

## **Road Development Authority – 2016**

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The audit of financial statements of the Road Development Authority (“the Authority”) for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of financial performance, statement of changes in equity and statement of cash flows 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**

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**

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 consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810).

### **1.4 Basis for Disclaimer of Opinion**

As a result of the matters described in paragraph 2.2 of this report I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial position, statement of financial performance, statement of changes in equity and statement of cash flows.

## **2. Financial Statements**

### **2.1 Disclaimer of Opinion**

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

## **2.2 Comments on Financial Statements**

### **2.2.1 Adherent with Sri Lanka Public Sector Accounting Standards (SLPSAS)**

The following observations were made

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

- (i) According to the provisions in the Standard, the mobilization advances which expected to be recovered from the bills of the contractors during the year 2017 are required to be identified and stated as current assets. However, the mobilization advances granted during the year under review to the Rural Bridge Construction Division, Payment Units and Provincial Offices of the Authority aggregating Rs. 42,608,398 had been treated as non-current assets without considering the settlement period of those mobilization advances.
- (ii) An action had not been taken by the Authority to prepare the consolidated financial statements for the year 2016 after taking into accounts the audited financial statements of the Maganeguma Road Construction Equipment Company (Private) Ltd., Maganeguma Consultancy and Project Management Services Company (Private) Ltd., Emulsion Production Company (Private) Ltd. and Expressway Transport Company (Private) Ltd. which are fully owned Subsidiaries of the Authority.
- (iii) Without being identified the due dates for settlements, retention money amounting to Rs. 2,664,571,296 and Rs. 966,359,992 had been classified as current and non - current liabilities respectively.
- (iv) The depreciation amounting to Rs.1.2 million had been provided for a building valued at Rs.24.5 million which is not made available for use as at 31 December 2016. As well out of the total space available in the Head office building of the Authority, an extent of 72,400 square feet to the value of Rs. 496.5 million had been used by the line Ministry on permanent basis and entire depreciation thereon had also been charge to the depreciation expenses of the Authority. The depreciation charged for the year under review for the building amounted to Rs.25 million.

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

The amount paid to the 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 debited to the income statement for the year under review. However, this accounting treatment had not been disclosed in the financial statements.

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

- (i) The residual value and the economic useful lifetime of an asset shall be reviewed at least at each annual reporting date. However, no action had been taken to review the economic useful lifetime of the fully depreciated assets purchased at a cost of Rs.972 million which are still in used. Further, it was observed that 410 vehicles with the cost of Rs.1,592 million had been fully depreciated as at 01 January 2017. However, action had not been taken to reassess the useful economic lifetime of those assets and accounted them accordingly as per the provisions in the Standard.
- (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. Further, this accounting procedure is not complying with this Sri Lanka Public Sector Accounting Standard.
- (iii) The assets valued at Rs.935.8 million received from the National Highways Sector Project had been accounted for as buildings without being separately categorized them according to the class of the assets. As a result, depreciation on the buildings had been overstated by Rs.201 million. Further, due to capitalization of non-capital expenditure of Rs.5,309 million related to the Southern Expressway Project, the depreciation thereof had also been overstated by Rs.159.7 million.
- (iv) One hundred and eighty three motor vehicles costing Rs.881.8 million had been used by the line Ministry and various Projects. However, the depreciation thereon amounting to Rs.154.6 million had been charged against the revenue of the Authority contrary to SLPSAS-01 and 07.

**2.2.2 Accounting Policies**

The accounting policies applied for the deferred expenses had not been disclosed in the financial statements. The expenditure amounting to Rs.120,700 million incurred for widening and improvement of roads under the Local Bank Funded Projects as at 31 December 2016 had been recognized as a deferred expense whilst the expenditure incurred for widening and improvement of roads under the budgetary provisions made by the government had been recognized as a recurrent expenditure. Application of two accounting procedures for the same category of expenditure could not be accepted in audit.

**2.2.3 Accounting Deficiencies**

The following observations were made.

- (a) Although the major functions of the Authority is constructing and maintaining of highways and express ways, the length of 12,210 kilometres of highways belongs to the Authority had not been valued and brought to the financial statements.

- (b) The lands with the total extent of 1,026.54 acres situated in various places of the country which vested with the Authority and utilizing them since the establishment of the Authority had not been valued and brought to the financial statements and this was even not disclosed as a note to the financial statements. Further, another 4 lands with an extent of 3 acres and 18 perches to the value of Rs.67.6 million had not been brought to the financial statements.
- (c) Non-current assets valued at Rs. 250.5 million procured during the period of 2013 - 2015 by the Local Bank Funded Road Development Projects had not been brought to the accounts of the Authority even in the year under review. 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 also been understated by Rs. 51.05 million.
- (d) The assets valued at Rs.467.2 million transferred to the Authority by 04 foreign funded projects with regard to the construction of expressways and roads rehabilitation and improvements had not been brought to accounts during the year under review.
- (e) Even though the interest income of Rs. 466.13 million was received during the year under review, this had not been separately shown in the statement of cash flows under the Investment Activities.
- (f) Although a provision of Rs.32.14 million on non - moving spare parts had been made in the financial statements for the year under review, the correct provision was only amounted to Rs.29.82 million. Accordingly, the balance of inventory as at 31 December 2016 had been understated by Rs.2.32 million.
- (g) A sum of Rs. 338,547,170 had been shown as contingent liabilities as at 31 December 2016 under the General Notes to the financial statements for the year under review with regard to 41 court cases filed by employees and outside parties against the Authority. However, the actual number of court cases filed by employees and outside parties against the Authority was stood 170 and compensation amounting to Rs. 550,413,600 had been claimed for 71 court cases.
- (h) The value of 37 trade stalls located at the Kandy and Borella underpasses had not been brought to the financial statements.
- (i) According to the information obtained by the audit from the Department of Motor Traffic, 1,754 motor vehicles had been registered under the names of the Chairman or the General Manager of the Authority. However, according to the fixed assets register maintained by the Finance Division of the Authority, the number of motor vehicles owned by the Authority was 1486. Accordingly, it was revealed that 268 motor vehicles which registered under the name of the Road Development Authority had not been included in the asset register of the Authority. In the meantime, 205 vehicles included in the assets register of the Authority had not been registered with the Department of Motor Traffic under the name of the Authority. Furthermore, it was observed that some motor vehicles had been included twice in the assets register. Hence, the accuracy of the motor vehicles to the value of Rs.3,796 million shown in the financial statements could not be relied upon in audit.

#### 2.2.4 Un-explained Differences

The following observations are made.

- (a) A difference of Rs. 86.7 million was observed between the receivables and payables shown in the financial statements of the Authority and the corresponding balances shown in the financial statements of the Maganeguma Emulsion Production Company (Private) Limited and Maganeguma Consultancy & Project Management Services Company (Private) Limited.
- (b) The cost of the motor vehicles as at 31 December 2016 classified separately under the 'Projects' in the financial statements of the Authority amounted to Rs.3,363 million. However, according to the corresponding schedule submitted together with the financial statements for audit, the cost of such motor vehicles as at end of the year under review amounted to Rs.3,451 million and therefore, a difference of Rs.88 million was observed between those two records.
- (c) According to the statement of financial position of the Authority as at 31 December 2016, the value of buildings transferred to the Authority by the National Highways Sector Project amounted to Rs.2,481 million. However, the respective balance shown in the financial statements of the above project amounted to Rs.2,506 million and therefore, a difference of Rs.25 million was observed.
- (d) According to the financial statements of the Authority, the capitalized value of Southern Expressway as at 31 December 2016 amounted to Rs. 116,357 million and the respective balance shown in the financial statements of the relevant project amounted to Rs.116,797 million and as such, a difference of Rs.440 million was observed.
- (e) According to the accounting system followed by the Authority with regard to the Local Bank Funded Project, the unsettled balance of the loans obtained under this Project as at 31 December 2016 should be equal to the assets created by using such loans as at that date. However, un-reconciled difference of Rs. 149.7 million was observed between those two balances as at 31 December 2016.

#### 2.2.5 Lack of Evidence for Audit

The following evidence as indicated against the each item shown below had not been submitted for audit. Details are as follows.

<u>Item</u>	<u>Value</u>	<u>Evidence not made available</u>
	Rs. Million	
(a) Inventory items (tools, direct and indirect materials, spare parts, stationeries and printing items)	624	Detailed schedules and unit prices

(b) Motor vehicles, plant and equipment provided to Subsidiaries Not provided Assets verification reports

(c) Mobilization advances 1,779 Details of contracts

## 2.2.6 Accounts Receivable and Payable

The Authority had not taken timely action to recover the dues from Government organizations and private institutions. In the meantime fruitful actions had not been taken to settle the payables to the outside parties. Therefore, the long outstanding balances of receivables and payables aggregating Rs, 6,442,350,959 and Rs 3,585,727,582 respectively were existed as at 31 December 2016. Details are given in the following table.

### (a) Accounts Receivable

	<u>Items</u>	<u>Amount</u>	<u>Description</u>	<u>Unrecovered Period/ Years</u>
		<b>Rs.</b>		
(i)	Debtors	1,248,930,524	12 debtor accounts	2012 to 2015 and since 1987
(ii)	Contract Advances	16,032,089	10 Contractors	Over 05 years
(iii)	Other Advances	3,740,000,000	Ministry of Higher Education and Highways	Over 02 years
(iv)	Mobilization Advances	1,373,360,371	Provincial Road Development Authority-Western Province and 20 Contractors	3 to 4 years and over 05 years
(v)	Purchase Advances	45,541,431	81 Suppliers	1 to 2 years , 3 to 4 years and over 05 years
(vi)	Rent Receivables	2,608,952	07 Shop owners at Borella and at Kandy underpasses	2 to 4 years and over 9 years
(vii)	On-account Advances	15,877,592	Maganeguma Road Construction and Equipment Company (private) Ltd.	03 to 04years

**(b) Accounts Payable**

<b>Items</b>	<b>Amount</b>	<b>Description</b>	<b>Unsettled Period</b>
	<b>Rs.</b>		
(i) Client Deposits	205,588,213	148 Client works	3 to 5 years and over 5 years
(ii) Liquidated Damages	428,064,589	344 Contractors	01 to 5 years and over 5 years
(iii) Security Deposits	2,228,159	109 Contractors	Over 30 years
(iv) Retention Money Payables	2,949,846,621	1248 Contractors	01 to 04 years and over 05 years.

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

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

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non- compliance</b>
(a) Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka.	
(i) Financial Regulation 135(4).	Accounting Officer of the Authority had not taken proper action to delegate the function of authorization, approval and certification of transactions of the Authority.
(ii) Financial Regulation 373 and Office Circular No. 346 of 05 October 2016.	Fuel imprest aggregating Rs.1,331,623 granted to the Office of the Northern Provincial Director of the Authority during the year had not been settled even up to the end of the year under review.
(iii) Financial Regulation 770	The Authority had not taken action with regard to unserviceable assets that had been identified at the annual verification of assets.
(b) Guideline 9.4 of the Government Procurement Guidelines- 2006	Master Procurement Plan and detailed Procurement Plan had not prepared for the year 2016.

- (c) Public Enterprises Circular No. PED/12 of 02 June 2003  
 (i) Section 9:4  
 (ii) Section 9:3:1 (viii)
- Fifty staff members of the Authority had been released to the Ministry of Higher Education and Highways and other 03 Ministries during the year under review contrary to the provisions in the Circular.
- The succession plan had not been prepared by the Authority in order to fill the vacancies in managerial positions
- (d) Public Enterprises Circular No. 95 of 14 June 1994  
 Approval of the Cabinet of Ministers and the General Treasury had not been obtained for the payments of professional allowances of Rs. 86,159,000 that had been paid to the staff of the Authority for the period from July 2016 to May 2017.

### 3. **Financial Review**

#### 3.1 **Financial Results**

According to the financial statements presented, the operations of the Authority for the year under review had resulted in a pre-tax surplus of Rs. 531.11 million as compared with the corresponding pre-tax surplus of Rs. 1,794.77 million for the preceding year, thus indicating a deterioration of Rs.1,263.66 million in the financial results for the year under review. Increase of expenditure by Rs. 1,227.09 million and decreased of total revenue by Rs. 36.57 million during the year under review were mainly attributed to the deterioration in the financial results.

After taking into account the salaries and allowance to the employees, taxes paid to the government and depreciation charged for the year, the value addition of the Authority for the year under review was amounted to Rs. 18,130 million and as compared with the preceding year, this was increased by 8.71 per cent.

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

##### 3.2.1 **Working Capital Management**

Certain significant balances shown in the statement of financial position as at 31 December 2016 as compared with the previous year are given below.

<b><u>Details</u></b>	<b>As at 31 December</b>	
	<b><u>2016</u></b> <b>Rs.</b>	<b><u>2015</u></b> <b>Rs.</b>
Decrease in Inventories	127,402,408	20,089,153
Increase in Debtors	461,097,831	909,964,628
Decrease in Prepayments	1,848,401	2,852,290
Decrease in Deposits and Advances	49,887,868	413,967,811
Decrease in Mobilization Advances	4,537,896,890	7,220,180,732



Increase/(Decrease) in Other current Assets	26,613,614	(25,049,280)
Increase/ in Other Investments	2,530,125	2,318,687
Increase/ in Deferred Expenses of Local Bank Loans	20,513,874,043	35,551,825,781
Decrease in Deferred Expenses of Other Loans	-	4,851,436
Increase in Client & Other Deposits	553,027,946	195,790,930
Decrease in Retention Money Payables	2,630,221,255	276,000,007
Increase/(Decrease) in Payable to Contractors	2,573,246,728	(2,920,360,509)
<b>Net cash Generation</b>	<b>(15,791,026,627)</b>	<b>(29,957,758,724)</b>

It was observed that, the Authority had generated negative working capital of Rs.15,791,026,627 during the year under review. However it was 47 per cent improvement when comparing with the preceding year.

### 3.2.2 Significant Accountings Ratios

According to the information made available, some important accounting ratios of the Authority for the year under review and the preceding year are given below.

	<b>2016</b>	<b>2015</b>
	<b>Percentage</b>	<b>Percentage</b>
Current Assets Ratio	0.70	0.96
Quick Assets Ratio	0.68	0.93

Increase in interest and capital repayments on local bank loans as at the end of the year under review by Rs.5,961.14 million had mainly attributed to the increase of total current liabilities by 32 per cent which had resulted to decrease of current assets ratio and quick assets ratio for the year under review.

## 4. Operating Review

### 4.1 Performance

The physical performance of the Authority for the year under review and the preceding year as compared with the key performance indicators as described in the Corporate Plan is given below.

<u>Activity</u>	<u>Key Performance Indicator</u>	<u>Unit Measure</u>	<u>2016</u>		<u>2015</u>	
			<u>Target</u>	<u>Actual</u>	<u>Target</u>	<u>Actual</u>
(a) Maintenance of National Highway	Number of Kilometres sand sealed / surface treated.	Kilometres	900	652	800	273
(b) Network National Highway	Percentage of roads which has IRI>5.5		60	38	46	46
(c) Widening and Improvement of Roads	Length of 4 Kilometres and 6 Kilometres lane roads in National Road Network	Kilometres	191	209	225	203

	Length of 2 lane roads in National Road Network	Kilometres	6,500	7,000	7,000	7,000	
	Length of Expressways completed and operated	Kilometres	170	170	170	170	
(d)	Construction of Expressways	Average use of expressway network.	Number of Kilometres Million vehicles km per day	1.5	2.4	1.7	1.5

Although it had been expected to reduce the number of roads with rough surface to 46 per cent during the year 2016, information of such reduced quantity as at 31 August 2017 was not made available for audit. Although there had been a strategy to review this performance indicator, data entering had not been updated thereon. Therefore, it was observed that the Authority was unable to review whether the expected target had been achieved or not during the year 2016.

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

The following observations are made in this regard.

- (a) The Government provisions for maintenance of National Roads for the year 2016 amounted to Rs. 4,000 million. Out of these provisions, a sum of Rs. 2,497 million was received and entire amount had been used to settle the bills payable for the proceeding years and for the payment of works done during the year under review. In addition to that, a sum of Rs.1,783 million remain payable as at end of the year 2016 on behalf of the works done. Therefore, it was observed that the total expenditure incurred for maintenance of National Roads had been exceeded by Rs.280 million as compared with the total provision for the year under review.
- (b) The maintenance of roads which falling under the purview of the Authority only should be carried out by using the provision for maintenance of National Roads. However, by using that fund, a sum of Rs. 232.92 million was spent for maintaining the Non-RDA roads, without having even the approval of the Board of Directors.
- (c) Emulsion valued at Rs.5,079.53 million had been purchased from the year 2004 to March 2017 from Maganeguma Emulsion Company for maintenance activities of roads. The purchase price had been decided based on the Highway Schedule of Rates (HSR). Details relating to the decision taken for purchase of emulsion without following Procurement Guidelines and receiving the approval of the Board of Directors had not been furnished to audit.

## **4.2 Contract Administration**

### **4.2.1 Road Rehabilitations and Improvements**

The following matters were observed in this regard.

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

- (i) The Government provisions for widening and improvement of roads for the year 2016 was amounted to Rs.8,065 million and out of that provisions, a sum of Rs.4,637.6 million had been received during the year under review. The value of bills submitted for works done during the year 2016 including the bills payable at the beginning of the year 2016 was amounted to Rs.6,378.2 million. Thus a sum of Rs.1,740.6 million had been incurred exceeding the contributed amount for the year under review.
- (ii) One thousand and eighty one projects for Metalling and Tarring of roads, valued at Rs.6,577.11 million which not come under the purview of the Authority (Non-RDA roads), had been commenced and out of that Rs.331.87 million had been paid in this regard during the year 2016.
- (iii) In addition to that, a sum of Rs.1,868 million had been spent for widening and improvement of Non-RDA roads during the year 2016. However, the provisions obtained for widening and improvement of RDA roads had been used for these Projects without obtaining the approval from the General Treasury for the use of Government Fund and action had not been taken to obtain the approval from the Board of Directors before commencement of Projects.

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

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.143,513 million from 07 local banks during the period of 2012– 2016 in these connections. Out of that, a sum of Rs.13,583 million had been settled during the years 2014, 2015 and 2016. Accordingly, it was observed that the payable portion of the loans amounted to Rs.129,930 million as at 31 December 2016. The details of such loans received and the outstanding portion of the loans as at the end of the year under review are shown below.

All Amounts in Rupees millions								
Name of the Bank	Loans Received		Total	Capital Repayments		Total	Outstanding as at 31 December 2016	
	Up to 2015	2016		2015	During 2016			
Commercial Bank PLC	6,044	857	6,901	489	392	881		6,020
Bank of Ceylon	30,348	3,572	33,920	1,687	2,465	4,152		29,768
People's Bank	13,971	314	14,285	1,827	1,218	3,045		11,240
National Saving Bank Development Finance Corporation	54,344	441	54,785	339	2,710	3,049		51,736
	1,210*	82	1,292	45	108	153		1,139
Hatton National Bank	19,541	5,169	24,710	136	1,879	2,015		22,695
National Development Bank	5,983	1,637	7,620	-	288	288		7,332
<b>Total</b>	<b><u>131,441</u></b>	<b><u>12,072</u></b>	<b><u>143,513</u></b>	<b><u>4,523</u></b>	<b><u>9,060</u></b>	<b><u>13,583</u></b>		<b><u>129,930</u></b>

The following matters were observed in this regard.

- (i) The selection of contractors for the rehabilitation of roads had not been done in accordance with the provisions in the Government Procurement Guidelines. The final contract price for each road had been determined by a Special Cabinet Appointed Procurement Committee. However, the financial proposals of the contractors had not been evaluated by the appropriate Technical Evaluation Committee. Further, reconciliation of the rates in the financial proposals of the contractors with the Highway Schedule of Rates revealed that the rates of the contractors had increased in the ranges from 50 per cent to 334 per cent. Quantitative differences were also observed in the rates of each contract.
- (ii) Loans agreed with the National Savings Bank for the construction of 28 roads, out of 64 roads, relating to this Project amounted to Rs.55,392 million. A sum of Rs.21,239 million of the approved loans had been granted as at 31 December 2014 for this purposes. Accordingly, a further sum of Rs.34,153 million had to be obtained from the loans. Out of that a sum of Rs.28,000 million was obtained by December 2014 for the use of other activities in contrary to the loan agreement. Therefore, a sum of Rs.6,153.34 million only was made

available for the works relating to the road constructions. The amount of Rs.28,000 million obtained contrary to the loan agreement as stated above had been used for the road construction works of the Authority, then Ministry of Ports and Highways and other Projects implemented from foreign funds, administration expenses and other activities. As a result, the expected performance of these roads could not be achieved. Further, the works of 06 Projects had not been completed even by 30 September 2017.

- (iii) An amount aggregating Rs. 13,950 million comprising Rs.5,400 million, Rs.6,250 million and Rs.2,300 million obtained from the Treasury in 2015, 2016 and 2017 respectively with the approval of the Cabinet of Ministers in order to cover up the additional expenditure of Rs.28,000 million. In the meantime, the approval of the Cabinet of Ministers had granted to obtained the balance amount of Rs.14,050 million from the midterm budget frame for the years 2017 to 2019. However, the construction activities of roads which proposed to be constructed had been done by reducing certain items of work such as length and width of roads, concrete drains, culverts, side walls and construction on the road surface etc.

(c) **Non – completion of Outer Circular Road –Trincomalee**

Eight bridges had been constructed by incurring a sum of Rs.3,495 million on the Outer Circular Road in Trincomalee which connects Batticaloa – Thirikondai Aru – 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 of 6 years as at 30 September 2017.

**4.2.2 Construction of Circuit Bungalow at Katharagama**

The following observations are made.

- (a) The construction of the Circuit Bungalow at Katharagama commenced by the Maganeguma in the year 2004 and subsequently it had been abandoned due to inability for making payments to the contractor by the Authority. Thereafter, the construction works had been carried out by using direct labour. However, it was able to complete the works up to the wall level of the ground floor. After that, the construction of the ground floor of the building had been assigned to another contractor on 28 September 2010 for a contractor value of Rs.12,352,242. Out of that Rs.11,771,448 had been paid to the contractor up to 31 December 2014. According to the agreement entered into with the contractor, the works should have been completed before 07 June 2011. However, it had not been completed even up to June 2017.
- (b) Even though there were considerable defects in the completed part of building, the construction works of the first floor had also awarded to same contractor for a sum of Rs.7,922,316 on 24 December 2014 without considering construction failures.

- (c) Although, the Authority had informed me that the actions to be taken to complete the rest of the works by using direct labour and rectify the deficiencies of the building by utilizing the retention money payable or to charge liquidated damages from the former contractor, it was observed that the construction works had been offered to another contractor for a sum of Rs.12.7 million during the year 2016.

#### **4.2.3 Construction of Meathgama – Halpola Bridge**

Construction of the Meathgama and Halpola bridge over the Pundulu Oya had been completed in August 2011 by incurring a sum of Rs.175.89 million under the UK Steel Bridges Project – Phase I of the Authority. However, this bridge was located over a non RDA road and as a results, the Authority had failed to hand over this bridge to a respective institution. Further, at least two bridges should have been constructed over the Pudalu Oya for running the vehicles over the road and its sub waterway. Since there was only one bridge constructed over the main water way, the motor vehicles could not be run via the road and as a result, the investment made on the bridge had become a fruitless expenditure.

#### **4.2.4 Construction works of the Maberithenna Skyway**

It had been proposed to construct an internal skyway on the Digana – Victoria road by using direct labour of the Authority.

The Engineer’s estimate for this works amounted to Rs. 2,254.26 million and the length and width of skyway was 1200 meters and 100 meters respectively. Though the construction works had been commenced on 04 August 2013, the works had been suspended by 26 January 2015 after incurring Rs. 172.60 million through local funds even after completion of land acquisition activities. As well, It was observed that the initial plan of this project had not been prepared through the Planning Division of the Authority and the Environmental Impact Assessment Certificate required to be obtained prior to the construction, had not been obtained.

#### **4.3 Assets Management**

The following observations are made in this connection.

- (a) Even though the official activities of the newly Constructed Head Office Building had been commenced on April 2015, the fixed assets valued at Rs. 108.2 million (Furniture and Equipment) had not been handed over to the Authority even up to 31 August 2017 by the Project.
- (b) Unutilized and slow moving spares stock valued at Rs. 29,820,700 had remained in the stores since the year 2012 without being utilized.
- (c) Obsolete inventory items such as uniforms, shoes and sandals, tires and material stock – asphalt plant etc. valued at Rs. 4,856,427 had remained in the stores since the year 2008 without being considered to dispose those items.
- (d) Stated capital amounting to Rs. 200 comprising two shares shown in the financial statements of the Emulsion Production Company (Pvt) Ltd are held by a private shareholder and the Authority. Further, vehicles, plant, machinery and equipment

valued at Rs.222.33 million had been handed over by the Authority to the Company on hire purchase basis in the year 2004. The lease agreements relating to the period from 2004 to January 2012 had not been furnished to audit. The Authority and the Company had entered into a lease agreement on 10 February 2012 in this regard. However, action had not been taken to revalue the assets and revise the rentals thereon even by 31 October 2017.

#### **4.4 Transactions of Contentious Nature**

Certain transactions executed by the Authority with its Subsidiaries were in contentious nature. The details of such transactions are given below.

##### **(a) Maganeguma Companies**

Action had not been taken to recover arrears rental and other receivables amounting to Rs. 222,391,330 and Rs.63,276,545 respectively on behalf of hiring of vehicles and machineries and utilization of assets, consumables and spare parts granted to Maganeguma Road Construction and Equipment Company by the Authority during the period from 2004 to 2015, even by 31 July 2017.

Further, it was failed to recover the advances amounting to Rs.15,877,592 granted to the above Company during the period from 2013 to 2015 for the purchase of premiss, even by 31 July 2017.

##### **(b) Contracts awarded to the Subsidiaries**

Two thousand seven hundred and seventy three road construction contracts worth Rs.56,771.59 million had been awarded to the Maganeguma Road Construction and Equipment Company (MRCEC) during the period from 2008 to December 2016 and 109 road construction contracts had been awarded to Maganeguma Consultancy and Project Management Company (MCPMC) during the period from 2008 to 2013 for Rs.3,460 million. The contract price had been decided by adding 28 per cent of profit margin to the total cost estimate.

The following observations are made in this regard.

- (i) Without following the Government Procurement Guidelines, the above contracts had been awarded based on the approval of the Board of Directors given on 01 August 2008, without being obtained the approval of the Cabinet of Ministers.
- (ii) According to the provisions in the Board Paper No.1109/2008 dated 01 August 2008 of the Chairman of the Authority, it should not be granted sub contracts to outside parties. However out of 2,773 contracts awarded to the MRCEC, 2,521 contracts had been performed through sub – contract by paying Rs. 48,981 million. Further, all 109 contractor awarded to MCPMSC had been performed through sub contract by paying Rs.3,460 million.

#### **4.5 Human Resources Management**

The following observations were made.

##### **(a) The Cadre**

The following matters were observed in this connection.

- (i) According to the approved cadre of the Authority as at 30 June 2017, there were 746 vacancies in 99 posts and 1446 excesses in 14 other posts.
- (ii) Six vacancies in the Senior Managerial Level, 156 vacancies in Technical Services and 33 vacancies in Clerical and Allied Services were observed in audit. This situation had badly affected to the performance of the Authority.

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

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 its 47 staff members to the Ministry of Higher Education. Prompt action had not been taken to recover salaries and other allowances amounting to Rs. 40,594,078 paid on behalf of those staff members during the year under review.

#### **4.6 Performance of the Procurement Section**

The Procurement Section had been established with a view to carrying out the procurement activities of the Authority in proper and efficient manner. However, the most significant procurement activities relating to widening and improvement of roads, constructions of bridges and maintenance of roads had been carried out by other Sections of the Authority. Therefore, the Procurement Section of the Authority had become an insignificant unit of the Authority.

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

#### **5.1 Corporate Plan**

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 years 2016 to 2020 had been approved by the Board of Directors and presented to the Auditor General on 29 February 2016 and the Corporate Plan for years 2017 to 2021 had been approved by the Board of Directors on 30 November 2017.



- (b) According to the above Circular, requirements of human resources for each Division should be included to the Corporate Plan. However, requirements of human resources had not been included to the Plan by making assessment for the requirements.

## **5.2 Internal Audit**

According to the internal audit programme of the Authority for the year 2016, it had been planned to carry out the audit in Provincial Director's Offices, Chief Engineer's (CE) Offices and Executive Engineer's offices under Financial and Management Audits. Further, CE - Districts, Asphalt/ Crusher/ Per Cast Plants, CE Projects, Local Bank Funded Road Projects had been included under field audits. However, more risk areas such as land acquisition, system audits and audits of Maganeguma Companies owned by the Authority, Expressway Transport Company and technical audits of Construction Projects etc, had not been covered by the internal audit.

The approved cadre and the actual cadre of the Internal Audit Division were stood of 17 and 12 respectively and vacancies for 02 Internal Auditors, 05 Technical Officers and 03 Audit Assistants were observed. This situation had affected to the efficiency of the internal audit functions.

## **5.3 Budgetary Control**

The Budget for the year 2016 had been revised on August 2016 and the approval for revised Budget had been obtained on 21 December 2016 and significant variances were observed even between the revised Budgets and the actual income and expenditure of the Authority due to lack of a sound and effective budgetary control system. As such it was observed that the Budget had not been made use as an effective instrument of management control.

## **5.4 Not implementing the directions given by the Committee on Public Enterprises and the Cabinet of Ministers**

The following observations are made.

- (a) According to the decision taken by the Cabinet of Ministers on 14 February 2013, it was directed to amend the Articles of Association of three Maganeguma Companies so as to enable the General Treasury to hold majority of the shares while the rest is vested with the Road Development Authority. However, action had not been taken accordingly. Further this decision had not been implemented even by the responsible Ministries to date.
- (b) In addition to the above decision, the following directives given by the Committee on Public Enterprises on 10 August 2016 with regard to those companies also had not been implemented even up to the end of November 2017.
- (i) To obtain the ownership of the Maganeguma Road Construction Equipment Company and Emulsion Production Company upon the Authority.
  - (ii) To obtain the share certificates for the deposits of Rs.1,000,000 made on 05 June 2004 in each of the Maganeguma Emulsion Production Company and Maganeguma Consultancy and Project Management Services Company. Even

though, relevant share certificates were not issued even by November 2017, legal actions had not been taken either by the Ministry or the Authority in this regard.

- (iii) To make a decision by the Board of Directors of the Authority with regard to awarding of contracts to the Companies incurring loss of 28 per cent to the Authority while allowing the companies to use the assets owned by the Authority for the awarded contract activities.

**6. Systems and Controls.**

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	<p>(i) Deficiencies in disclose of accounting policies and classification errors in current and non-current assets and liabilities</p> <p>(ii) None disclosure of related party transactions (transactions with Maganeguma Companies and Expressway Transport Company)</p> <p>(iii) Errors in accounting treatments made to transferred and disposed assets and preparation of detailed schedules for balances in the reporting date.</p>
(b) Contract Administration	<p>(i) Weaknesses in contract administration such as ineffective utilization of funds for the intended purposes, evaluation of financial proposals, obtaining prior approval for work orders, completion of construction works within the scheduled period.</p> <p>(ii) None Utilization of funds for the intended purposes.</p>
(c) Inventory Control	Disposal of obsolete inventory items
(d) Assets Management	Weakness revealed relating to assets handing over procedures from Project Management Units to the Authority.
(e) Human Resources Management	<p>(i) Lack of Approved Scheme for Recruitments and Promotions</p> <p>(ii) Issues in recruitments and promoting procedures.</p>
(f) Utilization of Funds	Spending beyond the provision received and poor budgetary control.

- (g) Action Plan                      Undertaking of Non – RDA road construction works out of the scope in Action Plan.
- (h) Project Management
- (i) Delay in completion of Projects.
  - (ii) Utilization of funds for other activities.
  - (iii) Failure to carry out planned activities within the time frame.