

## **Road Development Authority - 2014**

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The audit of financial statements of the Road Development Authority for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 16(3) of the Road Development Authority Act, No.73 of 1981. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2) (c) of the Finance Act appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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

### **1.3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements 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 Authority's internal control. An audit also includes evaluating the appropriateness of accounting polices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for audit opinion.

### **1.4 Basic for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 2.2 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 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards (SLPSAS).

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Sri Lanka Public sector accounting Standards (SLPSAS)**

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The following observations were made.

- (a) **SLPSAS 1- Presentation of Financial Statements;** The lease rental payable amounting to Rs. 466,561,476 and interest in suspense amounting to Rs.411,688,613 should be separately accounted under non-current liabilities and current liabilities respectively. However, the Authority had accounted the total lease payables and interest in suspense under the current liabilities.
- (b) **SLPSAS 7 – Property, Plant and Equipment;** The fully depreciated fixed assets costing Rs.970,844,975 continued to be used by the Authority had not been revalued in terms of provisions in the Standard.

#### **2.2.2 Accounting Deficiencies**

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The following observations were made.

- (a) Debit balances aggregating Rs 1,887,870 in 02 client deposit accounts had been set off against the client deposit balances payable.
- (b) Rent advances amounting to Rs.6,101,220 received for several subsequent years had been included in the ‘Creditors’ account under current liabilities instead of stating under non-current liabilities as Deferred Income.
- (c) If contracts could not be completed on due dates, penalties should be charged and accounted as income from “Liquidated Damages” according to Section 3(49) of publication No SBD 01 of the Institute of Construction, Training and Development. Nevertheless, such 396 penalties aggregating Rs.502,465,116 charged by the Authority during the period 2009-2013 and shown under current liabilities had not been transferred to income.
- (d) Debit balances aggregating Rs 5,769,729 in 02 retention money ledger accounts had been set off against the retention money balances payable.

- (e) Although retention money is stated under non-current liabilities and current liabilities in the statement of financial position as at 31 December 2014, as Rs.4,060,661,255 and Rs.4,405,339,648 respectively, a separate note and schedule had not been submitted. Therefore, it was observed that the retention money aggregating Rs.8,466,000,903 could not be verified due to non-submission of basis of separating as current and non-current liabilities in the statement of financial position as at 31 December 2014.
- (f) Clients deposits amounting to Rs. 1,000 million received from the Ministry of Economic Development had been credited to the receivable account instead of being credited to the client deposits account. Hence, receivable account balances and client deposit balances included in the current assets and current liabilities respectively had been understated by Rs. 1,000 million.
- (g) The credit balance of Rs. 2,332,173 arisen from the over recoveries of mobilization advance had been included in the mobilization advance balance of Rs.7,144 million under current assets resulting to understate the mobilization advance by Rs.2,332,173.
- (h) Consultancy fees amounting to Rs. 182,265,942 paid in 2014 in relation to the construction of outer circle road from Kerawalapitiya to Kadawatha with a length of 9.32 km had been erroneously accounted as work-in progress on buildings in the statement of financial position as at 31 December 2014.
- (i) A sum of Rs. 32,469,175 had not been taken to the opening balance of the bank loan account, thus the loan account balance had been understated by same amount.
- (j) According to the financial statements of the Authority for the year under review, a sum of Rs. 4,147,234,771 had been included in current liabilities as payable portion of the bank loan in the year 2015 out of the total bank loan balance of Rs.107,304,314,019 as at 31 December 2014. However, according to the confirmation received from the Authority it was shown as Rs.4,220,578,423. Hence, the current liabilities had been understated by Rs.73,343,652.
- (k) Even though motor vehicles valued at Rs. 218,960,500 belonging to the foreign funded Projects of Road Rehabilitation and Improvements had been transferred to the RDA for the year under review, the value of such vehicles had not been brought to accounts.
- (l) The value of land on which the buildings valued at Rs.313,208,798 constructed had not been valued and brought to accounts. This land was crown land transferred to the RDA by the Department of Highways at the time of establishment of the Authority. However, the Cabinet of Ministries had been approved to allocate the land to RDA as a free grant by their decision dated 30 October 2014.
- (m) Even though the fixed assets valued at Rs.20,009,499 belonging to the Colombo Katunayake Expressway Project had been transferred to the RDA by 31 December 2014, the value of such assets had not been brought to the accounts.

- (n) Value of the fixed assets relating to 394 items aggregating Rs.3,488,240 and fixed assets purchased and subsequently transferred to the RDA by two foreign funded Projects of Road Rehabilitation and Improvements relating to 200 items, which the value was not made available had not been valued and included in the financial statements of the RDA even in the year under review. Therefore, the depreciation of Rs.348,824 and Rs.697,648 for the year 2013 and 2014 respectively had not been charged to the accounts.
- (o) Two machines, a Multi-Function Network Survey Vehicle (MFNSV) and Falling Weight Deflectometre (FWD) purchased to the value of AS\$ 58,500 equivalent to Rs.97.51 million and EUR 135,900 equivalent to Rs.30.13 million had not been taken to Property, Plant and Equipment in the financial statements of the RDA.
- (p) Even though sale proceeds of Rs.16,418,233 received from disposal of fixed assets had been shown as other income in the financial statements for the year under review, the cost of such assets had not been brought to account since the date of acquisition by the Authority.

### 2.2.3 Un - explained Differences.

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The following unexplained differences were observed in audit.

- (a) A difference of Rs. 3,639,226,411 was observed between the loan balances shown in the financial statements and the balances confirmed by the respective banks as at 31 December 2014. Further, the reasons for the differences had not been explained to audit. Details are shown below.

Lending Agency	Amount as per the financial statements	Amount as per bank confirmations	Difference
	Rs.	Rs.	Rs.
National Savings Bank	49,268,963,075	49,217,723,859	51,239,216
Bank of Ceylon	23,525,258,779	20,551,593,117	2,973,665,662
People's Bank	12,799,588,721	13,413,900,752	614,312,031
Hatton National Bank	12,176,235,085	12,176,244,587	9,502
<b>Total</b>	<b><u>97,770,045,660</u></b>	<b><u>95,359,462,315</u></b>	<b><u>3,639,226,411</u></b>

- (b) A difference of Rs. 7,016,408,503 was observed between the cost of highways shown in the financial statements of RDA and the corresponding cost shown in the financial statements of three Project Management Units.
- (c) A difference of Rs. 40,226 was observed between the financial statements and the bank balances of 03 Regional Offices and one Head Office bank account of the RDA.

## **2.2.4 Accounts Receivable and Payable**

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The following observations are made.

### **(a) Client Deposits**

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It was observed that the client deposits amounting to Rs. 198,474,099 relating to 105 clients had remained unsettled between the periods ranging from 1 to 6 years. Further, the client deposits aggregating Rs. 257,057,468 relating to 134 clients had remained unchanged since the date of deposits obtained during the period ranging from 2010 to 2013.

### **(b) Advance Payment**

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#### **(i) On Account Advance**

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- On Account Advances granted amounting to Rs. 3,614,943 older than one year recoverable from “Maga Neguma” Road Constructions and Equipment Company had not been recovered even during the year under review.
- The Authority had not taken any action to settle On Account Advance payable balances aggregating Rs. 10,020,158 older than one year even at the end of the year under review.
- Action had not been taken to settle the accrued work bills amounting to Rs. 2,377,388 relating to “Maga Neguma” Road Construction and Equipment Company and “Maga Neguma” Consultancy and Project Management Services Company respectively even in the year under review.
- Credit balances aggregating Rs. 24,344,177 relating to 02 contractors had been shown as “On Account Advances” and it was observed that those are over – recoveries from contractors. But actions had not been taken up to 31 December 2014 to settle this amount.
- On Account Advances amounting to Rs. 22,046,094 granted to 05 contractors during the year 2013 had not been settled by the contractors even by 31 December 2014, even though the advances obtained should have been settled immediately after the completion of the purposes.

#### **(ii) Mobilization Advances**

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- It was revealed that prompt action had not been taken up to June 2015 to recover the mobilization advances amounting to Rs.2,000 million granted to the Provincial Road Development Authority for Deyata Kirula Project 2014.

- It was observed that prompt action had not been taken to recover the mobilization advances amounting to Rs.275,245,398 granted to 21 contractors during the years 2004 to 2011.
- Action had not been taken to recover the advances granted to the Southern Transport Development Project and Road Sector Assistant Project in 2013 and 2014 amounting to Rs.601,000,000 and Rs.237,110 respectively.

**(iii) Purchase Advances**

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Even though the advances given for suppliers should have been recovered after completion of the purposes which they were granted, the purchase advance amounting to Rs. 17,481,824 given to 77 suppliers in the year 2011, 2012 and 2013 and preceding 05 years had not been recovered even in the year under review.

**(iv) Contract Advances**

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Even though the advances given for suppliers or contractors should have been recovered during the relevant contract period, the advances amounting to Rs. 29,108,037 given to 30 suppliers or contractors during the period from 2010 to 2013 and over 05 years had not been recovered even in the year under review.

**(c) Creditors and Other Payables**

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- (i) It was observed that 17 creditors over one year, 51 creditors between 2-5 years and one creditors over 5 years amounting to Rs.4,617,450, Rs.14,635,982 and Rs.1,521,036 respectively, were remained unsettled even by the end of the year under review.
- (ii) Action had not been taken to settle the Direct Labour Wages amounting to Rs.1,119,113 relating to Akkarepattu Additional Provincial Office by the end of the year under review.
- (iii) The lease rental relating to the years 2009 to 2014 amounting to Rs.36,176,000 had not been paid by the Authority even in the year under review.

**(d) Retention Money Payables**

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- (i) Retention money amounting to Rs. 620,406,926 relating to 774 contracts had remained unsettled between the period ranging from 3 to 10 years.

- (ii) Although there was retention money over deduction of Rs.5,486,278, the adequate information had not been submitted in schedules.

**(e) Accrued Expenditure and Contract Payables**

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- (i) Action had not been taken to settle the accrued expenditure amounting to Rs.7,008,077 remained over one year and Rs. 46,913,405 remained between the period ranging from 2 to 5 years.
- (ii) Action had not been taken in respect of payables to other contractors amounting to Rs.278,062,288 relating to the year 2012 and 2013 even in the year under review.

**(f) Rent Income and Rent Receivables**

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Action had not been taken to recover the rent income amounting to Rs.1,622,491 from the shops in Kandy Underpass for over 3 years.

**(g) Other Receivables from Employees**

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- (i) No prompt action had been taken to recover the staff loans aggregating Rs.5,655,091 granted to 66 then employees.
- (ii) Action had not been taken to reimburse the Gratuity payment to the Authority aggregating Rs. 696,394,067 relating to the year 2014 paid to 101 RDA staff members employed in Government Institutions even in the year under review.
- (iii) It was failed to reimburse the salaries and other allowances paid to 94 RDA staff members aggregating Rs. 62,757,658 relating to the year 2014 employed in other institutions even in the year under review.

**2.2.5 Lack of Evidence for Audit**

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Client deposits and liquated damages aggregating Rs.7,954,777 could not be satisfactory vouched or verified in audit due to non availability of evidence such as payment vouchers and narrations for the journal vouchers.

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

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

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non- compliance</b>
<p>(a) Financial Regulations of the Government the Democratic Socialist Republic Sri Lanka</p> <p>(i) Financial Regulations 135, 138(6) and 139(1)</p> <p>(ii) Financial Regulation 396</p> <p>(iii) Financial Regulation 373 and Office Circular No. 333 of 17 October 2014</p>	<p>The provisions in the Financial Regulations had not been followed by the Project Divisions of the Authority with regard to authorization, approval, certification and payments in spending a sum of Rs.14,099.3 million from the loan obtained for the road constructions of the Local Bank Funded Projects. Accordingly, vouchers had been certified and payments had been made without including the certified documents on the advances amounting to Rs.6,426 million given to Maga Neguma companies for the construction of roads.</p> <p>Action had not been taken to cancel 25 lapsed cheques amounting to Rs.5,924,999 relating to 08 bank accounts.</p> <p>Petty cash imprest and fuel imprests aggregating Rs. 1,415,139 granted to 02 Sub-offices and 04 Divisions of the Authority had not been settled even up to the end of the year under review.</p>
<p>(b) Publication No. SCA/05 of the Institute for Construction Training and Development</p>	<p>(i) Although payments for the contracts should be made on measure and pay basis, advances totalling Rs. 6,126.37 million had been paid in 55 instances to “Maga Neguma” companies without measuring the bills and the works done.</p>
<p>(c) Section 5.4.4 of the Procurement Guideline 2006</p>	<p>(ii) A maximum of twenty per cent of the contract sum could be granted as mobilization advance with an acceptable security to any contract in accordance with the Procurement Guideline. However, in contrary to that, advances totalling Rs.6,126.37 million had been granted by the Authority to Maga Neguma Companies without obtaining any security.</p>



- (d) Financial Circular No.294 dated 07 October 2008 of the Road Development Authority. Although the accountant is authorized to sign in cheques for the payments up to Rs.10 million, cheques valued for more than Rs. 10 million had been signed by him.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the operations of the Authority for the year under review had resulted in a pre-tax deficit of Rs.4,962.68 million as against the pre-tax net surplus of Rs.547.17 million for the preceding year, thus indicating a deterioration of Rs.5,509.85 million in the financial results for the year under review. The decrease of total revenue by Rs.4,617 million and increase of expenditure by Rs. 892.35 had mainly attributed to this deterioration in the financial results of the year under review.

#### **3.2 Analytical Financial Review**

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Certain significant balances shown in the statement of financial position as at 31 December 2014 as compared with the previous year are given below.

	<b>As at 31 December</b>	
	<b><u>2014</u></b>	<b><u>2013</u></b>
	<b>Rs Mn</b>	<b>Rs Mn</b>
Net Current Assets	2,717	(76.2)
Net Assets	170,633	124,552
Accumulated Deficit	( 13,576 )	( 8,012 )

Accordingly, it was observed that the net current assets and net assets had increased in 2014 when compared to 2013 by 3665.61 per cent and 41 per cent respectively whilst the accumulated deficit had also increased by 69 per cent.

### **4. Operating Review**

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#### **4.1 Performance**

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##### **4.1.1 Maintenance Works of National Roads and Bridges.**

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The allocations of funds and actual expenditure in respect of maintenance of bridges and flyovers for the year under review are as follows.

	<b>Allocation</b>	<b>Actual Expenditure</b>	<b>Utilization as percentage of Allocation</b>
	<b>Rs. million</b>	<b>Rs. million</b>	
i) Routing maintenance	1,850	2,543.17	137.46
ii) Periodic maintenance	3,110	2,643.72	85.00
iii) Drainage and structure improvement	940	610.22	64.91
iv) Maintenance of signal light systems, street lights, Road sign and marking, and minor road safety improvements	800	575.63	71.95
v) Emergency maintenance /Disaster works	1,280	1,421.68	111.06
vi) Operation and maintenance of ferries	8,000	7,801.85	97.52
<b>Total</b>	<b>15,980</b>	<b>15,596.27</b>	

The following observations are made in this regarded.

- (i) Even though a sum of Rs. 493.83 million had been provided for the maintenance activities of 186 roads through the annual budget, those roads had not been maintained within the year.
- (ii) Five Provincial Director's Offices had spent a sum of Rs. 26.31 million during the year under review on 07 road maintenance works for which no budget provisions had been made, and not included in the annual maintenance program.
- (iii) The budget for the year 2014 had not allocated provisions for the maintenance of roads not pertaining to RDA. However, a sum of Rs. 1,248.14 million had been spent during the year under review on 281 roads which were not belonging to RDA.
- (iv) As the expected performance could not be achieved due to failure in properly identifying the maintenance activities to be carried out during the year, and costs incurred on the maintenance of roads that were not belonging to RDA etc. it was observed that the annual maintenance program had to be revised again on 30 June 2014.

#### **4.1.2 Performance of Engineer Service and Bridge Design Division**

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The following observations are made.

- (i) A methodology to approve the work plan of this division by the top level management had not been implemented, and it had not been prepared prior to commencement of the year. At the meantime, the work plan had been revised again in November 2014.

(ii) It was proposed to construct 142 bridges during the year under review, whereas plans related to 84 bridges had been concluded according to the progress report presented in December 2014. Further, the progress with regard to 06 bridges was less than 50 per cent.

(iii) Twenty seven bridges had been planned outside the work plan for the year under review, and out of that, 07 bridges were not belonging to the RDA.

## **4.2 Contract Administration**

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### **4.2.1 Road Rehabilitation and Improvement**

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The following observations are made.

#### **(a) Road Widening and Improvements**

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According to the allocations for widening and improvements of roads under Government funds and performance reports, action plans and the progress reports sent by the Provincial Directors, the following matters were observed.

- (i) Even though it was targeted to commence widening and improvement of 141 roads valued at Rs.16,238 million in the year under review, no constructions and improvements had been commenced even up to end of the year under review.
- (ii) A sum of Rs.2,757 million had been spent during the year 2014 for widening and improvements of 33 roads which had not been included in the Action Plan for the year under review. Meanwhile a sum of Rs.38,519 million had been spent for 900 roads which were not belonging to RDA.
- (iii) Widening and improvements of 61 roads with an estimated cost of Rs.5,319 million during the year under review had shown a progress less than 50 per cent as at 31 December 2014.
- (iv) Widening and improvements of 234 non RDA roads with an estimated cost of Rs.16,503 million during the year under review had shown a progress less than 50 per cent as at 31 December 2014.

#### **(b) Local Bank Funded Road Rehabilitation Project (LBFP)**

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The Road Development Authority had been permitted to obtain loans amounting to Rs. 151.77 billion from local Banks to rehabilitate 64 priority roads with a length of 1433.85 kilometers, Island wide. Accordingly, the Road Development Authority had offered contracts valued at Rs.137.52 billion to rehabilitate 64 roads. The Authority had obtained loans aggregating Rs.108,257.66 million from 07 local banks in the years 2012, 2013 and 2014 in order to make payment to the contractors for the construction of roads. Out of that, a sum of Rs.953.35 million had been settled during the year 2014. Accordingly, it was observed that the payable portion of the loan amounted to Rs.107,304.31 million as

at 31 December 2014. The details of the Loans received and the outstanding portion of the loans as at end of the year under review are shown below.

Name of the Bank	Loans received from Banks for the year			Capital repayment during the year 2014	Loan Balance as at 31 December 2014
	2012	2013	2014		
	Rs. million	Rs. million	Rs. million	Rs. million	Rs. million
Commercial Bank	1,267	634	2,647	128	4,420
Bank of ceylon	3,703	9,637	10,402	218	23,525
People’s Bank	3,369	5,234	4,806	607	12,800
National Saving Bank	384	4,953	43,931	-	49,268
Development Finance Corporation	209	724	*(32)	-	901
Hatton National Bank	-	3,614	8,562	-	12,176
National Development Bank	-	-	4,214	-	4,214
<b>Total</b>	<b>8,932</b>	<b>24,796</b>	<b>74,530</b>	<b>953</b>	<b>107,304</b>

\*Erroneously credited in 2013 and corrected in 2014

The following observations were also made in this regard.

- (i) According to the information made available, the contractors for road constructions under the above Project (LBFP) had not been selected in terms of the provisions in the Procurement Guidelines. Instead the contractors themselves had brought the contract proposals for the respective roads.
- (ii) The proposals of contractors had not been properly evaluated by the Technical Evaluation Committee (TEC). Further the Engineer’s estimate had not been prepared for the each road including items of works, quantities and the rates to support the evaluation. Therefore, the contractors’ proposal had been evaluated by the TEC by using highway standard rate (HSR). However, the rates proposed by the contractors in the bills of quantity (BOQ) were very much higher as compared with Engineers rates and the rates were varied from contractor to contractor.
- (iii) The Standard Cabinet Appointed Procurement Committee (SCAPC) had decided and recommended the final contract amount for each contract. Accordingly, a sum of Rs.146,552.78 million recommended by the TEC for 54 contracts had been increased to Rs.155,794.94 million by the SCAPC. As such, an additional cost of Rs.9,242.16 million had been recommended for the road construction by the SCAPC.

- (iv) According to the Cabinet Memorandum, all constructions under the LBFP should be done through the local contractors in view of increasing the capacity of the local contractors. However, this objective could not be satisfactorily achieved by the Authority as few contractors were given more contracts than others.
- (v) It was revealed that some part of the road which had been asphalt overlaid by the Road Development Authority in the early part of 2012 had again been included for rehabilitation under LBFP.
- (vi) The Local Bank Funded Project had received the approval from the Cabinet of Ministers to obtain a loan of Rs.55,392.2 million to construct 28 roads. Out of the loan obtained, a sum of Rs.28,000 million had been spent on other activities of the RDA which had no connection with the Project activities. Details are shown below.

	<b>Amount Rs. millions</b>
Fund given to Ministry	3,741
Rural Bridge Construction Unit	105
Maga Neguma Companies	5,824
Payment Unit	282
Deputy Director Design	30
Road Maintenance Trust Fund Payment	358
Asphalt Plant	2,374
Provincial Directors Office	3,631
Project Management Unit	6,140
CIGFL	16
Widening & Improvement Works of Project Division	<u>5,499</u>
<b><u>Total</u></b>	<b><u>28,000</u></b>

Further, out of the loan approved for 28 roads amounting to Rs.55,392.2 million, a sum of Rs.21,238.98 million had been paid as advances and for works done. Accordingly, the amount payable from the loan obtained for the rest of the work to be done was Rs.34,153.34 million. But a sum of Rs.28,000 million had been used for activities other than that of the Project as at 31 December 2014. As a result, the balance of loan available was Rs.6,153.34 million. Accordingly, it was observed in audit that there was a possibility for financial problem that may occur in the future while making payments for the rest of the road works to be done and would adversely affect to the construction works.

- (vii) A loan amounting to Rs.2,172 million had been obtained by the Road Development Authority from National Savings Bank under the above Project to rehabilitate the Pelmadulla – Embilipitiya – Nonagama road. Although, the construction works valued at Rs.315 million equal to 15 per cent of the total contract value had been completed by the contractor at the end of the year under review, the Authority had disbursed from the loan a sum of Rs.2,096 million equal to 96 per cent as at 31 December 2014. However, a sum of Rs.596 million had only been paid to the

contractor including mobilization advance. The following observations were also made in this connection.

- According to the Interim payment certificate No 04 submitted by the contractor for the month of November 2014, a sum of Rs.18.45 million had been included as the variation No.1 to the above road. However, this variation had been submitted by the contractor for the construction cost related to the President House at Embilipitiya.
- Even though the variation No.02 to the value of Rs.142.6 million had been submitted by the contractor under interim payment certificate No. 04 for the above period, this amount had been arisen due to construction of works related to 17 other roads with a length of 9.21 kilometers.

**(c) Funds Granted to the Project Management Units**

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- (i) Even though a sum of Rs. 5,820 million granted to 21 Project Management Units for the construction of roads and bridges from the funds of foreign loans during the year under review, a sum of Rs.3,006 million only had been spend for the Project activities. The remaining amount of Rs.2,814 million had been spent as direct expenses, expenses for maintenance of project office and extraneous expenses respectively.
- (ii) Information regarding the manners in which a sum of Rs. 20 million spent which was granted to Emergency Development Project in the war- affected areas had not been submitted to audit.
- (iii) The value of the Local Bank Loan fund granted for 22 Projects was Rs.6,140.11 million. The provision that should have been received from the Treasury for the year 2014 with respect to those Projects was Rs. 19,304 million. However, only a sum of Rs. 8,467 million had been obtained.

**(d) Funds Granted to the Project Division of the Authority**

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- (i) The Project Director of the Authority had spent a sum of Rs. 5,499.43 million in 697 instances on widening/improvements/renovations of roads that were relevant to the Authority but which were not belonging to the Local Bank Funded Project.
- (ii) According to the loan agreement entered into between the RDA and the NSB, the loan obtainable for 28 roads Project as at 31 December 2014 was Rs. 34,200.79 million. However, contravening this, a sum of Rs. 49,238.98 million or additionally Rs. 15,038.18 million had been obtained for these purposes.
- (iii) Loan amounting to Rs.28,000 million had been obtained for works not related to the Local Bank Funded Project activities and the interest paid thereon was Rs.466.08 million.

**(e) Construction of Galigamuwa – Ruwanwella – Karawanella Road**

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The renovation of the stretch of Galigamuwa-Ruwanwella-Karawanella road ( km000+0.to210+29) by applying asphalt had been assigned to a contractor at a cost of Rs. 2,472 million. According to the contract agreement, the construction works scheduled to be commenced on 14 January 2012 and completed on 14 July 2014. The following matters were observed during the inspection carried out on 17 December 2014.

- The financial proposal of the contractor was Rs. 2,602.48 million whereas the engineering estimate of the Technical Evaluation Committee amounted to Rs.2,328.27 million. Accordingly, the contract had been awarded at a value of Rs.2,472.36 million exceeding the engineer estimate by Rs.144.09 million.
- Action had not been taken by the Road Development Authority to prepare an engineering estimate including works to be carried out on this road, quantities and rates and evaluate the financial proposal of the contractor accordingly. Further the financial proposal of the contractor also did not consist of works to be carried out, quantities and the rates. However, only the cost of the contract presented had been evaluated. According to the Interim-Payment certificate No. 23 of the contractor, an increase of payable value by Rs. 439 million had been shown in excess of the values of bill of quantity of the items of work
- The Technical Evaluation Committee had evaluated only the contract price without evaluating the items of work, quantities and rates of prices based on the bills of quantity presented by the contractor. Accordingly, an increase of Rs 439.49 million in the value payable for the items of works such as Earth works, Bridges, and Drains included in the Interim Payment Certificates presented by the contractor was observed in excess of the values in the Bill of Quantity. Due to this reason, a possible decrease in other woks stated in the Bill of Quantity is observed.
- Provisions for the construction of retain walls to prevent earth slips had not been allocated in the bills of quantities of the contractor. However, the necessity for the construction of retain walls stretching 1763 meters at 87 places along this road had been identified.
- Action had been taken to construct only one bridge on this road. The Engineering Office had identified that 5 bridges remained dilapidated condition and required to be reconstructed, and 2 other bridges should be widened in a way suitable to the road.

**(F) Construction of Bridge No. 9/12 on Norwood Upcort Road**

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The following observations are made.

- (i) The Construction of Bridge No. 9/12 on Norwood Up-court Road had been awarded to a contractor at a sum of Rs. 3,456,682. The new contract value was Rs. 8,162,377 as the width of the bridge had been increased from 4 meters to 7 meters. The contractor, after obtaining a sum of Rs. 3,425,378 for the construction works had left the site. Since the performance bond had been cancelled, RDA could not recover the payments affected to the contractor. However the RDA had not taken any action against the contractor in this connection.
- (ii) Layer of concrete had been applied only on a part of the surface of the bridge and as such there was a higher risk of accidents as the other part of the bridge had not been adequately covered and no warning signs had been erected.
- (iii) Though it was proposed to commence the construction of the bridge on 26 October 2010 and conclude before 25 March 2011, it was observed that the construction had not been completed even up to 31 December 2014.

**(f) Construction of Wijebahukanda Bridge**

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- (i) The contract had been awarded at a sum of Rs. 23,907,253 less than the engineering estimate by 25.32 per cent despite the engineering estimate for the construction of this bridge amounting to Rs.30,833,502. Had an estimate been prepared by taking the timely prices into consideration, it was observed that either an expected performance or a specific quality of the construction could not be expected by quantitatively decreasing the contract price. Or, it is observed in audit that the accuracy of the estimate prepared is questionable.
- (ii) It was proposed to commence the bridge construction works on 04 April 2011 and conclude before 09 January 2012. An extension period had also been granted up to 02 September 2012. Even though the construction had not been completed as at 15 December 2014, neither an extension for time had been granted nor liquidated damages had been charged.
- (iii) The contract value had been increased by a sum of Rs. 11,992,423 or 50 per cent due to additional works in 2 instances.
- (iv) Although the bridge had been constructed, the roads on either side had not so far been constructed. Furthermore, wing walls had yet to be constructed at the entrance for the safety of the bridge.
- (v) Honey combs had been excessively seen in the concrete applied on abutment and piers of the bridge. The metal bars used in beams had surfaced in several instances. The soil underneath the wing wall on the right side at the exit of the bridge had eroded.



#### **4.2.2 Construction of Steel Bridges in Trincomalee District**

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Ten steel bridges in Trincomalee District had been constructed by incurring a sum of Rs.3,831,936,290 under the Steel Bridges Project of United Kingdom. Out of that, a sum of Rs.336,328,087 had been incurred for constructing Lanka Patuna Bridge and Palathoppur – Seruwila Bridge and Rs.3,495,608,203 had been incurred for 08 Bridges in Batticaloa – Thirikondai Aru – Trincomalee (A-15) and Ambepussa – Kurunegala – Trincomalee (A-6) which were connected beyond the town. Although eight bridges had been constructed on Outer Circular Road in Trincomalee incurring a sum of Rs.3,495.6 million in the years 2009 and 2010, the constructions of the roads which connecting these bridges had not been completed to enable transportation of vehicles even though 4 years had elapsed.

#### **4.2.3 Construction of the Kataragama Circuit Bungalow**

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The following observations are made.

- (i) The construction work of basement of the Kataragama Circuit Bungalow had been entrusted to a contractor for Rs.12,352,242 on 28 September 2010 and a sum of Rs.11,771,448 had been paid to the contractor. According to the agreement entered into with the contractor, it was agreed to complete the works before 07 June 2011. However, the construction works had not been completed even as at 31 December 2014.
- (ii) Even though there were significant shortcomings in the works carried out by the contractor. The construction of the first floor had been entrusted to him for Rs.7,922,316 on 24 December 2014 without being considered the shortcomings.

#### **4.4 Fruitless Transactions**

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The following observations were made in this regard.

- (i) According to the decision made by the Ministers of Cabinet on 19 November 2009, an annual lease rental amounting to Rs.1,000 was required to be paid to the Urban Development Authority on leasing of the land at Denzil Kobbekaduwa Mawathe. However, as per provision made in the Lease Agreement signed by the RDA with UDA on 20 August 2008, the annual lease rental had been determined as Rs.6 million for over 50 years. Action had not been taken to revise the lease agreement as enable to reduce the annual lease payment as determined by the Ministers of Cabinet.
- (ii) Lease rentals amounting to Rs. 466,561,476 instead of the initial payment had not been paid even though the provisions thereon had been made in the financial statements as at 31 December 2014. According to the provisions made in the lease agreement, penalties will be imposed over the outstanding balance. Therefore, the penalties aggregating Rs. 29,839,114 will be charged on the outstanding lease rentals.
- (iii) Head office of the RDA is constructed by using the funds from a foreign funded project had been handed over to the RDA on 21 November 2014. However, RDA had

not shifted to the new building and building rent amounting to Rs. 40,697,802 from December 2014 to March 2015 had been paid to an external Institute, Further the new building had not been utilized even as at June 2015.

- (iv) It was observed in the audit that 50 Projects had been commenced during the years 2006 to 2015. However, these Projects had come to stand still due to delay of construction works, poor performance, lack of funds and terminating non RDA works. The estimated cost of these projects amounted to Rs. 5,891.05 million and a sum of Rs. 705.39 million had already been paid.

#### **4.5 Assets Management**

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The following observations are made in this connection.

##### **(a) Non-moving Assets**

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- i. Unutilized and slow moving stock of spares amounting to Rs.31,810,655 had remained in the stores for over one year.
- ii. Obsolete inventory of uniforms, shoes and sandals, tyres and material stock-asphalt plant amounting to Rs. 1,989,955 had been brought forward from 2008 to 2009 without being considered to dispose them.

#### **4.6 Transactions of Contentious Nature**

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Certain transactions executed by the Authority with the Private Companies had been of contentions nature. The details of such transactions are given below.

##### **(i) Amounts Receivable from Maga Neguma Companies**

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- Although rental for vehicles hired to Maga Naguma Companies by the Authority should be recovered without delay as per the agreement entered with respective companies on 10 February 2012, action had not been taken to recover the rental amounting to Rs.488,868,233 receivable to the Authority for the period from 2008 to 2013.
- It was observed that 20 obsolete vehicles hired to Maga Neguma companies had not been returned.
- Action had not been taken to recover the receivable amount of Rs.63,276,545 and Rs.7,536,165 from Maga Neguma Road construction and Equipment Company which was granted for purchasing of assets, consumables and spares to the respective company during the year 2004-2007.

**(ii) Amounts Payable to Maga Neguma Companies**

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Amounts payable to three Maga Neguma Companies as at 31 December 2014 amounted to Rs. 225,297,655 and out of that a sum of Rs. 9,993,329 was relevant to 2013. It was observed that an action had not been taken either to settle these payable balances or set off against the balances receivable even by the end the year under review.

**4.7 Human Resources Management**

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The following observations were made.

**(a) The Cadre**

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The following matters were observed in this connection.

- (i) According to the cadre position of the Authority as at 31 December 2014 it was revealed that there were 711 vacancies in 11 posts and 1400 excesses in 07 other posts.
- (ii) Vacancies were observed in 148 post of Technical Services and 47 post of Clerical and Allied Services, which were essential to perform the functions of the Road Development Authority. It was further observed that this situation would adversely affect the performance of the Road Development Authority.

**(b) Resources of the Authority made available to other Institutions**

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- (i) Public Enterprises are not permitted to incur expenditure or deploy its resources (including human resources) under any circumstances, on behalf of the line Ministry or any other Government Institutions in terms of Section 8.3.9 of the Public Enterprises Circular No. PED/12 of 02 June 2003. However, contravening this, the Authority had released 114 its staff to other institutions and subsequently these employees had been re attached to the RDA during the year under review.
- (ii) Seven employees of the RDA released to 7 other institutions had been paid salaries by the RDA amounting to Rs. 2,683,222 and these salaries had been included in the debtors account as receivable. It was observed that this refers to a sum of Rs.2,053,066 of the year 2014 and Rs. 630,156 of the year 2013.

**(c) Performance of the Procurement Section**

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- (i) The Procurement Section had been established with the objective of carrying out the procurements of Road Development Authority in proper and efficient manner. But the activities of the Procurement Section had gradually decreased over several years.

- (ii) Even though the approved cadre of the Section was 37 and actual cadre was 16, the Director and the Supplies Officer were the only officers available in the Section.
- (iii) Procurement of stationery amounting to Rs.24.67 million had only been carried out by the Procurement Section while the other procurements had been carried out by other Sections during the year under review.

**(d) Planning Division**

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- (i) According to the Organizational Structure of the Planning Division, the cadre requirement of the Division was 117. However, there were only 81 employees in the existing cadre and accordingly there were 36 vacancies as at 31 December 2014.
- (ii) The proposed cadre of 117 staff according to the Organizational Structure of the Planning Division did not match with the proposed cadre of the Administration Division.

**5. Accountability and Good Governance**

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**5.1 Corporate Plan**

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- (a) According to paragraph 5.1.3 of the Circular No. PED/12, “Public Enterprises Guidelines for Good Governance” dated 02 June 2003, updated copies of the Corporate Plan should be furnished to the Auditor General at least 15 days before commencement of each financial year. However, the Authority had furnished the Corporate Plan for the period 2014 – 2018 to the Auditor General only on 01 January 2015.
- (b) Although the Corporate Plan should embody the cadre requirements of each Division of the Enterprise, consolidated in the form of a Human Resource Budget according to the Public Enterprises Circular No.PED/12 of 02 June 2003, the Corporate Plan prepared for 2014-2018 or the budget of the Authority for the 2014 had not provided the cadre details accordingly.

**5.2 Action Plan**

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- (i) The re-revised budget of the RDA for the year under review had been furnished to the Auditor General on 25 February 2015. However, action had not been taken to amend the Action Plan of the RDA to suit with the revised budget.
- (ii) Action had not been taken to forward to the Governing Board of the Authority, the performance report prepared in accordance with the Action Plan for the financial year 2014 even by 09 March 2015.

### **5.3 Budgetary Control**

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- (i) According to Paragraph 5.1.3 of the Circular No. PED/12, “Public Enterprises Guidelines for Good Governance” dated 02 June 2003, the annual budget should be furnished to the Auditor General 15 days before commencement of each financial year. However, the annual budget for the year under review had been furnished to the Auditor General only on 19 February 2014.
- (ii) The budget for the year 2014 had been revised in 2 occasions and the approval of the Board of Directors had been obtained on 26 May 2014 and 23 October 2014 respectively. Further, significant variances were observed between the revised budgets and actual income and expenditure.

### **6. Systems and Controls**

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

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