

## **Road Development Authority – 2015**

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The audit of financial statements of the Road Development Authority for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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 judgment, 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 policies 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 my audit opinion.

### **1.4 Basis 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 2015 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 Preparation of Consolidated Financial Statements**

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The audited financial statements of the Maganaguma Construction and Equipment Company (Pvt) Limited, Maganaguma Consultancy and Project Management Services Company (Pvt) Limited, Emulsion Production Company (Pvt) Limited and Expressway Transport Company (Pvt) Limited which are fully owned Subsidiaries of the RDA had not been taken in preparation of the financial statements for the year under review.

As well, even though transactions worth Rs.1.9 billion had been performed with the above Subsidiaries by the RDA during the year under review, the details of those transactions and outstanding balances had not been disclosed in the financial statements according to the SLPSAS.

#### **2.2.2 Comply with Sri Lanka Public Sector Accounting Standards (SLPSAS)**

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The following observations were made.

##### **(a) SLPSAS 1- Presentation of Financial Statements;**

- (i) Although transactions and events should be identified at the time of occurrence and reported for the relevant period, the payments aggregating Rs.104,004 million made during the year under review on interim payment certificates related to Local Bank Funded Road Rehabilitation Projects had been accounted for as deferred expenses. Further, interim payment certificates valued at Rs. 255.42 million submitted by the contractors which were not settled as at 31 December 2015 had not been brought to accounts. As a result, payable balances as at the end of the year under review had been understated by this amount.

- (ii) The receivables expected to be realized or a liability to be settled during the period of 12 months after the reporting date should be classified as current assets or liability. Accordingly, mobilization advances that should be recovered from the bills presented by the contractors during the year 2016 are required to be identified and stated as current assets. However, mobilization advances granted during the year under review to the Provincial Offices and Payment Units of the Authority aggregating Rs. 59,598,529 had been treated as current assets without considering the settlement period of mobilization advances. Whilst mobilization advances granted in preceding years to respective Divisions aggregating Rs.12,237,389 had been stated as non - current assets in the financial statements of the year under review.
- (iii) Without being identified the due dates for settlements, retention money amounting to Rs. 4,858,982,805 and Rs. 3,331,018,091 had been classified as current and non - current liabilities respectively.

**(b) SLPSAS 3 – Accounting Policies, Changes in Accounting Estimates and Errors**

The amount paid to contractors for the construction of roads under the Local Bank Funded Project had been treated as deferred expenses and accounted under non-current assets. The repayments of the capital portion of the loan for the year under review had been credited to the deferred expenses and accounted as current year expenses. This accounting procedure had not been disclosed in the financial statements.

**(c) SLPSAS 7 – Property, Plant and Equipment**

- (i) The residual value and the useful life time of an asset shall be reviewed at least at each annual reporting date. However, no action had been taken to review useful life time of the fully depreciated assets purchased at a cost Rs.972 million which are still in use.
- (ii) As a practice, the assets of the Authority are not depreciated from the date of purchase to the date of disposal. It was observed that the assets of the Authority were depreciated from the month following the month of acquisition and depreciated for the entire month of disposal. A disclosure in this regard had not been made in the financial statements.

**2.2.3 Accounting Deficiencies**  
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The following observations were made.

- (a) Fixed assets valued at Rs. 507 million procured during the period 2013 - 2015 by the Local Bank Funded Road Development Projects, had not been brought to the accounts of the Authority. Therefore, the value of fixed assets shown in the financial statements for the year under review had been understated by similar amount and the depreciation thereon had been understated by Rs.219.51 million.

- (b) The ownership of the motor vehicles valued at Rs.69,800,000 procured by 05 foreign funded projects for roads rehabilitation and improvements had been transferred to the Authority during the year under review. However, the value of those motor vehicles had not been brought to accounts.
- (c) (i) Even though sale proceeds of Rs.11,981,954 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 the accounts since the date of acquisition by the Authority.
- (ii) Provision for depreciation on buildings valued at Rs. 15,050,000 had not been made for the year 2015. Accordingly, provision for depreciation for the year 2015 had been understated by Rs.752,500.

#### **2.2.4 Un - explained Differences**

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The following unexplained differences were observed in audit.

- (a) Bank Loans aggregating Rs.120,935,788,038 shown in the financial statements as at 31 December 2015 under 46 current accounts maintained by the Authority had not agreed with the balances aggregating Rs.116,537,540,890 confirmed by the respective banks.
- (b) According to the financial statements of the Southern Transport Development Project, the cost of the Southern Expressway was amounted to Rs. 114,166 million. However, the corresponding value of the Expressway shown in the financial statements of the Authority was Rs.114,071 million.
- (c) A difference of Rs. 635,840,889 was observed between the balances receivable from/ payable to the Subsidiaries and the confirmations presented relating to the receivables / payables by the respective Subsidiaries.

#### **2.2.5 Accounts Receivable and Payable**

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It was observed that the Authority had not taken fruitful action to recover the dues from government organizations as well as private parties. In addition, the Authority had not taken action to settle the balances including payables to the outside parties. The instances observed in this regard are given below.

(a) **Accounts Receivable**

| <b>Description</b>                            | <b>Amount</b> | <b>Details of Clients</b>                                      | <b>Unrecovered Period/ Years</b>    |
|---|---------------|--|-------------------------------------|
|   | <b>Rs.</b>    |  |                                     |
| (i) Debtors                                   | 7,368,162,377 | 16 debtor accounts   | Since 2012 to 2014 and 1987 to 2014 |
| (ii) Service and rent advances                | 7,405,680     | 08 Government institutions and persons                         | 2001 - 2014                         |
| (iii) Rent advances                           | 6,494,948     | 18 deposits  | 2008 - 2014                         |
| (iv) Contract advances                        | 27,402,432    | 28 contractors   | 2005- 2014 and over 08 years        |
| (v) Other advances                            | 3,740,000,000 | Ministry of Highways and Investment Promotion                  | 2014 to 2015                        |
| (vi) On account advances                      | 11,478,909    | Maganeguma Road Constructions and Equipment Company (pvt) Ltd. | 2013 to 2015                        |
|   | 71,100,621    | 05 contractors   | 2013 to 2015                        |
| (vii) Mobilization Advances                   | 2,000,000,000 | Provincial Road Development Authority                          | 2014 to 2015                        |
|   | 1,119,966,845 | 34 contractors   | 2001 to 2015                        |
| (viii) Purchase Advances                      | 33,631,574    | 92 suppliers   | 2011 to 2015 and over 05 years      |
| (ix) Rent Receivables                         | 1,781,623     | 02 shop owners at Borella Underpass                            | 5 to 8 years                        |
|   | 1,109,689     | 05 shop owners at Kandy Underpass                              | 3 to 4 years                        |
| (x) Salaries and other allowances unrecovered | 62,004,844    | 260 RDA staff members  | One year                            |
|   | 62,757,658    | 94 RDA staff members   | Two years                           |
|   | 1,718, 292    | Staff released to 07 Ministries                                | 2013 to 2015                        |
| (xi) Staff loans unrecovered                  | 3,104,786     | 50 retired employees of RDA                                    | 1 to 12 years                       |

## (b) Accounts Payable

| Description                                       | Amount      | Details of Clients | Unsettled Period                |
|---|-------------|--------------------|---------------------------------|
|   | <b>Rs.</b>  |                    |                                 |
| (i) Client Deposits                               | 494,608,295 | 200 client works   | 1 to 7 years                    |
|   | 227,865,985 | 119 clients        | 2010 to 2014                    |
| (ii) Security Deposits                            | 2,278,159   | 111 contractors    | More than 29 years              |
| (iii) Retention Money Payables                    | 973,394,696 | 1073 contracts     | 3 to 10 years and over 10 years |
| (iv) Payable to projects and other contractors    |             |                    |                                 |
| - On incomplete bills                             | 205,861,302 | 28 contracts       | } Less than 1 year              |
| - On variations not approved                      | 135,099,370 | 27 contracts       |                                 |
| (v) Payable to contractors                        | 328,923,378 | 06 contractors     | Less than 01 year               |
| (vi) Liquidated damages not transferred to income | 676,846,546 | 450 contracts      | 2010 to 2015                    |

### 2.2.6 Lack of Evidence for Audit

Inventory items such as tools, direct materials, indirect materials, spare parts, stationeries, printing items aggregating Rs. 552,044,028 could not be satisfactorily verified in audit due to non-availability of evidence such as detailed schedules comprising total units, unit prices and total values.

### 2.3 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   |
|--|---|
| (a) Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka. |   |
| (i) Financial Regulation 373 and Office Circular No. 336 of 21 October 2015                    | Petty cash imprests and fuel imprests aggregating Rs.31,651,973 granted to 02 Sub-offices and 03 Divisions of the Authority had not been settled at the end of the year under review. |

(ii) Financial Regulation 396 The Authority had not taken timely action to cancel 67 cheques valued at Rs.3,903,709 issued but not realized over 06 month's period.

(b) Public Enterprises Circular No. PED/12 of 02 June 2003

(i) Section 9:4 260 staff members of the Authority had been released to the Ministry of Higher Education and Highways during the year under review in contrary to the provisions in the Circular.

(ii) Section 9:3:1 (viii) The succession plan had not been prepared by the Authority in order to fill the vacancies in managerial positions.

### **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 surplus of Rs.1,674.93 million as against the pre-tax deficit of Rs.4,962.68 million for the preceding year, thus indicating an increase of Rs.6,637.61 million in the financial results for the year under review. Increase of total revenue by Rs.12,506 million during the year under review had mainly attributed to the improvement in the financial results. However, the operational expenditure of the Authority had also been increased by Rs.5,868.47 million during the year under review. In the meantime, interest on loans for widening and improvements had been increased with the commencement of the Local Bank Funded Projects.

#### **3.2 Value Addition of the Authority**

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According to the information provided, the value addition of the Authority for the year under review amounted to Rs.21,307 million and as compared with the preceding year this was increased by 45 per cent. However, this improvement was mainly due to the government contributions and increase of expressway income by Rs.1,016 million (earning from government investments) and there was no self-value addition of the Authority. On the other hand, according to the information made available, there was no improvement in the main activities of the Authority such as widening and development of roads and construction of new roads etc. as compared with the preceding year though the government contributions and supports had significantly enhanced during the year under review.

### 3.3 Analytical Financial Review

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Certain significant balances shown in the statement of financial position as at December 2015 as compared with the previous year are given below. 31

| <u>Details</u>      | <u>As at 31 December</u> |                |
|---------------------|--------------------------|----------------|
|                     | <u>2015</u>              | <u>2014</u>    |
|                     | <u>Rs. Mn.</u>           | <u>Rs. Mn.</u> |
| Net Current Assets  | (855.55)                 | 2,717          |
| Net Assets          | 161,409                  | 170,633        |
| Accumulated Deficit | (12,740)                 | ( 13,576 )     |

Even though the accumulated deficit of the Authority for the year under review was decreased to Rs.12,740 million from Rs. 13,576 million in the preceding year, the net current assets and net assets were decreased by Rs. 3,572.55 million or 131 per cent and Rs. 9,224 million or 05 per cent respectively.

## 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 following observations are made in this regard.

- (i) Even though a sum of Rs. 4,994.78 million had been provided for the maintenance activities of national roads, only a sum of Rs. 1,996.81 million or 39.97 per cent had been utilized out of the total allocation.
- (ii) Road maintenance activities conducted under 23 projects and implemented by 06 Executive Engineer's Offices were expected to be completed as at 31 December 2015 at a cost of Rs.161.37 million. However, those activities had not been completed during the year under review and the actual cost incurred up to 31 December 2015 was only Rs.27.91 million.
- (iii) The utilization of the allocation for periodic maintenance, drainage and structure improvement, maintenance of signal light systems, street lights, road sign and marking, minor road safety improvements and emergency maintenance /disaster works was less than 50 per cent. As a result, maintenance of the national road network up to the standard condition was affected in view of under-utilization of allocated funds.



#### **4.1.2 Performance of Engineering Services and Bridge Design Division**

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The following observations are made.

- (i) Although a Work Plan for this Division had been prepared for the year 2015, actions had not been taken to obtain required approval for such Plan.
- (ii) It had been expected to design 69 bridges during the year under review. However, according to the progress report of the year under review, only 39 bridges had been designed.
- (iii) The bridges at access road to the Defense Head Quarters and the bridge over Dehiwala canal on marine drive extension had been designed by the Bridge Design Section of the Authority, though such works were not come under the purview of the Authority.

#### **4.2 Contract Administration**

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

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The following matters were observed on road widening and improvement works implemented during the year under review.

##### **(a) Widening and Improvement of Roads**

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- (i) Two hundred and fifty nine road improvement works were expected to be completed at an estimated cost of Rs.25,103 million. However, overall physical progress of those activities as at 31 December 2015 had been less than 50 per cent. Out of those road improvement works, 206 works were non – RDA works and estimated and actual cost thereon amounted to Rs.17,928 million and Rs. 913 million respectively. Fifty three projects with less than 50 per cent of physical progress belonged to the Road Development Authority. The contract value and the amount spent thereof amounted to Rs.7,175 million and Rs.581 million respectively.
- (ii) There were another 84 Projects to be completed during the year under review and estimated cost of those projects amounted to Rs.4,902 million and no works whatsoever had been done. However, a sum of Rs.2.50 million had been spent on one of those projects. Out of those 84 projects, 54 projects were Non-RDA projects and the contract value of them amounted to Rs.2,465 million.

##### **(b) Local Bank Funded Projects (LBFP)**

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The Authority had been authorized by the Cabinet of Ministers to obtain loans amounting to Rs. 152 billion from local banks in order to rehabilitate 64 priority roads with a length of 1433.85 kilometers, island wide. Accordingly, the Authority had offered contracts valued at Rs.152 billion to rehabilitate those 64 roads.

The Authority had obtained loans aggregating Rs.131,441 million from 07 local banks during the period of 2012– 2015. Out of that, a sum of Rs.4,523 million had been settled during the years 2014 and 2015. Accordingly, it was observed that the payable portion of the loan amounted to Rs.126,918 million as at 31 December 2015. The details of loans received and the outstanding portion of the loans as at the end of the year under review are shown below.

| Name of the Bank                | Loans received from Banks for the year |                      |                      |                      | Total                 | Capital Repayment during the year |                     | Total               | Balance as at 31 December 2015 |
|---------------------------------|--|----------------------|----------------------|----------------------|-----------------------|-----------------------------------|---------------------|---------------------|--------------------------------|
|                                 | 2012                                   | 2013                 | 2014                 | 2015                 |                       | 2014                              | 2015                |                     |                                |
|                                 | Rs. million                            | Rs. million          | Rs. million          | Rs. million          | Rs. million           | Rs. million                       | Rs. million         | Rs. million         | Rs. million                    |
| Commercial Bank                 | 1,266                                  | 634                  | 2,647                | 1,497                | 6,044                 | 128                               | 361                 | 489                 | 5,555                          |
| Bank of Ceylon                  | 3,703                                  | 9,637                | 10,402               | 6,606                | 30,348                | 218                               | 1,469               | 1,687               | 28,661                         |
| People's Bank                   | 3,369                                  | 5,234                | 4,806                | 562                  | 13,971                | 607                               | 1,220               | 1,827               | 12,144                         |
| National Saving Bank            | 384                                    | 4,953                | 43,931               | 5,076                | 54,344                | -                                 | 339                 | 339                 | 54,005                         |
| Development Finance Corporation | 209                                    | 724                  | * (32)               | 309                  | 1,210                 | -                                 | 45                  | 45                  | 1,165                          |
| Hatton National Bank            | -                                      | 3,614                | 8,562                | 7,365                | 19,541                | -                                 | 136                 | 136                 | 19,405                         |
| National Development Bank       | -                                      | -                    | 4,214                | 1,769                | 5,983                 | -                                 | -                   | -                   | 5,983                          |
| <b>Total</b>                    | <b><u>8,931</u></b>                    | <b><u>24,796</u></b> | <b><u>74,530</u></b> | <b><u>23,184</u></b> | <b><u>131,441</u></b> | <b><u>953</u></b>                 | <b><u>3,570</u></b> | <b><u>4,523</u></b> | <b><u>126,918</u></b>          |

\*Erroneously credited in 2013 and corrected in 2014

The following matters were observed 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 Government Procurement Guidelines. Instead the contractors themselves had furnished the contract proposals for 54 roads. According to the proposals submitted, estimated total costs for 54 roads amounted to Rs.162 billion whilst Cabinet Appointed Technical Evaluation Committee (CATEC) had recommended awarding these contracts for Rs.146.5 billion. However, Cabinet Appointed Procurement Committee had increased the CATEC recommended contract value up to Rs.155.79 billion without giving any reasons to such price escalation.

- (ii) The proposals for contractors had not been properly evaluated by the Technical Evaluation Committee (TEC). Further the Engineer's estimates had not been prepared for each road including items of works, quantities and the rates to support the evaluation. Therefore, the contractors' proposals had been evaluated by the CATEC by using highway standard rates (HSR). However, the rates proposed by the contractors in the bills of quantity (BOQ) were very much higher as compared with the Engineers rates and the rates were varied from contractor to contractor.
- (iii) It was revealed that some part of the roads which had been asphalt overlaid by the Road Development Authority in the early part of 2012 had again been included for rehabilitation under LBFP.
- (iv) The Local Bank Funded Projects had received a sum of Rs.55,392.2 million to construct 28 roads out of the total loan. Out of this a sum of Rs.28,000 million had been spent on other activities of the RDA which had no connection with the Project activities and a sum of Rs.21,238.98 million had been paid as advances and for works done. As a result, the balance of loan available was Rs.6,153.34 million. However, the amount payable from the loan obtained for the rest of the work to be done was Rs.34,153.34 million. Accordingly, it was observed in audit that there was a possibility for financial crisis that may occur in near future while making payments for the rest of the road works to be done and would adversely affect to the construction works.
- (v) It was further observed that a sum of Rs.161.05 million incurred to construction of President House at Embilipitiya and 17 other roads with extend of 9.21 Km by using the bank loan amounting to Rs.2,172 million received from the NSB for the construction of Pelmadulla –Embilipitiya - Nonagama Road were not related to the scope of the Project
- (vi) At the audit test check carried out relating to 08 roads, it was revealed that savings amounting to Rs.3,333 million had been made through reducing some works such as length and width of roads, concrete drains, culverts, side walls and construction on the road surface and this savings had been utilized to other construction activities without considering the scheduled scope of the original Project. Details of other activities are shown below.

| <b>Activity</b><br>-----   | <b>Amount Spent</b><br>----- |
|--|------------------------------|
|  | <b>Rs. million</b>           |
| Constructions of 59 roads extraneous to the approved Road Rehabilitation Projects                        | 943.54                       |
| Construction of Bridges on other roads extraneous to Projects  | 65.86                        |
| Construction of Dawson Bungalow at Kegalle, construction of Provincial Director's Office and other roads | 1,370.23                     |
| Construction of 07 other extraneous roads  | 953.47                       |
|  | -----                        |
| <b>Total</b>   | <b><u>3,333.10</u></b>       |

**(c) Construction of Bridge on Norwood Up-court Road**

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The following observations are made.

- (i) The Construction works of Bridge No. 9/12 on Norwood Up-court Road had been awarded to a contractor at a cost of Rs. 3,456,682. Due to the widening of bridge from 4 meters to 7 meters the contract value had been increased to Rs.8,162,377 and approval for extra works had not been obtained. After obtaining a sum of Rs. 3,425,378 for the construction works, the contractor had abandoned the constructions of the bridge.
- (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 using hand rails although 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 30 June 2016.

**(d) Construction of Wijebahukanda Bridge**

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- (i) The above contract had been awarded at a cost of Rs. 23.90 million, less than 25.31 per cent of engineer's estimate of Rs.30.83 million, without following requirements in Paragraph 7.9.11 of the Government Procurement Guidelines. Even though the construction works scheduled to be completed before 09 January 2012, the construction works had not been completed on December 2014 even after leaps of extended period by 4 months. However, liquidated damages had not been charged for delayed period and the contract value had also been increased by a sum of Rs. 11,992,423 or 50 per cent due to additional works.
- (ii) Although the bridge had been constructed, the finishing works at the road such as construction of way side swing walls, hand rails, wearing course on the surface of the bridge and the back filling between the bridge and the entrances had not been constructed in order to ensure safety of the users of the bridge.

**4.2.2 Re-construction of Trincomalee Outer Circle Road**

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Eight bridges had been constructed by incurring a sum of Rs.3,495 million on the Outer Circular Road in Trincomalee which connects Batticaloa – ThirikondaiAru – Trincomalee (A-15) and Ambepussa – Kurunegala – Trincomalee (A-6) beyond the town under the Steel Bridges Project of United Kingdom during 2009 and 2010. However, the constructions of the roads connecting the bridges had not been completed due to lack of funds even after elapsed 5 years as at 31 May 2016.

### **4.2.3 Construction of Circuit Bungalow at Katharagama**

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The following observations are made.

- (i) Even though the construction of Circuit Bungalow at Katharagama commenced by a private Company in the year 2004, the construction activities had been abandoned without being completed. Thereafter, construction works had been re-commenced through direct labour basis. Subsequently, construction of the ground floor of the Circuit Bungalow had been assigned on 28 September 2010 to a contractor for Rs.12,352,242 and a sum of Rs.11,771,448 had been paid to the contractor for construction works carried out. According to the agreement entered into with the contractor, the works should have been completed before 07 June 2011. But the works had not been completed even by 31 December 2015.
- (ii) Even though there were considerable deficiencies in the works done by the contractor in the ground floor, the construction of the first floor too had been assigned to said contractor for Rs.7,922,316 on 24 December 2014 despite such deficiencies.
- (iii) Action had not been taken even by 31 May 2016 to complete the construction works in order to make use of the building.

### **4.3 Fruitless Transactions**

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The following observations are made in this regard.

- (i) According to the lease agreement entered in to with the Urban Development Authority (UDA) on 20 August 2008, lease rental of Rs. 6 million per year to be paid by the RDA for a land at Denzil Kobbekaduwa Road. However, according to the decision of the Cabinet of Ministers of its meeting held on 19 November 2009 the monthly rental had been revised as Rs.1000. Action had not been taken to revise the lease agreement as enable to reduce the annual lease payment as determined by the Cabinet of Ministers.
- (ii) Even though the Head Office Building constructed by a Foreign Funded Project had been handed over to the Authority on 21 November 2014, the Head Office had not been shifted to the new building until April 2015. As such rent amounting to Rs.49.4 million had been paid to the Urban Development Authority from December 2014 to April 2015.
- (iii) The construction works of 169 road Projects with estimated cost amounting to Rs.14,857.52 million commenced in the years from 2011 to 2015 had been suspended due to construction of those roads not coming under the purview of the Authority and lack of funds. The expenditure incurred on therein up to 31 December 2015 amounted to Rs. 2,213.87 million. Another 73 roads widening and improvement projects with estimated cost of Rs. 7,293.38 million have been restarted within the year 2015 yet not completed. The total cost incurred up to 31 December 2015 was Rs. 1,689.63 million.

#### **4.4 Assets Management**

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The following observations are made in this connection.

- (a) Unutilized and slow moving stock of spares valued at Rs.32,139,477 had been remained in the stores since the year 2012 without being utilized.
- (b) Obsolete inventory items such as uniforms, shoes and sandals, tires and material stock-asphalt plant valued at Rs. 4,746,349 had been remained in the stores since the year 2008 without being considered to dispose those items.

#### **4.5 Transactions of Contentious Nature**

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Certain transactions executed by the Authority with its Associated Companies were contentions. The details of such transactions are given below.

##### **(a) Amounts Receivable from Maganeguma Companies**

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- (i) Vehicle rent receivable to the Authority on hiring of vehicles to Maganeguma Road Construction & Equipment Company (pvt) Ltd. should be recovered by the Authority without delay in terms of the agreement entered into with respective Company on 10 February 2012. However, action had not been taken to recover the rental amounting to Rs.333,200,550 for the period from 2010 to 2014 even as at 31 December 2015.
  - (ii) Action had not been taken to recover the grants amounting to Rs.63,276,545 which had been given during the years 2004-2007 to the Maganeguma Road Construction & Equipment Company (pvt) Ltd. for purchase of assets, consumables and spares.
- (b) Action had not been taken to make the payments or setoff against the receivables from the Maganeguma Consultancy and Project Management Services Company (pvt) Ltd. relating to recover of wages amounting to Rs.10,923,083 since year 2012 and, for supply of cold mix amounting to Rs.5,685,164 during the year 2014.

##### **(c) Disapproved Variation Orders and Work Orders**

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- (i) According to the Circular No: 2011-01 dated 28 March 2011 of the Director General/Acting Chairman of the Road Development Authority, the approval of the Director General should be obtained to issue the variation orders and to order for extra and additional works. However, such approvals had not been obtained as at 31 December 2015 for the following additional works.

|  | <b>Value of Unfurnished<br/>variation Orders for<br/>Approval</b> | <b>Amount of Variation<br/>Orders to be Submitted for<br/>Approval</b> | <b>Total</b>          |
|--|---|--|-----------------------|
|  | <b>Rs. million</b>  | <b>Rs. million</b>   | <b>Rs. million</b>    |
| variation orders issued within the contracted Value    | 987.4   | 272.8  | 1,260.2               |
| variation orders issued exceeding the contracted Value | 384.7   | 42.3   | 427.0                 |
| <b>Total</b>   | <b><u>1,372.1</u></b>   | <b><u>315.1</u></b>  | <b><u>1,687.2</u></b> |

- (ii) According to the Circular No. 2013-1 dated 19 March 2013 of the Road Development Authority, prior approval has to be obtained from the Director General of RDA before issuing work orders to Maganeguma Road Construction & Equipment Company (Pvt) Ltd. However, it was observed that the prior approval had not been obtained for the following work orders issued to that company.

|                                 | <b>Value of Work Orders</b> | <b>Amount paid up to July 2015</b> |
|---------------------------------|-----------------------------|------------------------------------|
|                                 | <b>Rs. million</b>          | <b>Rs. million</b>                 |
| Work orders issued 2013 onwards | 17,093.4                    | 2,898.7                            |
| Work orders issued up to 2013   | 587.8                       | 197.2                              |
| <b>Total</b>                    | <b><u>17,681.2</u></b>      | <b><u>3,095.9</u></b>              |

- (iii) Further, the value of work orders issued to Maganeguma Road Construction & Equipment Company (Pvt) Ltd. without prior approval and the variation orders issued without the required approval for the contracts for widening and improvement of roads was amounted to Rs.19,368.4 million and the amount paid out of that as at 31 December 2015 was Rs.3,281.9 million. Accordingly, value of accrued bills as at 31 December 2015 after calculating the value of works done had not been included in the financial statements of the Authority and action had not been taken even to make a disclosure in this regard in the financial statements.

## 4.6 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 2015, it was revealed that there were 710 vacancies in 12 posts and 1080 excesses in 08 other posts.
- (ii) Six vacancies in the senior managerial level, 144 vacancies in technical services and 28 vacancies in clerical and aided services were observed in audit. This situation had been adversely affected to the performance of the Authority.
- (iii) It was observed that the Bridge Design Section of the Authority runs with the shortage of qualified persons for key posts. Accordingly, 07 key managerial posts had remained vacant as at 31 December 2015.

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

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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 260 its staff to the Ministry of Higher Education and Highways and subsequently these employees had been reattached to the RDA during the year under review.

### (c) Performance of the Procurement Section

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- (i) The Procurement Section had been established with the objective of carrying out the procurement activities of the Authority in proper and efficient manner. However, due to poor control over the activities of this Section, it had not performed as expected manner.
- (ii) Even though the approved cadre of the Section was 36, the actual cadre was 15. Further, key posts such as Chief Engineer, 3 other Engineers and Technical Officer were vacant since the year 2014.
- (iii) Procurement of stationery amounting to Rs.31.32 million had only been carried out by this Section during the year under review. Other procurements had been carried out by respective Sections without obtaining the service of Procurement Section.



## **5. Accountability and Good Governance**

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### **5.1 Corporate Plan**

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The following observations are made.

- (a) According to Section 5.1.3 of the Circular No. PED/12 of 02 June 2003 on the Public Enterprises Guidelines on Good Governance, the updated Corporate Plan should be furnished to the Auditor General 15 days before the commencement of each financial year. Nevertheless, the Corporate Plan for the period 2014 to 2018 had been presented only on 01 January 2015 after a delay of 12 months.

Further, action had not been taken for timely review of the Corporate Plan. The Corporate Plan for the years 2015 to 2019 had been approved by the Board of Directors and presented to the Auditor General on 04 January 2016 after a delay of 12 months and the Corporate Plan for the years 2016 to 2020 approved by the Board of Directors had been presented on 29 February 2016 after a delay of 02 months.

- (b) According to the above Circular, requirements of human resources for each Division should be included to the Corporate Plan. However, details of requirement of human resources had not been included to the Plan after evaluating the real requirements.

### **5.2 Action Plan**

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The progress report that had been prepared in accordance with the Action Plan for the financial year 2015 had not been presented to the Board of Directors. Further, the procedure to present the annual progress report for the review of the Board of Director had not been followed by the Authority.

### **5.3 Budgetary Control**

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The budget for the year 2015 had been revised in 2 occasions and the approval for finally revised Budget had been obtained on 21 December 2015 and significant variances were observed even between the revised budgets and actual income and expenditure of the Authority due to lack of sound and effective budgeting system. As such it was observed that the Budget had not been made use as an effective instrument of management control.

## **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.

| <b>Control Area</b>         | <b>Audit Observations</b>  |
|-----------------------------|--|
| -----                       | -----  |
| (a) Accounting              | <ul style="list-style-type: none"> <li data-bbox="740 309 1417 421">i. Disclose of accounting policies, classification of liabilities (current and non-current) and accounting the accrued expenditure.</li> <li data-bbox="740 465 1417 577">ii. Disclosure of transactions with related parties (transaction with Maganeguma Companies and Expressway Transport Company)</li> <li data-bbox="740 622 1417 730">iii. Accounting treatments with regard to the assets transferred and disposed, and preparation of detailed schedules for ledger accounts</li> </ul> |
| (b) Contract Administration | <ul style="list-style-type: none"> <li data-bbox="740 775 1417 931">i. Effective utilization of funds for the intended purposes, evaluation of financial proposals, obtaining prior approval for work orders, completion of construction works as scheduled.</li> <li data-bbox="740 976 1318 999">ii. Utilization of funds for the intended purposes.</li> </ul>  |
| (c) Inventory Control       | Disposal of obsolete inventory items   |
| (d) Assets Management       | Utilization of lands   |