), at the end of the year under review, the Company had offset the amount of Rs.19,108,468,445 receivable from the Road Development Authority as construction projects, retention, machinery and equipment rental, wages and security expenses against the amount of Rs.4,623,482,510 payable to the Road Development Authority as advances and consumables and</p> | <p>In terms of financial policy, It is most appropriate to present balances receivable and payable from customers as cumulative values.</p> | <p>In accordance with the referred standard, assets and liabilities with external parties should not be offset in the financial statements.</p> |

rental expenses, and had stated the balance receivable from the Road Development Authority as Rs.14,484,985,935 in the financial statements. Similarly, the Company had offset and accounted for the credit balances of Rs.3,321,652,345 against the trade and receivable balance of Rs.21,876,240,780.

1.5.2 Accounting Deficiencies

	Audit Observation	Management Comment	Recommendation
(a)	According to financial statements of the company, during the examination of a sample of subcontract files related to project income of Rs.17,879,490,399 for the year 2022, the value of Inter Payment Certificates (IPC) of Rs.12,284,100 received in 2022 for the improvement of the road up to the main junction of the near Pitawana Wavusiripura and Rs.36,000,000 for the improvement of the first section of the Ayurveda road, Rs.48,284,100, was not recognized as income, resulting in the income stated in the financial statements for the year under review was understated by that value. Also, the income stated in the financial statements for the year under review was overstated by Rs.92,049,710 due to the fact that income relating to 3 Inter-Payment Certificates worth Rs.89,784,983 relating to the previous year was recognized as income for the year under review and over recognizing interest income of Rs.2,264,727 in respect of a seven-day call deposit in the year 2022.	Actions will be taken to correct while preparing the revised reports for 2022.	The accuracy of the figures included in the financial statements should be verified by the relevant responsible officers before certifying the set of financial statements and immediate action should be taken to correct the value of income.

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| (b) | The project subcontract cost of Rs.15,529,142,117 as stated in the financial statements of the company for the year under review was understated by Rs.227,547,151 due to the exclusion of Rs.144,969,671 relating to three Inter-Payment Certificates (IPCs) and Rs.82,577,480 relating to 4 work orders. | Actions will be taken to correct while preparing the revised reports for 2022. | The accuracy of the figures included in the financial statements should be verified by the relevant responsible officers before certifying the set of financial statements and actions should be taken to correct the subcontract costs without delay. |
| (c) | The operating expenses of Rs.32,214,059 for 2 work orders were overstated in the cost schedules due to this the operating expenses for the year were overstated by that amount. | No comments were given by the management. | The accuracy of the figures included in the financial statements should be verified by the responsible officers before certifying the set of financial statements and immediate action should be taken to correct the value of operating expenses. |
| (d) | Due to the fact that the current and non-current lease liabilities shown in the financial statements were not correctly identified, the current lease liability was overstated by Rs.4,910,174 and the non-current lease liability was understated by Rs.4,910,174. | Actions will be taken to address the misidentification of current and non-current lease liabilities while preparing the 2022 revised financial statements. | Current and non-current liabilities should be classified correctly. |
| (e) | Although advances of Rs.49,584,230 paid to 5 suppliers for premix hire 5 years ago, which were recorded as "Other Receivables", had not been collected, the necessary provisions had not been made in the accounts in this regard. | No comments were given by the management. | Formal action should be taken against the responsible officials who have not taken actions to settle these advances and immediate action |

should be taken to recover the advances due

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| <p>(f) As per the financial statements of the company for the year 2022, the balance receivable from the Road Development Authority was Rs.19,108,468,445, there was a difference of Rs.11,452,180,044 between the balances due to the fact that the balance payable to the company was Rs.7,656,288,401 as per the financial statements of the Road Development Authority. Also, according to the financial statements of the company, the balance payable to the Road Development Authority was Rs.4,623,482,510, a difference of Rs.2,281,617,272 was observed between the balances due to the fact that the balance receivable from the company was stated as Rs.2,341,865,238 as per the financial statements of Road Development Authority. However, the company had not taken actions to correctly identify the relevant balances and reconcile them in the accounts.</p> | <p>Reconciliation the differences in balances due between the Road Development Authority and the company are being carried out and action will be taken to correct them in future reports.</p> | <p>Before certifying the financial statements, reconciliations should be carried out and confirmations should be obtained, and these discrepancies should be identified and adjustments made accordingly.</p> |
| <p>(g) The receivable balances from Maga Neguma Consultancy and Project Management Services Company were not accounted for in the financial statements of the Company for the year 2022, the payable balance to Maga Neguma Road Construction Machinery (Private) Company as per the accounts of that company was Rs.882,118. Similarly, the payable balance to Maga Neguma Consultancy and Project Management Services Company was not accounted for in the accounts of Company , the balance receivable from Maga Neguma Road Construction Machinery (Private)</p> | <p>The differences in receivable balances between Maga Neguma Consulting and Project Management Services Company are being reconciled and it will be corrected in future reports.</p> | <p>Before certifying the financial statements, reconciliations should be carried out and confirmations should be obtained, and these discrepancies should be identified and adjustments made accordingly.</p> |

Company as per the accounts of that company was Rs.68,311,538. The Company had not taken actions to correctly identify the difference between these balances and make the necessary adjustments in the accounts.

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| (h) | As per the financial statements the retirement benefits provisions for the year under review were Rs.21,720,486 But ledger, the same value was stated as Rs.29,965,228 under Note No. 19. | Corrections will be made in future reports after comparing with the retirement benefits provision ledger. | The figures included in the financial statements should be compared with its notes to ensure accuracy. |
| (i) | According to the ledger for the year 2022 the value of retirement benefits paid during the year was Rs.6,844,490, but the same value was stated as Rs.15,323,486 under Note No. 19. | After reconciliation with the retirement benefits payment ledger, Corrections will be made in future reports, after reconciliation with the retirement benefits payment ledger. | The figures included in the financial statements should be compared with the notes and ledger to ensure that they are correct. |

1.5.4 Going Concern of the Company

Audit Observation	Management Comment	Recommendation
Although the Cabinet decision No. 23/0394/608/033 dated 28 March 2023 had been taken to merge this company, Maga Neguma Road Construction Machinery (Private) Company, Maga Neguma Emulsion Manufacturing Company and Maga Neguma Consulting and Project Management Company to form a single company, but the liquidation of the company had not been completed by the date of the audit.	The company has ceased operations by laying off employees under the liquidation and voluntary/compulsory retirement system.	The Board of Directors should ensure that activities are carried out in accordance with the decision of the Cabinet of Ministers.

1.5.5 Documentary Evidences not made available for Audit

	Item	Amount Rs.	Evidence not available	Management Comment	Recommendation
(a)	Property, plant and equipment	181.3	Fixed assets register	The fixed asset register has been submitted, but errors and deficiencies were revealed during the audit. It will be revised with the audit report for the year 2022.	Sections 07 and 38(1)(b) of the National Audit Act, No. 19 of 2018 should be complied with and actions should be taken to submit the necessary confirmations for the audit within the prescribed time limits.
(b)	Stock	173.4	Stock verification reports	It was not possible to submit as the stock verification was not completed in the year 2022. The stock verification has been done correctly from the year 2024.	- Do -
(c)	Contract work in progress (current assets)	415.8	Detailed documents	Due to the liquidation of the institution, the requested analysis could not be provided due to the limited number of employees retained in the finance division. Actions will be taken in the coming years to overcome this situation.	- Do -

(d)	Advances paid for constructions of new buildings and plants	1.49	Source documents and Detailed documents	- Do -	- Do -
(e)	Trade debtors	4,084.6	Source documents and balance confirmations	The annual aged analyses requested by the audit are not available from our accounting system and it takes a lot of time to do so. Due to the liquidation of the institution, the limited number of employees retained in the finance department, the requested analyses could not be provided. Relevant steps will be taken in the coming years to overcome this situation.	- Do -
(f)	Retentions receivables	4,714	Balance confirmations	- Do -	- Do -
(g)	Premix and rent receivable	75.4	Balance confirmations	- Do -	- Do -
(h)	Retainers Receivable - Non-Road Development Authority	76	Balance confirmations	- Do -	- Do -
(i)	Advances paid to contractors	2,525.40	Source documents	- Do -	- Do -

(j)	Advances paid to suppliers	42.9	Source documents	- Do -	- Do -
(k)	Subcontracts and other trade payables	14,748.4	Source documents and balance confirmations	- Do -	- Do -
(l)	Withholdings payable	4,196.20	Balance confirmations	- Do -	- Do -
(m)	Advances received - Non-Road Development Authority	48.1	Receipts and balance confirmations	- Do -	- Do -
(n)	Construction Industry Guarantee Fund Tax Payable	22.7	Source documents	- Do -	- Do -
(o)	Economic service fees payable	11.4	Source documents	- Do -	- Do -
(p)	Value Added Tax payable	587.4	Source documents	Due to the liquidation of the institution, the requested analysis could not be provided due to the limited number of employees retained in the finance division. Actions will be taken in the coming years to overcome this situation.	- Do -

(q)	Other payables	6.7	Detailed information and balance confirmations	- Do -	- Do -
(r)	Salaries payable	(5.5)	Source documents and detailed information	Due to the liquidation of the institution, the financial division has limited staff and therefore the requested analyses could not be provided. Actions will be taken in the coming years to overcome this situation.	Prompt action should be taken to resolve employee-related issues and to submit the necessary confirmations for audit within the prescribed time limits in accordance with Sections 07 and 38(1)(b) of the National Audit Act, No. 19 of 2018.
(s)	Surcharges payable	47.7	Source documents	- Do -	Sections 07 and 38(1)(b) of the National Audit Act, No. 19 of 2018 should be complied with and actions should be taken to submit the necessary confirmations for the audit within the prescribed time frame.
(t)	Unpaid wages	4.8	detailed information	- Do -	- Do -
(u)	Balance payable to Maga Neguma Welfare Association	8.8	Source documents and detailed information	- Do -	- Do -

(v)	Nation-building taxes payable	(3.1)	Source documents	- Do -	- Do -
(w)	Provisions for bad debts	152.4	Source of information	- Do -	- Do -
(x)	Direct contract work in progress (cost of sales)	437.7	Detailed documents	- Do -	- Do -
(y)	Employee loans older than 5 years	2.6	Source documents and detailed information	- Do -	- Do -
(z)	Uncertain account balances of receivable and payable	98.87	Source documents, detailed documents and aged analysis	- Do -	- Do -
(l)	Fixed Deposit Balance	1,439.54	Certificates of Deposit and Balance Confirmations	No comments were given by the management.	Sections 07 and 38(1)(b) of the National Audit Act, No. 19 of 2018 should be complied with and actions should be taken to submit the necessary confirmations for the audit within the prescribed time limits.
(v)	Uncertified subcontract bills	996	Relevant bills and source documents.	No comments were given by the management.	- Do -

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Management Comment	Recommendation
The balance of trade receivables and receivables from related parties as per the financial statements was Rs.18,438,288,373, but as per the relevant schedules, the balance was Rs.18,554,588,435, hence a difference of Rs.116,300,062 was observed between the financial statements and the schedules.	Actions will be taken to correct it in future reports, after reconciling the relevant trade receivable balance with the financial statements.	Before certifying the financial statements, their balances should be compared with the relevant schedules and correct adjustments should be made promptly through balance confirmations.

1.6.2 Payables

Audit Observation	Management Comment	Recommendation
The trade payables balance as per the financial statements of the company was Rs.14,748,401,504, as per the submitted schedule, the balance was Rs.14,434,045,855, thus a difference of Rs.314,355,649 was observed between the financial statements and the schedule.	Actions will be taken to correct it in future reports, after reconciling the relevant trade payable balance with the financial statements .	Before certifying the financial statements, its balances should be compared with the relevant schedules and correct adjustments should be made promptly through balance confirmations.

1.7 Non-disclosure of related parties or related party transactions

Audit Observation	Management Comment	Recommendation
The following transactions between related parties were not disclosed in the notes to the financial statements in accordance with Section 33 of the Sri Lanka Financial	This will be corrected in the future.	In accordance with the referenced standard, adequate disclosure of related party transactions, such as the value, nature, and timing of the

Reporting Standards for Small and Medium-Sized Entities.

- (i) Pricing policies between the company and the Road Development Authority.
- (ii) Important transactions between the company and Maga Neguma Consulting Company.
- (iii) Lease agreements entered into with the Road Development Authority.
- (iv) Salaries and allowances paid to parties related to management
Transactions between parties related to management and the company

transaction, should be made in the financial statements, and formal action should be taken promptly against parties who have prepared and approved financial statements that do not comply with the standard.

1.8 Non-compliance with Laws, Rules, Regulations and Management Decisions etc

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Section 78 of the Companies Act No. 7 of 2007	Every company is required to complete and prepare to hand over the share certificates within 2 months from the date of allotment of its shares and within 2 months from the date	No comments given by the management	Actions should be taken to ensure that the full ownership of the company is vested in the government through the Road Development

of transfer of any such shares, but the relevant share certificates had not been issued even though the Road Development Authority owns the entire ownership of this company.

Authority.

(b) State Enterprise Circular No. PED 01/2021 dated 16 November 2021 Section 3.1 of the Operations Manual	The company employed 912 employees in 2022, of which 24 were senior management officers, and the recruitment process and remuneration had not been approved by the Department of Public Enterprises of the Treasury. Accordingly, salaries and wages were paid without the approval of the Treasury.	Since it is not incorporated under the Companies Act, salaries can be paid without the approval of the Treasury.	Relevant approvals should be obtained for the staff recruitment procedure and salary payment, and disciplinary action should be taken against responsible parties who have not complied with the circulars.
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2. Financial Review

2.1 Financial Result

The operating result for the year under review was a profit of Rs.759,645,314, while the corresponding profit for the previous year was Rs.634,734,765. Accordingly, a profit of Rs.124,910,549 was observed in the financial result. This profit was mainly due to a decrease in cost of sales by Rs.3,769,063,039 and an increase in other operating income by Rs.190,487,261.

2.2 Trend analysis of major income and expenditure items

- It was observed that the revenue for the year under review decreased by 17 percent compared to the previous year, and correspondingly, the cost of sales decreased by 17 percent. The gross profit also increased by 0.33 percent.

- It was observed that the other income in the year under review showed an increase of 90 percent compared to other income in the previous year.
- It was observed that the finance cost for the year under review increased by 287 percent compared to the previous year. This was mainly due to the increase in interest on revolving credit facilities.

2.3 Ratio Analysis

- It was observed that the current asset ratio of the company in the year under review decreased from 1.22 to 1.09 when compared to the current asset ratio of the previous year, It was observed the quick asset ratio decreased from 1.11 to 0.61 when compared to the previous year.
- The gross profit ratio in the year under review and the previous year was 5 percent and 4 percent respectively, while the net profit ratio was 2.86 percent in the previous year and 3.6 percent in the year under review.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	Approval had been given in accordance with the Cabinet Decision No. CP/04/0053/104/004 dated 21 January 2004 to completely close down the Road Design and Development Private Company (RC & DC), which operated as a company owned by the Road Development Authority, and to examine the possibility of establishing a private public company by the Ministry of Highways and the Treasury, but the company had been incorporated in a manner inconsistent with that.	Agreed with the audit observation.	Actions should be taken to make maximum use of state resources in accordance with the decisions of the Cabinet of Ministers.
(b)	Approval had been given to establish the company by entering into a partnership with the Construction	Agreed with the audit observation.	- Do -

Industry Association and the National Contractors Association pursuant to Cabinet Decision No. 04/0848/004/013-I dated 27 August 2004, but prior to the said Cabinet approval, the company had been incorporated on 11 June 2004 pursuant to the Board of Directors' Decision No. 795/2004 of the Road Development Authority.

- (c) The Cabinet Decision No. 13/0134/505/004 dated 18 February 2013 had been obtained to amend the Articles of Association of the Company so that the majority ownership of the Company would be transferred to the Treasury and the remaining share would be given to the Road Development Authority, but the Articles of Association of the Company had not been amended in accordance with that Cabinet decision. Since the Road Development Authority has sole ownership of the company, the Articles of Association should be amended by the Road Development Authority. - Do -
- (d) The bank had debited Rs. 21,846,432.10 from the current account maintained at the Katubedda branch of People's Bank on 04 November 2024 for the cheque No. 089989 of Rs. 464,348.79 issued by Maga Neguma Road Construction Machinery Company Limited on 28 October 2024 for a payment in relation to a road construction project. According to the preliminary investigation report conducted by the Internal Auditor of the Road Development Authority in this regard, it was stated that a financial irregularity had been committed by fraudulently changing the value of the cheque (subject to the Government's A complaint has been filed by the Finance Officer of the institution with the Special Investigation Division of the Tangalle Police regarding the cheque mentioned in the audit observation on 11.12.2024. Statements have been obtained from all the defendants for this purpose and the documents required to obtain the expert reports have been obtained from our institution. In parallel with the investigation by the Tangalle Police, an investigation has also Disciplinary action should be taken against the officials responsible for the financial fraud promptly and legal action should be taken. Accordingly, the loss should be recovered from the relevant parties. Internal control should be strengthened to prevent such frauds from occurring in the future.

forensic report) and that it could not be ruled out that several officers of the company were involved in committing this financial irregularity, but disciplinary action had not been initiated against the officers responsible for the said financial fraud so far. Also, no steps had been taken to recover this loss incurred to the company.

been initiated by the Colombo Criminal Investigation Department. In addition, the General Manager and the Chairman who signed the cheque have been removed from service.

3.2 Idle or underutilized property, plant and equipment

Audit Observation	Management Comment	Recommendation
Although the property of a company proposed to be liquidated in terms of Section 328(1) of the Companies Act No. 07 of 2007 may be distributed, transferred or sold by the liquidator among the shareholders in accordance with a special resolution of the company, the motor vehicles, equipment and machinery assessed at Rs. 591,219,000 on 03 October 2024 were parked underutilised in the company premises and work sites as at the date of the audit as the company had ceased operations since March 2023.	After the company was ordered to be liquidated, it was not possible to transfer the assets to the Road Development Authority due to a case filed by the service providers in the Colombo Commercial High Court. Currently, the process of transferring the assets to the Road Development Authority has commenced.	In collaboration with the Road Development Authority, assets that can be used for development activities should be analysed and actions should be taken without delay to make maximum use of these assets.

3.3 Procurement Management

Audit Observation	Management Comment	Recommendation
(a) The Company was required to obtain a performance bond of 5 percent of the estimated contract value as per Section 5.4.8 of the Procurement Guidelines, but performance bonds had not been obtained for 1608 out of 1753 work orders worth Rs. 125,730 million.	In lieu of performance bonds, 5 percent of the value of the bills has been deducted for performance and will be released after the project completion certificate is	The instructions in the procurement guidelines should be followed and formal action should be taken against officials

received. About 80 who have issued performance bills have work orders in a manner that is not been released to date. in accordance with them.

- (b) A maximum of 20 percent of the contract amount can be paid as advance payment upon submission of an acceptable advance payment security as stated in Section 5.4.4 of the Procurement Guidelines, but bank guarantees had not been obtained for 1678 work orders out of a total of 1753 work orders, without complying with this. Obtaining Bank guarantees for advances have been weak. However, all but 40 of the 500 service providers have settled the advances they have made. - Do -

3.4 Deficiencies in Contract Administration

	Audit Observation	Management Comment	Recommendation
(a)	The Road Development Authority had awarded 2481 work orders worth Rs. 193,518 million to the company for the construction of the 100,000 km road project in the years 2020, 2021 and 2022. Out of this, 351 work orders worth Rs. 32,736 million have been cancelled and construction work of 306 work orders worth Rs.29,130 million has not been commenced. The company had taken over 71 contract works worth Rs.5,920 million for direct execution, which is only 03 percent of the total work orders. Contrary to the decision taken by the Board of Directors of the Road Development Authority on 01 August 2008, 1,753 work orders worth Rs. 125,730 million, which is 97 percent of the total order value, had been awarded as subcontracts. Also, during the year under review, 2,557 roads with a length of 3,575 km were planned to be completed, but by the end of	The values of the work orders have been agreed upon.	When accepting work orders, steps should be taken to be aware of the rules and regulations applicable to their operation and to enhance the physical progress of the work.

the year, only 970 roads with a length of 1,420 km had been completed. That is, only 38 percent of the expected construction distance.

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| <p>(b) The Road Development Authority, when implementing road construction projects, adds a profit margin of 25 percent to the cost estimate and determines the contract value and awards the contract to the company. The company gives 20 percent of the above profit margin to the subcontractors and obtains a profit margin of 5 percent, thereby the company had earned a profit of Rs. 1,386 million during the year under review by acting as an intermediary between the Road Development Authority and the service providers without interfering in the project activities.</p> | <p>This had covered overhead costs and dividends.</p> | <p>Government funds should be used efficiently and effectively so that the government can obtain maximum benefits.</p> |
| <p>(c) The company had recruited provincial, district and zonal coordinators to evaluate the progress of road construction of the 100,000 km road project in year 2020 and had paid Rs.16 million to the coordinators in year 2022. However, since the information related to the recruitment of coordinators and the performance reports provided by the coordinators were not submitted to the audit, the audit could not verify whether qualified personnel were recruited in a formal and transparent manner and whether payments were made to the coordinators after evaluating the progress of the work.</p> | <p>Provincial, District and Zonal Coordinators have been recruited according to a prescribed procedure and monthly progress reports have been received by the institution. These reports have been handed over to the Road Development Authority as per a letter from the then Minister's Private Secretary.</p> | <p>The information and documents required for the audit should be provided without delay, qualified coordinators should be recruited properly, and payments should be made only after checking the progress of the work.</p> |

4. Accountability and good governance

4.1 Effectiveness of the management information system

Audit Observation	Management Comment	Recommendation
<p>The following deficiencies were observed in the computer software used for the company's financial reporting activities.</p> <p>(i) This software allows online payments, but online receipts cannot be made.</p> <p>(ii) This software system was not designed with sufficient coverage to accommodate the company's core business activities, such as contract administration and billing in the road construction industry.</p> <p>(iii) When the reporting period is locked, the date of journal entry can also be changed with the approval of the system administrator.</p>	<p>Agreed with the audit observation.</p>	<p>Necessary actions should be taken immediately to correct control weaknesses in the software system.</p>