

Road Development Authority - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Roads Development Authority for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971 . My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Authority or to cease operation, or has no realistic alternative but to do so.

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

As per section 16(1) of the National Audit Act No.19 of 2018, the Authority is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Authority.

1.4 Audit Scope (Auditor's Responsibilities for the audit of Financial Statements)

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

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

- Identify and assess the risks of material misstatements of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to date of my auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

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

1.5 Financial Statements

1.5.1 Non-Compliance with Sri Lanka public sector Accounting Standards

Non-Compliance with reference to the applicable standards	Comments of Management	Recommendation
(a) According to Sri Lanka Public sector Accounting Standards No. 07, a sum of Rs. 84,721 million of land which acquired for Road improvement, widening and construction of expressways was not recorded separately in the financial statements. And also Authority had not maintained a relevant land register of these plots.	The cost of acquiring the land is included in the cost of the expressway due to value of the land acquisition for the roads constructed on the expressways and project which handed over to the authority is a payment for the construction of those roads. Therefore, land had not been included in the financial statements separately.	Highways with a specific useful life time and land with unlimited life time should be represented separately in financial statements.
(b) The cost of Rs. 776.98 million of vehicles and Rs. 176.03 million of building which were full depreciated as at 01 January 2019 still in use. However, the assets were not disclosed in the financial statements as per public sector accounting standards No. 07 and the estimated error in the useful life of those assets was not corrected & readjusted in the accounts as per public sector Accounting Standards No. 03.	The actions to be taken in the future according to the investigation carried out in this regard are given in the appendix of this reply letter.	An action has to be taken to correct the estimated error in the useful life of those assets and to restate the account in accordance with public sector accounting standards No.03.

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| (c) | In terms of section 58 of the Sri Lanka public sector Accounting Standards No. 07, when the useful life of the core components of the property, plant & equipment varies, those components shall depreciate at different rates. However, depreciation rates have not been determined on a professional assessment for the basic component of expressways with different useful life. | Information has called for to identify each part separately. After filling in the gaps in the information received and obtaining the relevant information, the depreciation policy will be determined in the future and proper adjustments will be made to the accounts. | In terms of section 58 of Sri Lanka public sector Accounting Standards No. 07, Depreciation rates should be determined on a professional assessment of key components of expressway with having different useful life. |
| (d) | A sum of Rs. 4.04 million per annum had been depreciated on the building constructed for the Thelagapatha police at a cost of Rs.80.8 million, these building & associated depreciations had not been excluded from the Authority's financial statements in accordance with public sector Accounting Standard No. 01 as Road Development Authority was not directly benefitted from them. | The building constructed for the Thelagapatha Police, which is included in the building cost had been establish as a police station complex for the police officers operating on the expressways. This building consider as assets of authority is relevant to the standard No. 01. | According to Sri Lanka public sector Accounting standard No. 01, assets which do not directly benefited to authority should not be represented as assets in the financial statements. |

1.5.2 Accounting Policies

----- Audit Observation -----	Comment of the management -----	Recommendation -----
(a) The depreciation policy for the vehicle with including equipment amounting Rs. 90.18 million which used for special purposes was not disclosed in the financial statements.	Depreciation policy for the foreign aid classified vehicle will be disclosed in financial statements.	Depreciation policy of all the assets used by the authority should be disclosed in financial statements.

1.5.3 Accounting Deficiencies

----- Audit Observation -----	Comment of the management -----	Recommendation -----
(a) Although the total length of A & B roads owned to the authority is 12,210Km, only 1,624.24Km of 8 "A" grade roads and 52 "B" grade roads had been capitalized. Further, actions had not been taken to capitalize the cost of Rs. 37,040 million which having length of 627.78Km roads handed over by road sector assistant project to authority as at 31 December 2019.	The authority has initiated a program to implement the road capitalization process from 2018. The management has discussed to revalue and account those roads phrase by phrase after receiving the information from executive engineers.	Action should be taken to capitalize all the A and B grades roads owned by authority as soon as possible.

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| (b) | According to the loan agreement of Rs. 4,312 million entered with the bank of Ceylon on 02 November 2019 for the construction of phase II of central Expressway project, there was a fixed deposit of Rs. 1,500 million was pledged as a guarantee. But it was not disclosed in the financial statements for the year under review. | Action will be taken to disclose in the financial statements of 2020 under notes to the account. | All the assets held by authority as collateral should be disclosed in the financial statements. |
| (c) | The authority had 351 vehicle which did not mentioned any value but had not been taken action to revalue those vehicle and record them in financial statements. | The actions to be taken in the future according to the investigations carried out in this regard are given in the appendix of this reply letter. | The authority should take action to revalue the vehicle do not mention any cost & record them on the financial statements. |
| (d) | Value of the assets amounting Rs. 242.29 million handed over by UK steel bridge project to authority were not included in the financial statements of authority. | The project has also been asked to provide information required to capitalize the assets amounting Rs. 242.29 million handed over to authority. After receiving that information proper adjustment will be made to account. | All the assets transferred to the authority from the projects should be included in the financial statements. |
| (e) | According to the financial statements of the authority, the depreciation for the five roads year under review was Rs. 5,775 million. However as per the calculation made by the audit the depreciation for the year under review based on the same policy itself which applied by the authority was Rs. 5,885 million and therefore a difference of Rs. 190 Million was understated in financial statements. | An account has been corrected related to the changes in the calculation of depreciation as at 31 December 2019 in respect of 05 projects of expressways. | When preparing financial statements mathematical errors should be minimized. |
| (f) | Value of the building amounting Rs. 530.87 million which had been transferred to the Road Development Authority by phase II of the outer circular Highway project and phase III of the Southern Expressway project had not been included in the accounts. | Cost of the houses and office buildings of phase II of outer circular highway amounting Rs. 71.15 million were formally handed over to the Road Development Authority at the end of 2019. But its correct value was handed over to the authority in June 2020 and the relevant cost was accounted through Journal No. 232/J06 of that month. | All the assets handed over to authority from the projects should be included in the financial statements. |

- (g) According to the assets register submitted by the Authority, the cost and the net book value of 06 vehicles were Rs. 136.89 million and Rs. 54.92 million respectively have recorded twice in account. As a result, the value of the vehicles recorded in the financial statement was higher than that in the financial statement. Also the cost of 14 vehicles purchased by the project & handed over to the authority during the year under review and cumulative depreciation of that vehicles amounting to Rs. 494.48 million and Rs. 1.52 million respectively were not included in the financial statements.
- This difference is due to the fact that the same vehicle had twice been reported to the finance division by local bank funded project and other projects by the mechanical division.
- When preparing financial statements mathematical errors should be minimized as much as possible and all necessary information should be obtained in due course when preparing financial statements.
- Relevant information has been received by the finance division in the month of February and March 2020 and it has been accounted for in the year 2020.
- (h) Income of bill board did not take into account on accrual basis and Rs. 11.85 million of earnings received for the future period has been recognized as income of current year. Due to that revenue and profit has overstated by the same amount in financial statements.
- Action will be taken to adjust the revenue from 2021 onwards. Relevant officers have been instructed to keep a proper account of previous income.
- The accrual basis should be taken into account in the preparing of financial statements
- (i) A difference of Rs. 206.2 million was observed between depreciation of building for the year, opening and closing balance of depreciation provision which recorded in financial statements and balances of relevant assets register. Also a difference of Rs. 26.33 million was observed between the assets register maintained by financial division of authority and the relevant documents maintained by mechanical division in this regard. In addition due to three vehicles owned by authority were not included in the assets register of finance division, cost of Rs. 17 million and accumulative depreciation of Rs. 4.56 million has understate in the financial statements.
- The changes in depreciation mentioned here was happened by mistake and corrected by Journal No. 108/J03 - 2020.
- Mathematical errors should be minimized as much as possible when preparing financial statements and all necessary information should be obtained in due course when preparing financial statements.
- (j) Although assets purchased for road construction projects by local bank funded and government fund (GOSL) amounting Rs. 316.98 million were removed from the cost of road and capitalized separately, details of those assets were not submitted to the audit.
- Most of the assets already purchased from local bank funds have been capitalized and information has been called from that section regarding the value mentioned here. Upon receipt of the relevant information in the future, those assets will be compared with the assets
- All the required information should be obtained on time when preparing financial statements and the required information should be submitted to the audit as required.

purchased from the local bank fund already listed in the asset register and necessary adjustment will be made in the future.

1.5.4 Un reconciled Control Accounts or Records

Item	As per Financial Statements	As per correspondi ng Record	Difference	Comment of the Management	Recommendation
-----	----- (Rs.Mn)	----- (Rs.Mn)	----- (Rs.Mn)	-----	-----
(a) Difference between the accounts of outer circular highway phase - III, Southern Expressway Extension phase - III, Southern Expressway Extension phase – IV and the balance shown in the financial statements of authority relating to these project.	145,485	158,658	13,173	The report submitted by the projects are being examined and further clarification will be obtained from the projects and adjustment related to changes will be made in the accounts and financial statements of authority in the future.	Action should be taken to compare the assets balances of completed projects with the balances of the Authority.

1.5.5 Unauthorized Transactions

Description of unauthorized transactions	Comment of the Management	Recommendation
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(a) In terms of section 13 and 14 of the National Highway Act No. 40 of 2008 and section 07 of the extraordinary, Gazette No. 1732/12 dated 18 November 2011 the charges collected by the Highways, shall be credited to the Authority's fund and that money shall be utilized for the purpose of developing and maintaining national highways.	Out of the Rs. 45,236 million in toll revenue collected from expressway Rs. 15,657 million has been spent in violation of gazette provisions to pay public expenditure and facilitate project of the authority and officers of the police department.	Accordance with the above Gazettes Notification the charges collected from Highways shall be credited to the authority fund and that money shall be utilized for the purpose of developing National Highways.

1.5.6 Documentary Evidences not made available for Audit

Item	Amount	Evidence not available	Comment of the Management	Recommendation
	(Rs. Million)			
(a) The money spent for the construction of Expressways had been taken as a state grant & assets of Authority.	394,470	Relevant documents to be considered as a government grant.	The matter has discussed with the public Accounts Division of the treasury and approval has been sought from the line ministry. Action will be take in then in the future.	Acceptable documents relating to government grants should be submitted for the audit.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Comment of the Management	Recommendation
(a) According to the financial statements of the authority as at 31 December under the debtor balance was Rs. 29,819 million was accordingly, amount to be recovered from ministry of Economic development and four other state institutions for the projects carried out in Matara district in the southern province was Rs. 1,060 million.	According to the recommendation of the Lalith R. de Silva committee, adjustments to the accounts could not be made in excess of the amount approved and the necessary adjustment will be made in the year 2020.	Recovery should be expedited.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions.

Reference to the Laws, Rules & Regulations	Non compliance	Comment of the Management	Recommendation
etc	(Rs.)		
(a) National Highways Act No. 40 of 2008. Section 78(1)	Precautionary measures had not been taken under the Act and for culverts not constructed on the villakatupoth – Ganewatta Kumbukgate Road.	Construction of culverts No. 12/1 and 14/3 had not been completed. But According to the instruction given by the auditors after inspection	Precautionary measures should be taken in accordance with the Act with regard to the relevant

precautionary measures had activities. been taken. However, the relevant technical officer has been instructed in writing to ensure that such deficiencies do not in the future.

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| (b) | Declaration of assets and liabilities Act No. 01 of 1975 as amended by Act No. 74 of 1988. | As per the provisions of the act, as at 30 June 2019 the declarations of assets and liabilities of 506 officers had not been obtained. | All officers have been informed by circular No. 2020/CL/28 and dated 12.06.2020 to complete the declaration of assets and liabilities before the due date and submit it to the administration division | Action in this regard should be taken in accordance with the provisions of the Act. |
| (c) Code of Financial Regulation of the democratic socialist republic of Sri Lanka | | | | |
| (i) | Financial Regulation of 103 (1) | Fixed Assets belonging to the Kurunegala Executive Engineer's office had not been submitted to the board of survey for the year 2019. | A committee has been appointed to look into the matter and the report has been directed to submit without delay. | Arrangement should be made to submit all the assets of the authority to the annual survey board. |
| (ii) | Financial Regulation of 104 (3) (4) | The North Western Provincial Directors office had not submitted completed reports of accidents involving five vehicles. | This office has submitted a Preliminary report and a preliminary report on car accidents. It has been informed that a completed report on vehicle accident should be submitted from now on. | A preliminary report on traffic accidents, must be submitted in accordance with financial regulation 104(3)(4) |
| (iii) | Financial Regulation of 395 | The Road Development Authority had maintained 107 bank current accounts. But the relevant bank reconciliations had been presented to the audit with a considerable delay. | Relevant officials have been instructed to follow the financial regulations. | Bank Reconciliation of all current accounts should be submitted to the audit on or before the due date. |
| (iv) | Financial Regulation of 570 | Retention deposit which exceed the liability period of Road Development Rs.1,010.17 million, completed client deposit of Rs.1,190.24 million and other deposits amounting to Rs.361.22 million had not been collected by the authority and another Rs.291.41 million had | A after a through analyzing of the overdue retention money action is being taken to recover the money and taken into revenue of the authority and all provincial directors & chief Engineers were informed about it. | Overdue retention money and maturing client deposit should be taken to revenue of authority in accordance with financial regulation 570. |

been taken in to the revenue of the authority.

(d) Establishment code of the Democratic socialist Republic of Sri Lanka.

(i) Section 04 of chapter VI of the Establishment code of the democratic socialist republic of Sri Lanka. Personal files were not properly maintained in accordance with the relevant procedure. Employees use new file to edit their personal file when recruiting for new positions and steps have already been taken to update old personal files in use for many years. Personal files must be properly maintained.

(ii) Section 05 and 06 of chapter II 10 Engineers of the Road Development Authority and 03 of the Administration services of the authority who had not dull filled the conditions mention in 6.1.1, 6.1.3, 6.1.4, and 6.1.6 of the Establishment code were promoted. The board of Director Decision No. 1450/2013 has approved the granting of promotions under the 2005 recruitment. Scheme Pending the approval of the new recruitment subject to the approval of the salaries and staff commission. Further, the Board of Directors 842/2005 grants promotions in the ratio 3.2 in excess of the approval for granting stagnate promotions in one grade for a longer period of time Appointments and promotions should be made in accordance with the specific provisions of the establishment code.

(e) Public Administration circular

(i) Circular No. 09/2009 dated 16 April 2009 and Budget proposal No. 373 of 2017 According to the circular fingerprint machine had not been used all offices in western provincial director's and office all work units. The western provision Director's office has already fixed fingerprint machine and will work on the units in the future. The fingerprint machines should be used in accordance with the above circular.

(ii) Circular No. 02/2018 dated 24 January 2018

- Section 1	The authority had not introduced a system For human resource development as per the provincials and actions had been taken to introduce an annual performance evaluating system for the staff.	Step will be taken to prepare a system for signing annual performance agreements for the entire staff of the authority in the future.	Action should be taken to introduce a system for human resource development, sing annual performance agreements for staff and introduce a system for evaluating performance.
- Section 5	A human resource development plan had not been prepared in accordance with article.	Necessary action will be taken to prepare a human resource development plan in the future.	Action should be taken to prepare human resource development plan
(f) Public Enterprises Department Circular.			
(i) Circular No. PED-12 and 02 June 2003 section 9.12 above circular	Prior approval of the General Treasury was required for welfare activities. But that approval had not been obtained for the provision of staff transport services.	The director (Admin) of the authority had has been instructed to approval in this obtain.	Approval should be obtained in accordance with the relevant circular for welfare activities.
(ii) Section 9.3.1 above circular	The Road Development Authority had not prepared and approved recruitment procedure.		Action should be taken to prepare and approved a recruitment procedure without for the delay.
(g) Section 2.3.3 (a), (b) of Management Service Circular No. 01/2019 dated 15 March 2019.	Employees should not be released for more than 05 years for projects but out of the 447 permanent staff employees. Who were released 306 had been released on project for more than 05 years.	Currently, the management has decided to make mandatory transfer in addition to the annual transfers. Accordingly, mandatory transfers have been implemented in some regional offices in the recent past. Action will be taken in the future to implement those mandatory transfers for officers working on project.	When releasing employees to projects, work should be done in a way that gives everyone a fair chance and adheres to the circulars.

(h) Administrative

Circular of the Road
Development

- (i) Circular No. 2019/CL/68 and date 07 October 2019. Officers on duty at popular work places had not been transferred in a timely and systematic manner. An annual transfer circular for the year 2021 has been issued stating that all employees who have worked in the same work places for more than 05 years should apply for annual transfers and this is currently being worked out. Action should be taken in this regard in accordance with the relevant circular.
- (ii) Circular No. RDA/AO-06/MA27 and date 01 June 2018. The authority had spent Rs. 482 million in 2019 to hire additional workers on hire basis despite a surplus of 395 road maintenance workers. Action will be taken to rectify this under annual transfers and mandatory transfers. To make recruitments based on the approved number of employees and to manage the funds properly.

2. Financial Review

2.1 Financial Result

Operational result for the year under review was Rs. 145,373,392,899 and the corresponding surplus last year was Rs. 21,455,896,525. Accordingly, the financial result is Rs. 123,917,496,374 was increased. This growth was mainly due to the accounting of government gross revenues arising from non-exchange transactions.

2.2 Trend analysis of Major revenue & Expenditure subjects.

Item	Year of 2019	Year of 2018	Variance percentage
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	(Rs.million)	(Rs.million)	
Government Grant	169,117	26,136	547
Interest Income	1,067	776	37.5
Development & Maintenance expenses	15,142	8,902	70
Financial expenses	15,866	17,362	(09)

When the completed roads of projects were handed over to the authority the state capital increased by a significant percentage due to the identification of such assets as equivalent government revenue, while the expansion of the expressway system increased revenue, increased fixed deposits and increased interest income.

Development and maintenance cost had risen due to the authority writing off the Ran Mawath Projects as road construction cost.

As a result of the authority's debt restructuring financial expenditure was lower than in the previous year.

2.3 Ratio Analysis

	2019	2018
Current asset Ratio	2:1.69	2: 1.54
Quick asset Ratio	1:1.67	1: 1.52

The current ratio represents some positive increase in the current ratio compared to the previous year and the instantaneous assets ratio has also reached the expected minimum and is also showing growth with the previous year.

3. Operational Review

3.1 Identified Losses

Audit Observation	Comment of the Management	Recommendation
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(a) The loss incurred due to over payments made to the staff by promotions and appointments to Non-vacant posts in the staff approves by the managements services department is Rs. 3.9 million.	Relevant division have been informed to make promotions and salaries in accordance with the approved salary codes in making futures appointments end to ensure that the authority dose not face any further financial loss.	Pay only salary scales approved by the departments of management services avoid giving promotions and advance for vacancies that do not exist.

3.2 Management Inefficiencies

Audit Issue	Comment of the Management	Recommendation
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(a) National Highways Act 40 of 2008		
(i) Section 7(3) The Road Development Authority, the relevant provincial council, the relevant local government institution and other agencies had not prepared an “Action plan for the development and maintains of Integrated Road system” specifying the road development project in district to be undertaken.	The line ministry is working of this.	An “action plan for the development & maintain of integrated road system” should be developed.
(ii) Section 6(1) The “Road System Development Advisory Council” had not been setup to advise the Minister on formulating advance road network policy, strategic development, road research and road safety measures and road planning as directed by the Authority.	The line Ministry is working on this.	Setup should be taken to establish a “Road System Development Advisory Council”.

(iii) Section 7(1)

Establishment of “District Road System Development Coordinating Committees” to be setup to prepare an action plan for integrated road network development and maintenance in each district, to coordinating and monitor road development and maintenance, to formalize the handing over of road development projects and to recommend to the Minister the acceptance of projects. Did not have.

The line Ministry is working on this.

Setup to establish “District Road System Development Coordinating Committees”.

(b) Road reserves had been rented out to external parties for various economic activities without the approval of director board of Road Development Authority. Land was used by the renter for the activities outside the agreement the Authority did not take any action in this regard. According to the financial statements Rs.123 million and 11 acre 02 Rudd 38.3 perches land which is located in Atthidiya and part of this land use by vocational training Authority and German Technical College and others are Occupied by unauthorized persons.

The land in Atthidiya has been purchased for the purpose of resettlement the displaced person in the Baseline road project and the work of this project has not been completed yet. It is hoped that land will be used for which it was purchased on the basis of future requirements.

It is need to take action to use Road Development Authority resources for expected objectives.

(c) No action had been taken to establish an asset management system to regulate assets purchased by the authority from the time of issue of the order to the time of disposal of the assets and from the work being carried out on the assets under construction to capitalization.

Do not fully agree with your audit paragraph. However action will be taken to establish complete system of asset management in future.

Action should be taken to establish an assets management system.

(d) There is a quantitative un reconciliation balance with Road Development Authority account and subsidiary company accounts because of unusual time taken to certify bills and communication deficiencies and also management has not yet taken appropriate action to rectify this situation

The difference has been identified by reconciliation with certain subsidies and Road Development Authority. Reconciliations are being made with Maganeguma Road Construction equipment company Furthermore it has been instructed to reconcile the monthly transaction that are accounted for each month.

It should be take action to continuously reconcile the account balances of the authority and subsidiary companies

3.3 Operational Inefficiencies

----- Audit Observations -----	----- Comments of the Management -----	----- Recommendation -----
<p>(a) The project had been delayed on six times due to the cancellation of the first section contracts of the central expressway project and the contract had been awarded without procurement procedure to a construction company with a cabinet approval of Rs. 158,386 million to settle the undisclosed expenditure of company that built the phase IV of expressway 4th section of the road.</p> <p>It had been spent in vain Rs. 94.39 million for the project operation unit and Rs. 392.64 million for the consulting service because of the lack of certainty the fund received and poor financial planning. And also it had been paid Rs. 449.02 million without considering contractors physical progress by the consultant. Amount of performance guarantee which is need take by contractor his own expenses had been paid by Road Development Authority including as a work item on the work schedule. And also it has been paid Rs.83.14 Million for the contractor. Which is payment that contractor should pay for the geometric plans by including to the bill of quantity for the contractor.</p>	<p>Project management unit can be establish before sign the fund agreement is the project a cabinet approved project management unit of central expressway project had been established after cabinet approval and also approval of National Planning Department of Sri Lankan. Department of external resource of Sri Lanka treasury is liable for certify the allocation of funds for the project.</p>	<p>Projects should be start after the specification of fund receiving and project planning. And also project consultant should be an always evaluate physical progress of contractor.</p>
<p>(b) There had not been registered any land in accordance with section 44 of land acquisition act. But the project had been paid Rs. 3469.89 million for land acquisition of Phase III of central expressway project.</p> <p>It had been paid Rs. 161 million which is amount request by the consultancy company without considering. Regardless of the validity of the variable order and it had been added to the work in progress.</p> <p>And also it had been spent Rs. 663.93 million for the project operation unit without</p>	<p>Divisional secretary in the related are is the person who authorized to the land acquisition in land acquisition period but in central expressway project divisional secretary had priority to hold LARC committees and payment of compensation for the purpose of expedite the commencement of construction of the project.</p>	<p>Action should be taken to launching project after specification of fund received and in accordance with instruction of Department of management service.</p>

considering fund receiving and instruction on circulars of management service department

- (c) Central expressway project had been spent Rs.2,193 million away from procurement procedure to carry out a feasibility study for phase IV and also project had been spent Rs.269.1 million for project operation unit when the project is not started.
- The cost of the feasibility study for the Northern expressway from 2012 to 2015 was borne by the Northern expressway project was divided into four management units as the central expressway project.
- Action should be taken to expedite the project planning and land acquisition process and to manage the expenditure properly so as not to incur idle expenditure project.

Although an incentive Rs. 5.1 million had been paid to the officers of various government instructions for the acquisition of lands in the project, but investigations had been carried out only for 1,667 plots under section (9) of the land acquisition act and notices had been issued under section 10 (1) for 573 plots. Three officers were recruited against the provisions of the circulars of the management services department and Rs.3.07 million was paid as salaries and also it had been paid Rs.0.9 million to the consultant who had recruited without the approval of the management service department.

At the cabinet meeting held on 13.09.2016 it was recommended to obtain and evaluate the technical and pricing proposals from Gashoba International engineering group company of China. According to the project management unit established in July 2016 and started the process of acquiring the land required for the project.

The project management unit worked to continue the land acquisition process without interruption.

3.4 Transactions of Contentions Nature

Audit Observations	Comments of the Management	Recommendation
<p>(a) In preparation of the engineering estimates for the Southern expressway extension project, arrangements had been made to purchase luxury vehicles at the cost of Rs.23.8 million and Rs. 25 million respectively. Despite the need for cost – effective alternatives.</p>	<p>According to letters of the ministry of finance budget circular No 4/2019 and the ministry of finance and policy development budget circular No 7/2019 the project officers have already stopped purchasing vehicles.</p>	<p>Preparation of engineering estimates should be done frugally as required.</p>
<p>(b) None of the lands proposed to be acquired by the phase II of the central expressway were registered under section 44 of the land act, Rs 16.44 million had been paid to the officers as an incentive. And also, 48 senior engineers and 156 local engineers and specialist required for the construction consultancy service were</p>	<p>The relevant divisional secretary is the land acquisition officer in the process of land acquisition. As of today, the transfer process has been completed</p>	<p>To expedite the registration of lands acquired under sub section 44. Avoid making non-agreed payments to the</p>

not employed but Rs.46 million 12 paid to the technical officers and one engineer who did not agree to the agreement. Also consultant was required to carry out the supervision without extra cost but contractor had paid overtime allowance of Rs.74.24 million to the consulting staff there for the consuler's independence was in questionable. It was problematic that the contractor had paid Rs.2.16 million for the land acquisition officer of the project by employing a salaried officer form the contractor

for 48 out of the last 181 lost consultancy service. and the project will give Action should be taken priority to expedite the to maintain the transfer process under section consultant's 44 for the lump sum of independence. interest paid in the future.

3.5 Under-utilization of Funds.

Audit Observations	Comments of the Management	Recommendation
(a) As at the date 30 November 2019 there was a Rs. 309 million balance of 31 bank accounts held on behalf of the 09 provincial director's offices and the Akkaripaththu office of the authority also un-presented cheque balance is Rs. 184 million and it have been observed Rs.125 million inactive cash balance have been retained in the accounts.	Would like to inform you, we will discuss with bank of Ceylon which bank is maintain current account of Road Development Authority with considering, To send direct labour wages to labour bank accounts by using slip method. Sending payments directly to their respective supplier's and contractors account. To invest the surplus money of in the active current account such as client deposits and public work expenses of Road Development Authority	Inactive cash balances should not be kept in current accounts.

3.6 Procurement Management.

Audit Observations	Comments of the Management	Recommendation
(a) 2006 National Procurement guideline. (i) 2.4.1 Paragraph The procurement committee officers were to be appointed at the beginning of each lit year, no action had been taken to appoint the officers of the regional procurement committee relevant to the North western provincial director office for the year 2019.	The regional procurement committee has not been appointed for the year 2019 and the duties of the procurement committee for the year have been carried out by the committee appointed in previous year. Officers of the relevant regional procurement committee have been appointed as schedule for the year 2020.	Procurement committee officers should be appointed at the beginning of each lit year for that year.

- (ii) 4.2.1 Paragraph
The authority had not prepared a master procurement plan for the year 2019. Master plan had not been prepared for the year 2019 and action has taken to prepare a plan for the good and services required for the next 03 years. Action Should be taken to prepare master procurement plan.
- (iii) 5.3.11 (a) Paragraph
All bidders were required to submit bid securities in the prescribed format, but bid securities had not been obtained for the procurement of goods and services made by the North western provincial director office. Action has been taken to obtain relevant bid security format for contraction contract and action have been taken to obtain bid guarantees for good and services in future bids. Action should be taken to obtain bid securities for procurement of goods and service in the prescribed format.
- (iv) 8.9.1 Paragraph
No agreement had been reached with the Road Development Authority and the supplier regarding the lease of vehicle. Arrangement will be made to sign the contract if it necessary to obtain vehicle on rental basis in future. An agreement should be reached with the Road Development Authority and the supplier regarding the lease of vehicle.

3.7 Defects in contract Administration

Audit Observations	Comments of the Management	Recommendation
(a) Rs.48.56 million due from 07 contracts as at 31 December 2019 had not been secured in mobilization advance and had not been extended as required and also Rs. 64.96 million balances due from 25 contracts had been expired target dates for completion works and expired validity date of the mobilization advance securities.	Due to various matters mention in here, mobilization advance are recover at present and action have been taken to recover the previous balance from bill or by convert security assurance to money.	Action should be taken to properly obtain mobilization advance security and extend them as required.

3.8 Resources released to other organizations

Audit Observations	Comments of the Management	Recommendation
(a) The Road Development Authority main building with 252,055 Square feet cost of Rs.2, 664.05 million build by the National Highway sector Project. Then 28.7% of 72,400 Square feet of this building used by ministry of road development and it had not obtained rental from ministry. However, due to lack of space in main building 12,272 Square feet of the Sethsiripaya building was used to maintain the Road	The chief financial officer of the ministry of highways has informed us that action will be taken to make provisions through the 2021 annual estimates and to pay the building rent base on the allocation received. 5272 Square feet of building belong to the Urban Development	Action should be taken to identify the assets by considering risk related to assets and beneficiary parties and also action should be taken to reimburse the expenditure related to assets.

Development Authority offices and Rs. 27.27 million rents had been paid by the Authority in 2019. Authority in Sethsiripaya have been removed from the premises.

3.9 Human Resource Management

Audit Observations	Comments of the Management	Recommendation
<p>(a) As at 31 December 2019, there were 221 vacancies in the engineering and technical service at the senior management level of the Authority, which will have a direct impact on the road construction and maintains sector that the main operation of the Road Development Authority. And also there was surplus of 36 engineering workers, 420 management assistant, 402 supporting staff and 395 maintenance workers for that date. However according to the financial statements of 2019, the total expenditure incurred by the Authority on salaries for that year was Rs.11,866.2 million and the value of government grants received from the treasury to cover that expenditure was only Rs. 6,500 million.</p>	<p>Agreed with the audit observation. A consultant with knowledge of the field of administration has been appointed to calculate the optimal staff required for the Authority and the draft report on the staff index has been submitted to the management. It determines the optimal number of employees and obtains approval of from the department of management services.</p>	<p>Action should be taken to fill the vacancies in the engineering service and technical service which have a direct impact on the field of road construction and maintains which is the main operation of the Authority and to make all requirements within the approved number of employees.</p>

3.10 Management of Vehicle fleet

Audit Observations	Comments of the Management	Recommendation
<p>(a) Vehicle of different denominations were attached to the same grade of officers working in the Road Development Authority and there was no agreed common policy regarding the allocation of vehicles.</p>	<p>The mechanical division has revised the policy on vehicle usage 2020 after consultation with other departments and will submit it to the audit and management committee for approval.</p>	<p>Action should be taken to Carried out reservation of vehicle to the officers in accordance with an agreed general policy.</p>

4. Accountability and Good Governance

4.1 Effectiveness of the Management Information System

Audit Observations	Comments of the Management	Recommendation
No action had been taken to establish an asset management system to regulate the assets required by the authority from the time of issuance of the order to the time of disposal of the assets and from the work being carried out on the assets under construction to capitalization.	Do not agree with your audit paragraph. However, action will be taken to establish a comprehensive system of assets management.	Immediate action should be taken to establish an appropriate assets management system for the Authority.