

Road Development Authority - 2012

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Road Development Authority as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards (SLPSAS).

1.2 Comments on Financial Statements

1.2.1 Accounting Policies

The Authority had not disclosed the purposes of Government grant of Rs.32,648,921,966 shown in the financial statements and utilized during the year under review to enable to make fair presentation and improvement of the financial controls.

1.2.2 Sri Lanka Public Sector Accounting Standards (SLPAS)

The following observations are made.

- (i) The cost of 09 vehicles amounting to Rs.48.45 million provided by the Department of National Budget on lease basis in 2011 had been brought to account in 2012. However, the cost of amortization amounting to Rs.3.79 million for the year 2011 had not been retrospectively adjusted in the accounts as required by SLPSAS -03.
- (ii) A vehicle valued at Rs.17.90 million had been transferred from Colombo- Katunayake Expressway Project to the Authority on 26 November 2010. However, the vehicle had not been accounted for, in 2010. Instead, it had been accounted in the year 2012. Further, the depreciation thereon amounting to Rs.3.78 million for the years 2010 and 2011 had not been retrospectively adjusted in the accounts as required by SLPSAS -03.

1.2.3 Accounting Deficiencies

The following observations are made.

- (a) The value of lands transferred from the foreign funded Projects and Department of Highways and out of 36 lots, the value of 21 lots of land named Makuludeniya with an extent of 0.62018 hectare located at Dabare Mawatha in Narahenpita which were used for activities of the Authority had not been valued and brought to the financial statements.

- (b) A land with an extent of 1.1304 hectares located at Udumulla in the Kaduwela Divisional Secretariat area had been acquired and a sum of Rs.56 million had been paid by the Road Development Authority as compensation on 05 June 2002. However, this had not been shown as an asset of the Authority.
- (c) Wadulawatta land at Orugodawatte in extent of 2 hectares had been acquired on 24 February 2010 at a valuation of Rs.5,875,788. But it had been shown in the financial statements as Rs.373,786 by understating Rs.5,502,002.
- (d) Even though the financial statements of the Local Bank Funded Road Rehabilitation Project (LBFRP) should be prepared separately, the operating results of the Project had been amalgamated with the financial statements of the Authority.
- (e) The work-in- progress and accumulated profits had been overstated by Rs.7,000,000 due to erroneous accounting of the payment of lease rentals on the leasehold land at Denzil Kobbakaduwa Road.
- (f) Erroneous journal entries amounting to Rs.3,025,234 had been passed at the end of the year by the Authority for making provision of encashment of unutilized vacation leave. As a result, the deficit for the year under review and accrued expenses had been understated and overstated respectively by Rs.3,025,234.
- (g) It was observed that an erroneous journal entry for Rs.3,012,980 had been passed at the end of the year by debiting client deposit account and crediting retained profit account. As a result, the equity and the current liability of the Authority had been understated respectively by the same amount in the financial statements.
- (h) A land at Denzil Kobbakaduwa Road has been obtained by the Authority from the Urban Development Authority on a leasehold basis and a sum of Rs.50 million had been paid to a Religious Institute on three occasions since 2007 to 2010 as a compensation for cancellation of the previous lease agreement with the lessee. However, out of the total compensation, a sum of Rs.30 million had been brought to account and shown as cost of leasehold land during the year under review and the balance of Rs.20 million had been erroneously charged to Administrative Expenses in 2009.
- (i) It was observed that 77 brand new vehicles procured at a cost of Rs.1,113.33 million and one vehicle purchased at a cost of Rs.5.4 million by the Southern Expressway Project and handed over to the Authority in 2011 and 2012 respectively had not been brought to the Ledger Accounts.
- (j) The value of 13 Asphalt Manufacturing Plants installed Island wide by the Authority in 2012 with the assistance of the Ministry of Economic Development had not been determined and brought to account whilst the installation cost amounting to Rs. 124,165,390 had only been capitalized. Therefore, the value of the plants shown under the machinery and the Government grants received had been understated.

- (k) A sum of Rs.17,739,681 spent on the opening ceremony of Southern Expressway had not been shown as receivable from the Southern Transport Development Project in the financial statements as at 31 December 2012.
- (l) The cost of renovation works of quarters in Batticaloa amounting to Rs.1,121,546 had been shown under work- in progress instead of being shown under improvement of buildings.
- (m) Building maintenance cost aggregating Rs.1,482,503 incurred by the North Western Provincial office had been capitalized under buildings.
- (n) The cost of reconstruction of Chief Engineers Office and the officers’ quarters at Trincomalee amounting to Rs 2.4 million had been written off against the grants received from the Road Sector Assistant Project in 2012 without considering its capital nature.
- (o) Advertising expenses amounting to Rs 4,481,450 incurred on various purposes had been erroneously shown under cost of work done on construction of bypass road at Kegalle town.

1.2.4 Accounts Receivable and Payable

The mobilization advances aggregating Rs.77,040,957 paid to the contractors had remained unrecovered for over 3 years.

1.2.5 Non- Compliance with Laws, Rules, Regulations and Management Decisions.

Instances of non- compliance observed in audit are given below.

Reference to Laws, Rules, Regulations and Management Decisions	Non- compliance
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(a) Finance Act, No 38 of 1971	
(i) Section 8(i)	The Budget of the RDA for the year 2012 which was required to be approved by the Board of Directors before 30 September 2011, had been approved only on 12 November 2012.
(ii) Section 14(1)	The Draft Annual Report for the year 2012 to be prepared within 60 days after the closure of financial year had not been prepared even up to 30 June 2013 to enable to submit the copies of such reports to the respective Ministry and the Auditor General.
(b) Treasury Circulars.	
(i) Public Enterprises Circular No. PED/28 dated 31 January 2005	The approval of the Director General of the Department of Public Enterprises had not been obtained by the Authority in connection with purchase of 17 vehicles valued at Rs.46,239,371 and 02 vehicles valued at Rs.28,573,096.

- (ii) Public Enterprises Circular No. PED/47 dated 18 December 2007 The RDA had prepared and approved the Corporate Plan for 2011-2015 only on 15 May 2013. The Corporate Plan for 2012-2016 had not been approved by the Board of Directors even as at 31 August 2013.
- (iii) Paragraph 08 of the Department of National Budget Circular No.150 dated 07 December 2010 Twenty three new vehicles valued at Rs. 136 million had been provided to the Authority under the funds provided by the Department of National Budget in 2011 and the Authority also had prepared a list of 113 vehicles to be disposed. However, 13 vehicles had only been disposed as at 31 December 2012 and the proceeds of sale of those vehicles amounting to Rs.7,157,449 and proceeds of sale of 06 other vehicles amounting to Rs.3,453,724 which were not included in the above list had not been credited to the Consolidated Fund.
- (c) Finance Circular No. 327 of 17 October 2011 of the Road Development Authority Petty cash imprests aggregating Rs.894,169 granted to two Divisions of the Head Office and 22 Sub-offices of the Authority and fuel imprests aggregating Rs.209,348 granted to 06 Sub-offices had not been settled at the end of the year as instructed by the Circular.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the operations of the Authority for the year under review had resulted in a pre-tax net deficit of Rs.547 million as against the pre-tax net deficit of Rs.385 million for the preceding year thus indicating a decrease of Rs. 162 million in the financial results for the year under review. Even though, there is a surplus of Rs. 688 million in the Southern Expressway, the cost of personal emoluments, direct labor, other administration and client works increased by Rs.829 million had been attributed for this decreased in the financial results of the year under review.

2.2 Analytical Financial Review.

Even though the income and the cost of the Southern Expressway had been stated in the financial statements of the Authority, the activities of the Authority had resulted a net deficit for the year under review and the previous year thus indicating a net increase in accumulated deficit. Certain significant items shown in the statement of financial position as at 31 December 2012 as compared with the previous year are given below.

	As at 31 December	
	2012	2011
	Rs. Mn	Rs. Mn
Net Current Assets	(3,170)	(4,482)
Net Assets	69,355	(3,109)
Accumulated Deficit	(8,205)	(5,439)

The increases of the net Assets of the Authority had been resulted due to capitalized the cost of the Southern Expressway by Rs.76,444 million during the year 2012.

3. Operating Review

3.1 Performance

3.1.1 Non- Commercial Activities of the Authority

(a) Maintenance of National Roads and Bridges.

The allocation and actual expenditure on maintenance of bridges and flyovers are as follows.

	Original Allocation for 2012	Revised Allocation	Actual Expenditure	Utilization as a percentage of Original Allocation
	----- Rs. million	----- Rs. million	----- Rs. million	-----
General maintenance	1296.8	2807.4	2830.8	218
Continuous maintenance	689.2	882.0	878.1	127
Periodical maintenance	1579.6	558.5	552.9	35
Drainage system maintenance	861.3	132.0	126.6	15
Signal lights maintenance	483.5	132.5	128.8	27
Maintenance works under emergency and natural disasters	569.1	982.6	978.6	172
Operations of ferry and maintenance	20.5	5.0	4.2	20
Total	5500.0	5500.0	5500.0	

The following observations are made in this regard.

The Authority had readjusted the initial Provincial wise allocations at the end of the year so as to minimize the gap between the actual utilization and the initial allocation. The following observations are made compared with the initial allocation.

- (i) Except for the Northern Province, other Provinces had exceeded their allocations for general maintenance.
- (ii) Continuous road maintenance purposes had been exceeded by seven Provincial offices.

- (iii) The allocation made for periodical road maintenance and drainage systems maintenance had been underutilized by all Provinces. Further, out of the total allocation amounting to Rs. 483 million made for the traffic light maintenance purposes, only a sum of Rs.128.8 million had been utilized. The Additional Provincial office at Akkaripattu had not utilized the total allocation amounting to Rs.4.89 million made for traffic light maintenance and Rs.32 million for maintenance of the drainage system.
- (iv) The progress regarding utilization of allocation made for ferry maintenance purposes was extremely low.
- (v) The Planning Division of the Authority had spent a sum of Rs.13 million without any allocation made for traffic light maintenance for that Division.

(b) Maintenance, Widening and Improvement of Roads

The following observations are made.

- (i) In addition to the total allocation for roads maintenance, further allocation of Rs.32.50 million had been made by the Authority for maintenance of the light/signal light/road marking and installation of road furniture in the area under the purview of the Executive Engineer's Office, Horana. However, an expenditure amounting to Rs.12.79 million representing 39.36 per cent of the allocation had only been incurred by the Executive Engineer's Office for that purpose in 2012 so as enable to ensure whether the better road safety condition prevailed in the area.
- (ii) A sum of Rs.2,458,151 spent on four reconstruction works carried out by the Executive Engineer's Office, Agalawatte during the year 2012 had not been included in the Annual Action Plan of the Authority for the year 2012.
- (iii) Thirty three road widening and improvement works carried out by the Ratnapura and Kegalle Provincial Offices had not been included in the Annual Action Plan for 2012 and 33 road maintenance activities shown in the Annual Action Plan for 2012 had not been carried out by the above offices.
- (iv) Eleven works identified as emergency works had not been commenced during the year under review whilst six other works had been completed by spending a sum of Rs.26,824,774.

(c) **Construction of Bridges, Flyovers and Reconstruction of Damaged or Weak Bridges (Bridge Design / Rural Bridges)**

The allocation and actual expenditure of construction of bridges and flyovers of the Authority for the year 2012 are as follows.

Description -----	Allocation for the year ----- Rs.Mn	Actual Expenditure ----- Rs.Mn	Utilization as a Percentage of Allocation -----
Re construction of Damaged or Weak Bridges - Continuation Works	573.3	629.5	109.8
Reconstruction of Damaged or Weak Bridges- New works	126.7	4.4	3.5
Construction of Rural Bridges	100	78.6	78.6

The following observations are made in this regard.

- (i) The amount allocated to reconstruct the damaged bridges in 9 Provincial Offices during the year 2012 was Rs.573.3 million whereas a sum of Rs.629.5 million had been spent. The Provincial Offices of Central, Northern, North Western and Sabaragamuwa Provinces had exceeded their annual allocations made for reconstructions of damaged or weak bridges under construction works.
- (ii) Fourty seven projects for reconstruction of bridges in 10 Provincial Offices had been identified to be carried out. However, six projects which had not been included in the Action Plan had been carried out whilst four projects included in the Action Plan had not been commenced even up to 31 December 2012.
- (iii) Three Provincial Offices of Central, Northern and North Central Provinces had not fully utilized their allocations made for reconstruction of damaged or weak bridges in five provinces, under new works.
- (iv) Although, 71 damaged or weak bridges had been identified in five provinces, works pertaining to 59 bridges had not been commenced even up to 31 December 2012.
- (v) Out of 31 projects identified to implement under the construction of rural bridges, 6 projects had not been included in the Action Plan. Further, construction works of 13 rural bridges had not been commenced during the year 2012.

(d) Road Widening and Improvements

According to the Action Plan of the Authority for the year 2012, Rs.5,400 million had been provided for road widening and improvements in 25 districts and according to the Performance Report, a sum of Rs.11,932 million had been utilized.

The following observations are made in this regard.

- (i) Whilst the offices in 16 districts had exceeded their allocations made for road widening and improvement purposes, the works planned to be carried out in Mullativu, Batticaloa and Trincomalee Districts had not been commenced even as at 31 December 2012. The cost of Rs.4,821 million for 289 works which were not included in the Action Plan of the year under review.
- (ii) According to the Annual Work Plan, 593 works of road widening and improvement had been identified. However, 289 works which had not been identified in the work plan had been carried out at a cost of Rs.4.821 million during the year under review.

3.1.2 Commercial Activities of the Authority

(a) Manufacturing of Interlock Concrete Paving Blocks

A sum of Rs. 52 million had been released to the Provincial Directors of the Authority to purchase of 54 Interlock Block Paving Machines. Accordingly, 54 machines had been purchased and operated under the supervision of Executive Engineers. The following observations are made in this regard.

- (i) 38 machines located at the Executive Engineer's Offices had not functioned up to 31 December 2012 due to lack of raw materials, inadequate demand and increase of production cost above the sale price.
- (ii) According to the information made available from the Executive Engineer's Offices, 100,162 blocks had remained as stock without any demand during the year 2012.

(b) Asphalt Manufacturing Plant

The manufacturing processes of the Asphalt manufacturing plant at Balangoda had been commenced on 16 July 2012 and 1342 metric tons of wearing course, 6103 metric tons of binding course and 5587 metric tons of cut backs had been produced since then up to July 2013. The following observations are made in this regard.

- (i) 3680 litres of diesel valued at Rs.423,200 had been used before commencement of operations. The reasons for the use of diesel had not been explained to audit.
- (ii) According to the records maintained at the plant, regarding the asphalt production (Output) and quantities of diesel and kerosene issued (Inputs) during the year 2012 and up to 16 July 2013, it was revealed in audit that abnormal quantities of diesel and kerosene had been issued for production. Therefore, the average diesel consumption ranged from 7 litres to 74 litres per metric ton of asphalt and the kerosene ranged from 1 litre to 17 litres per metric ton of cut back. But, the quantity required for producing a metric ton of asphalt and cut back was around 9 litres and 5 litres of diesel and kerosene respectively.
- (iii) A power generator was used to generate electricity for operations of the plant and the diesel requirement for the generator was estimated at 33 litres per hour of operation. However, production records and diesel issued thereon had indicated that the usage of diesel for one hour of operation ranged from 15 litres to 1386 litres, which was unrealistic.

3.2 Transactions of Contentious Nature

The Authority had made significant number of transactions relating to rehabilitation of roads and procurements of material such as premix, patching material and emulsion etc. with three private companies based on the decision made by the Board of Directors of the Authority at the meeting held on 14 August 2008. The following observations are made in this connection.

- (i) According to the financial statements for the year ended 31 December 2012, a sum of Rs.23,822 million had been spent by the Road Development Authority for road widening reconstruction and maintenance purposes during the year under review and it was revealed in audit that road widening reconstruction contracts had been carried out by one of the above Company. However, the information relating to the physical progress of work done at the regional level as at end of the year had not been made available by the Authority.
- (ii) Information relating to construction and consultancy services assigned to the above mentioned Companies was not made available to audit.
- (iii) The balances aggregating Rs.1,236,424,625 shown in the four ledger accounts of the Authority as receivable on transactions with a company had been directly confirmed by the respective Company as Rs.1,685,544,068 and the difference of Rs.449,119,443 observed, was not explained.
- (iv) The balances aggregating Rs.44,189,194 shown in three ledger accounts of the Authority as payable on transactions with the above two companies had been directly confirmed by the Companies as Rs.3,185,346,898 and the difference of Rs.3,141,157,704 observed, was not explained.

- (v) The balances aggregating Rs.35,429,053 shown in the ledger accounts of the Authority as payable relating to transactions with one of the above Company had been confirmed directly by the Company as Rs.51,291,044 and the difference of Rs.15,861,991 observed, was not explained.
- (vi) The balances shown as receivable in the ledger accounts of the Authority relating to the transactions with the above two companies had not been confirmed by the respective companies.
- (vii) It was observed that certain contracts had been directly awarded to the above Companies by the Authority without following procurement procedures in terms of Chapter 3 of the Government Procurement Guidelines - 2006. The Chairman of the Authority had stated that a Cabinet decision had obtained on 04 February 2013 to awards contracts to the above Companies without following procurement procedure.

3.3 Contract Administration

3.3.1 Road Rehabilitation and Improvement

(a) Local Bank Funded Road Rehabilitation Project (LBFRP)

As decided by the Cabinet of Ministers at the meeting held on 09 February 2011, the Authority had been permitted to obtain loans of US\$ 500 million (equivalent to Rs.55,915 million) from local banks to rehabilitate priority road works with a length of 600 kilometres in island wide. Therefore, the local banks had offered the loans to the contract value amounting to Rs.50,319,762,550 to rehabilitate 19 roads with a total length of 543.36 kilometers as at 30 June 2013. According to the decision of the Cabinet of Ministers dated 09 February 2011, the contractors registered at the Institute for Construction, Training and Development (ICTAD) under C1 grade for road constructions were allowed to prepare technical and financial proposals for roads selected by the Authority for rehabilitation purposes. The following observations are made in this regard.

- (i) The Authority had withdrawn a sum of Rs 49,308,245 exceeding the net amount to be paid to the contractors from the banks and had used the excess money for the payment of Retention and Construction Industrial Grant Fund Levy. Therefore, interest had been paid by the Authority on excess withdrawals as well.
- (ii) As approved by the Cabinet of Ministers, the Authority had allocated the selected roads to the contractors who had also selected by the Authority and invited for competitive biddings for the respective roads. It was observed that the average price per km proposed and agreed by the contractors with the Authority had remained very high and it differed from road to road. Further, 35 per cent profit margin had also been included in the quoted prices even though no rates were permitted to be included in calculation of cost estimates, as stipulated in the Highway Schedule of Rates (HSR).

(b) Kegalle Bypass (2.06 Kilometres)

The two stage Project which was initiated in 2008 with the aim of avoiding traffic jam in Kegalle Town had not been completed even as at 31 December 2012.

The work performance remained unsatisfactory due to the following weaknesses in control system.

- (i) The work of Stage -01 had been initiated in 2008 at an estimate of Rs.81.61 million under the direct labour basis and subsequently handed over to the Maganeguma Road Construction Company at an estimated cost of Rs169.73 million. The works of Stage - 02 had also been commenced under the direct labour basis in 2010 at a cost of Rs, 35.79 million. However, a separate Project Office had been established in November 2011 due to slow progress of works.
- (ii) The Project Chief Engineer's Office- Kegalle had not maintained a separate ledger for work done on direct labour basis. Therefore, details relating to the total expenditure amounting Rs. 403,915,173 incurred by the Project Office could not be obtained in audit.
- (iii) The Project Office had taken action to split the work and offer them to contractors to enable the approval of payments within the authorized limit of Rs.3 million. However, it was observed that the split work had been offered to the same contractor.
- (iv) It was observed that procurements valued at Rs 131,807,232 had been made from an unregistered supplier.

(c) Thanakolawatte Bridge- Kegalle District- (Rural Bridges Division)

The construction work of the bridge was expected to be completed by 27 July 2011. However, works valued at Rs.22,557,650 had not been completed even by 13 February 2013. The Chairman had replied as follows, "Transport difficulties experienced by the contractor in transporting materials and machineries connected with the location of the site has caused delays. However, the work is continued by the contractor."

(d) No 33/1 Bridge at Veyangoda- Ruwanwella Road

Contract for the construction of the above Bridge had been awarded to a State Corporation at a cost of Rs74,171,053. Even though four extensions had been allowed, it had not been completed even as at 31 December 2012. However, a sum of Rs.3,500,030 had been paid due to escalation of prices exceeding the maximum allowances payable.

(e) **Urupellawwa Suspension Bridge at Dehiowita- Deraniyagala - Nooriya Road**

The contract for construction of the sub - structure for suspension bridge was awarded to a contractor at a price of Rs. 1,715,377. However, the construction works of super structure was not completed even as at 13 February 2013.

(f) **Miriswatte - Waturugama Road (Gampaha Chief Engineer's Office)**

Rehabilitation and reconstruction of the Miriswatte - Waturugama Road (0+000km to 5+000km) at a cost of Rs 36,734,093 had been awarded to a private contractor on 15 September 2011. The following observations are made in this regard.

(i) The contractor had delayed the commencement of the work due to the delay in releasing mobilization advance, disputes in land acquisitions and removal of existing sub structures. Subsequently, the contractor had abandoned the work on 15 May 2013 and advances paid amounting to Rs. 2,046,982 remained unrecovered.

(ii) The land acquisition activities had not been finalized even as at 31 December 2012. A sum of Rs 4,803,000 remitted by the Authority to the Divisional Secretary, Mahara on September 2011 for payment of compensation on lands acquired had remain in a Deposit Account of the Mahara Divisional Secretariat even up to 31 August 2013 without being utilized for the intended purposes.

(g) **Maganeguma Development Programmes – (Provincial Director's Office, Sabaragamuwa)**

Thirty five block paving road construction works for Rs.22,000,000 had been planned for 2012. Of these, 08 works had only been completed as at 31 December 2012. Further, 12 works were in progress and 15 works had not commenced. Several such block paving/concreting works had been assigned to the Maganeguma Road Construction and Equipment Company and several cracks developed on road surfaces due to sub standard work were revealed at the audit field inspections of 06 road construction works costing Rs.107,280,376 carried out on 12 December 2012.

(h) **Horana – Anguruwathota-Aluthgama Road (Executive Engineer's Office Horana)**

Contracts for overlaying asphalt of two sections of the Horana-Anguruwathota-Aluthgama Road had been awarded to two contractors under an emergency basis in view of opening of the Southern Expressway. asphalt overlaying contract for section from 42+300km to 44+600km of the road had been awarded at a bid price of Rs. 31,097,750 excluding VAT. The respective bid value exceeded the Engineer's estimate by 19 per cent. The contract for the asphalt overlaying of section 45+000 km to 47+000km had been awarded at a bid price of Rs. 26,335,320 excluding VAT. The

bid value exceeded the Engineer's estimate by 10 per cent. The following observations are made in this regard.

- (i) The asphalt overlaying work had been commenced by the contractor on 24 November 2011 and completed within three days on 26 November 2011. However, according to the information collected from the construction file, the contractor had furnished his bids only on 19 November 2011 and therefore, normal bid procedure had been followed after the completion of the overlaying works.
 - (ii) According to the measurements made relating to the track coat using the emulsion, for road Section from 42+300 kilometers to 44+600 kilometers total area for the asphalt laying work was 12,949.23 square meters. Considering the 50 mm standard thickness for overlaying of asphalt, the required asphalt premix per cubic metre (ie 2.35 metric ton .per cu.m.), should be 1,521.53 metric ton (12,949.23 x 0.05x2.35). However, the contractor had been paid for 1,865 metric tons resulting in an over payment of a sum of Rs 5,323,785 for 343.47 metric tons . Further, it was observed that payment for the asphalt binder coat had been made by the Authority based on the number of vehicle loads and not based on actual measurements.
 - (iii) According to the measurements made for the track coat using the emulsion, the road length and the road width of Section from 45+000 kilometers to 47+000 kilometers had been measured and the total area for the asphalt laying was 5,124.3 square metres. Considering the 50 mm standard thickness for overlaying of asphalt and the requirement of asphalt premix per cubic meter (ie , 2.35 metric ton. per cubic metre), total number of asphalt required for the above road section should be 602.10 metric tons (5,124.30 x 0.05x2.35). However, actual payments made thereon to the contractor was 680.25 metric tons and as a result a sum of Rs.1,067,529 for 8.15 metric tons had been overpaid to the contractor. Further, it was observed that the payment for the asphalt binder course had been made by the Authority based on the number of load of vehicles and not based on actual measurements.
- (i) **Development of Holy Cross Roundabout (Chief Engineer's Office – Kalutara)**

The contract for the development of a roundabout at Holy Cross College junction at Kalutara had been awarded to a private contractor at an estimated cost of Rs. 8.34 million on 09 May 2011. As indicated in the Bill of Quantity for the development of the roundabout, 1,500 linear metres of Guard Rails valued at Rs.12,541,605 had been supplied by the contractor. However, the actual requirement was only 373.5 linear metres of Guard Rails which was much less than the quantity indicated in the Bill of Quantity . Therefore, 807.5 linear meters of Guard Rails valued at Rs. 6,726,506 had been utilized by the Chief Engineer's Office for various other purposes and the balance quantity

of 306 linear meters of Guard Rails valued at Rs.2,574,990 had been unprotectedly kept at the office premises .

(j) Development of Bus Stand Junction in Panadura Town

The contract for the Development of Bus Stand Junction in Panadura town valued at 45.5 million was expected to commence on 17 October 2011 and completed before 17 January 2012. A mobilization advance of Rs.4.53 million had been granted on 19 December 2011. However, the works had not been commenced and the contract was cancelled on 31 December 2012. The mobilization advance had not been recovered even as at 31 June 2013.

The Chairman of the Authority had stated that the contract was cancelled as the work had been identified for execution under a World Bank Project and action would be taken to recover mobilization advance from the contractor.

(k) Road Rehabilitation Works at the Rest Area of Southern Expressway (Executive Engineer's office -Agalawatta)

The estimated value of the work amounted to Rs.24,170,198 and it included four main jobs such as asphalt overlaying on Southern Transport Development Project rest area and internal roads, cutting and removing soil for the fuel station, asphalt overlaying on access roads and construction of a two 0.6 m diameter Reinforcement concrete (RCC), pipe culvert etc and the Executive Engineer's Office had completed these works at a cost of Rs.17,739,681 on direct labour basis.

The following observations are made in this regard.

- (i) The cost incurred thereon had been treated as cost of road maintenance works without taking action to recover it either from the contractor for Southern Transport Development Project or the lessee of the rest area (Sri Lanka Insurance Corporation) which was the operator of the rest area.
- (ii) It was observed that the Executive Engineer's office- Agalawatta had overlaid asphalt at a cost of Rs 2,666,443 for the additional road named Rubber Estate Circular Road “ for access to the rest area” at the time of opening of the rest area of the Southern Transport Development Project. However, a length of 420 metres of this road remained unused by the general public at present.

3.4 Irregular Transections

The following observations are made.

(a) Expressway Management Unit

A sum of Rs.40,201,167 had been spent during the year under administration expenses pertaining to the unit of the Department of Police attached to the operations of Expressway.

However, a Memorandum of Understanding had not been signed by the Authority with the Department of Police to resolve matters such as nature of services provided by the Department of Police and costs to be incurred by the Authority.

(b) Exchanging State Land for Leasehold Land

(i) The extent of 77 perches of state owned land located at Narahenpita which had been transferred from the Department of Highways had been allowed to be used by a Religious Institute for their own purposes, since 2007. However, the legal ownership of the land had not been transferred to the institute even as at 30 June 2013. Further, the approval of the Commissioner of Land had not been obtained in terms of Circular No. SP/RD/02/10 dated 03 February 2010 of the Presidential Secretariat.

(ii) Further, another land at Denzil Kobbekaduwa Road had been obtained by the Road Development Authority from the Urban Development Authority on a leasehold basis and a sum of Rs.50 million had been paid to the said Religious Institute on three occasions from 2007 to 2010 to compensate for the above mentioned land located at Narahenpita. The approval of the Cabinet of Ministers had been granted on 19 November 2009 in this regard. Therefore, the reasonableness of exchanging a state owned land to a leasehold land and capitalization of Rs.30 million which is a part of the total cost of 50 million, incurred by the Authority for leasing purposes could not be ascertained in audit.

(c) Leasehold land Exchanged for State owned Land

According to the decision made by the Cabinet of Ministers on 19 November 2009, the annual lease rental amounting to Rs.1000 was required to be paid to the Urban Development Authority on leasing the land at Denzil Kobbekaduwa Mawatha. However, according to the provisions made in the Lease Agreement No.1432 of 27 August 2008 signed by the Road Development Authority with the Urban Development Authority dated 20 August 2008, the annual lease rental had been determined at Rs.6 million for over 50 years. Action had not been taken to revise the lease agreement to enable to reduce of the annual lease payment as determined by the Cabinet of Ministers.

Further, the lease rentals other than initial payment had not been made even though the provisions thereon had been made in the financial statements as at 31 December 2012. According to the provisions in the lease agreement, penalties should be imposed for outstanding balances. Therefore, penalties aggregating Rs.12,546,572 will be charged on the outstanding lease rentals.

3.5 Fruitless Transactions

The following observations are made .

(a) Designing of Bridges for Reconstruction

The Feasibility Studies and Comprehensive Designs of Bridges in the Island had been completed at a cost of Rs1,657,380,806 by the Project during 2004-2008. However, the Bridge Design Division had carried out redesigning of 18 bridges which were designed by the said Project during 2011-2012. A contract for designing and construction of Bridges in Galigamuwa- Ruwanwella Road had been awarded to a private contractor at a cost of Rs.2,472,357,070 which was implemented under the Local Bank Funded Road Rehabilitation Project. However, designing works of the bridges on the said road had been carried out by the Bridge Designs Division of the Authority.

(b) Interest Bearing Borrowings

According to Clause 8 of the loan agreements entered into with Banks under the Local Bank Funded Road Rehabilitation Project, an amount equivalent to the net amount to be paid to the contractor should be withdrawn from the respective Banks. However, a sum of Rs.7,643,468 which represents retention money payable to two contractors had been withdrawn in excess from Banks in April 2012 and the additional amount had been refunded to the banks on 09 August 2012.

(c) Deduction of Value Added Tax from Priority Road Project

According to the letter No. EP/06/20/03/0360 dated 10 July 2012 of the Director General of the Department of Fiscal Policy, all contracts operating under the Rehabilitation of Priority Road Project will be exempted from all taxes . It was observed that a sum of Rs 17,593,594 had been deducted as Value Added Tax from the contractor's bills and remitted to the Commissioner General of Inland Revenue on 02 April 2012.

3.6 Identified Losses

Compensation had not been claimed on accidents to three motor vehicles due to delays in submission of claims or repairing without obtaining prior approval of the Insurer. Another vehicle had met with an accident in 2010 and the insurance claim had been rejected due to an unauthorized journey. The vehicle had been subsequently repaired in April 2012 at a cost of Rs.1,147,680 and charged against the income of the Authority. Action had not been taken to recover the damage from the parties responsible.

3.7 Assets Management

(a) Workshop- Angulana

The following observations are made.

- (i) Although the Authority has a well equipped vehicle maintenance workshop at Angulana to carry out repairs and maintenance of all type of vehicles and machinery, a sum of Rs. 74,006,655 had been spent by the Authority as at 31 December 2012 for repairing vehicles. A large number of repairs to vehicles had been carried out by the RDA at outside garages without utilizing the RDA workshop.
- (ii) According to the approval received from the Board of Directors, the activities of vehicle service station at the workshop had been commenced with effect from 02 November 2011. At present, servicing of vehicles is limited to the Authority's vehicles attached to the offices of Western Province, even though it was expected to extend such facilities to the vehicles owned to the Government institutions and Maganeguma Companies.
- (iii) It was observed that there were delays in completion of repairs. According to the explanations made by the Officer – In –Charge of workshops, repairs had been delayed due to lack of staff in technical grades such as mechanics, electricians, helpers, etc.

(b) Lands

- (i) The land at Narahenpita had been demarcated into 34 plots and out of that 13 plots only had been distributed among the displaced people of Basline Road Project. The balance 21 plots of the undistributed land and two other lands had remained idle without being utilized for the intended purposes.
- (ii) The other land at Orugodawata with an extent of 2 hectares had been acquired in the year 2010 in the same manner. However, action had not been taken even as at 31 December 2013 to transfer the legal ownership of the land to the residents.

(c) Motor Vehicles

It was observed that 55 motor vehicles belonging to the Authority had been allowed to be used by external parties as at 31 December 2012.

(d) Main Stores at Maradana

Equipment valued at Rs.32,679,741 had been purchased on a request made by the Director (Mechanical) of the Authority out of a grant received from Central Engineering Consultancy Bureau in 2000 and 2001. However, such assets remained at the stores for over 12 years without being utilized for the intended purposes.

(e) Officers' Quarters at Nagoda-Kalawellawa

The officers' quarters at Nagoda- Kalawellawa had remained idle in a deteriorating condition. The renovation works of the quarters started in 2000 at a cost of Rs3,043,238, had not been completed even as at 31 December 2012. Subsequently it had been abandoned.

3.8 Human Resources Management

(a) Lack of a proper Human Resource Management Plan

The following observations are made.

- (i) The Authority had not established a separate Division for Human Resources Management activities even though the workforce of the Authority exceeds 8,000 employees. The Human Resources Management activities had functioned under the supervision of the Director, Administration and Finance Division
- (ii) For the purpose of effective utilization of Human Resources , the requirements of the Human Resource should be determined through a need analysis. The Authority had not carried out a comprehensive need analysis and prepared a Human Resources Management Plan accordingly.
- (iii) The Authority had not obtained approval of the Governing Board and the Line Ministry with the concurrence of the Department of Public Enterprises of the General Treasury for the scheme of recruitment and promotions according to Section 9.3.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003.

(b) Overpayment of Acting Allowances

Acting allowance of Rs. 648,365 had been paid to a Director of the Authority for acting in the post of Project Director of Public Private Partnership Project from January 2008 to February 2013. However, the Director had been appointed only for one year and that Project is not in operation at present.

4. Accountability and Good Governance

4.1 Budgetary Control

It was observed that the Authority had not presented a detailed budget for capital expenditure. Therefore, major variations of capital items could not be investigated. The revised budget for the year 2012 had been approved by the Board of Directors on 12 November 2012. Therefore, the budget had not been utilized as an effective instrument of management control.

4.2 Presentation of Financial Statements

The draft financial statements for the year under review had been submitted to the Auditor General on 18 April 2013. After the deficiencies referred to the Management of the Authority with regard to the presentation of financial statements, the draft financial statements had been withdrawn on 22 May 2014 and resubmit the revised financial statements on 25 June 2014.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Authority by my detailed report issued in terms of Section 13(7) (a) of the Finance Act, No 38 of 1971. Special attention is needed in respect of the following areas of control.

- (a) Road Maintenance and Client Works
- (b) Presentation of Financial Statements
- (c) Disclosure of Transaction with Related Parties
- (d) Management of Regional Offices
- (e) Utilization of Motor Vehicles
- (f) Utilization of Lands
- (g) Contract Administration
- (h) Inventory Control