

Road Development Authority - 2020

1.1 Qualified Opinion

The audit of the financial statements of the Road Development Authority for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 2020, 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

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 the Reference to particular Standard	Management Comment	Recommendation
(a) A number of 426 vehicles and buildings belonging to the Authority cost at Rs.1723 Million and Rs.179 Million respectively had been fully depreciated by 01 January 2020 and only 258 vehicles out of that had been re-valued. Nevertheless, those assets were not disclosed in the financial statements in accordance with Public Sector Accounting Standards No. 07 and actions had also not been taken to rectify the estimated error on the effective lifetime of those assets and to adjust in the accounts in accordance with Public Sector Accounting Standard No. 03	285 vehicles have been re-valued in the year 2021 and the revaluation of the remaining vehicles has commenced. The building assessment covering all provinces has been sent to the Valuation Department, but has been delayed due to covid-19 situation. According to the action plan, all buildings will be re-valued for by 2023.	All assets, including vehicles and buildings owned by the Authority, must be presented in the financial statements at present fair value.
(b) The lands which were acquired in road improvements, widening and construction expressways valued at Rs. 84,721 Million had not been shown separately in the financial statements in terms of Sri Lanka Public Sector Accounting Standards No. 07. Even though the Authority did not have the written evidences regarding the ownership of these plots of land, the lands cost at Rs. 51,262 Million within this value had been depreciated under the depreciation rates of highways.	Matters in this regard are being examined and necessary adjustments will be made in the future. In future, action will be taken to state the value of those lands in the asset register separately under the roads.	Lands acquired during road improvements and widening should be identified separately in accordance with Sri Lanka Public Sector Accounting Standards No. 07

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| <p>(c) The adjustments required had not been made according to the Sri Lanka Public Sector Accounting Standards No. 01 and the Accounting Entity Concept for the 72,400 square feet area used by the Ministry of Highways and the Ministry of State in the Headquarters Building belonging to the Road Development Authority which was capitalized at a Rs. 684.49 Million, and the relevant annual depreciation of Rs. 11, 87 Million approximately.</p> | <p>It has been informed that the Treasury provisions have not been received to pay rent for the used buildings. Actions have been taken to hand over this part of the building along with other assets used by the line and state ministry.</p> | <p>According to Sri Lanka Public Sector Accounting Standards No. 01 and the Accounting Entity Concept, The 72,400 sq. Ft. Area used by the Ministry of Highways and the State Ministry in the headquarters building of the Road Development Authority should be transferred to those ministries and general expenditure should be divided in proportionally.</p> |
| <p>(d) The cost of the building constructed for the Thelagapatha Police which does not directly benefit to the Road Development Authority amounting to Rs. 80.8 Million and the annual depreciation of the aforesaid building amounting to Rs. 4.04 Million had been shown in the accounts of the Authority continuously in compliance with Sri Lanka Public Sector Accounting Standards No. 01 .</p> | <p>The Highway Police Division facilitates the safety and convenience of road users by being directly involved in the operations of those roads. As they are not involved in external activities and the authority directly benefits from traffic control, the consideration of this building as an asset of the Authority applies to the accounting standards.
A decision in this regard will be taken after submitting it to the audit committee of line ministry.</p> | <p>According to Sri Lanka Public Sector Accounting Standards No. 01, the cost and depreciation of the building constructed for the Thelagapatha Police which does not directly benefit the Road Development Authority should be eliminated from the financial statements.</p> |
| <p>(e) The other investments with a period of maturity for more than three months amounting to Rs. 1,940 Million had been shown as cash and cash equivalent in contrary to the provisions of Sri Lanka Public Sector Accounting Standards No. 02.</p> | <p>Agrees with the audit observation.</p> | <p>Other investments with the maturity of more than three months should be identified in accordance with Sri Lanka Public Sector Accounting Standards No. 02.</p> |
| <p>(f) Although it had been stated that the inventories shall be measured at the lower of cost and net realizable value in accordance with Sri Lanka Public Sector Accounting Standards 09 and the accounting policy of the Authority, the inventory had been assessed as at 31 December of the year under review by the</p> | <p>Inventory used for road maintenance is calculated on first in first out method. Action has been taken to call for information regarding the stocks in hand.</p> | <p>The Authority should record its closing inventory value to be less than either the cost or the net realizable value.</p> |

Authority and stated it in the financial statements without calculating the net realizable value of the inventory.

1.5.2 Accounting Policies

----- Audit issue -----	----- Management comment -----	----- Recommendation -----
(a) Even though the land where the shops located in the kandy underpass and the value of shops therein identified at first and accounted for separately from assets of roads by the Authority in the year under review had been revalued as Rs. 8.82 Million and Rs. 84.66 Million respectively and stated as the revaluation reserves, the accounting policy applicable to do so had not disclosed in financial statements.	The construction cost of underpass should be deducted as expenses according to the accounting policy used at the time. Also, if the depreciation has been done according to the current depreciation policy, the net value of the buildings would now be zero. Accordingly, the appraised value is transferred to the Revaluation reserve account as revaluation surplus. Accounting policies and adjustments to be done in the future.	The relevant accounting policy should have been disclosed in the financial statements.
(b) A sum of Rs. 11,242 Million had been identified as assets for roads other than the National Highways that were partially completed during the year under review under the National, Regional and Rural 100,000 km Alternative Road Rehabilitation Project implemented by local bank funds and Rural Roads Project Unit out of the regular scope of the Road Development Authority and it had been revealed from the notes with the financial statements that they would be written off as expenses after they were fully completed. However, after handing over these roads to the relevant Provincial Council or Local Government Institution, a detailed accounting policy including the appropriate accounting policy for adjustments to be made in parallel had not been disclosed in the financial statements.	- do -	A detailed accounting policy, including the relevant accounting policy, should have been developed and disclosed in the financial statements.

1.5.3 Accounting Deficiencies

	----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
(a)	Even though the total length pertaining to the A and B grades roads owned by the Authority was 12,225 km, only a 2,237 km belonging to 105 roads as at 31 December 2020 had been capitalized. Accordingly, the value of highways related to Grades A and B that had the length of 9,988 km owned by the Road Development Authority had excluded from the statement of financial position. Further, actions had not been taken to capitalize the length of 627.78 km of roads which had been completed and handed over to the Authority at a cost of Rs.37,040 Million by the Road Sector Assistance Project by 31 December 2020.	Two Special Committees on Road Capitalization and a system to be introduced by the TCAM Project will be implemented from 2022. The Action Plan for the Assessment and Capitalization of Roads, Lands and Buildings for the Year 2021 - 2023 has been approved by the Board of Directors.	All highways owned by the Authority must be represented in the financial statements at fair value.
(b)	Even though a provision of Rs.349.19 Million had been made for impairment of assets as at 31 December of the year under review in accordance with the accounting policy follows by the Authority, the assets impaired had not been exactly identified. Therefore, the fair value of the assets stated in the financial statements had been overstated by the above amount.	These provisions have been made for 11 unused Aggregate & Chip Spreader machines due to DBST process failure. The present value of these assets has been assessed by a committee and submitted to the Finance Division. Necessary adjustments will be made in the future.	Impaired assets should be exactly identified and appropriate adjustments should be made against those assets.
(c)	Actions had not been taken into financial Statement to state the 07 plots of land with 11 acres in extent that had been alienated from the Outer Circular Highway Phase II Project to the Road Development Authority.	03 out of 07 plots have been replaced so far. Necessary adjustments will be made in the future after receiving information about the remaining lands.	Relevant lands should be assessed and action should be taken to present it in the financial statements.
(d)	Three interchanges which had been handed over to the Road Development Authority by the Southern Expressway Project cost at Rs. 6.86 Million had not been brought to accounts of the Authority.	Agrees with the audit paragraph.	Relevant assets should be presented in the financial statements within the relevant period.

- (e) Actions had not been made to account for a sum of Rs. 4.6 Million that should have been recovered for the damage caused to the expressways due to accidents as receivable balances in the year under review. Due to covid-19 the information could not be retrieved on time and could not be accounted for. Internal controls should be strengthened to minimize errors of omission.
- (f) The Computer Information System is used to obtain information on weak bridges valued at Rs. 1,304.17 Million received from various foreign aid projects and other sources during the years 2006 to 2017 had not been included in the financial statements of the Authority. A proper methodology is being developed for this. Internal controls should be strengthened to minimize errors of omission.
- (g) The current liabilities which had been entrusted from the projects of Padeniya - Anuradhapura Road Project, Rajagiriya Polgahawela and Ganemulla Flyover Construction Project and Regional Bridge Project Phase II which were closed in the year 2020, totalled to Rs. 46.5 Million such as Rs. 9.6 Million, Rs.27 Million and Rs. 9.9 Million respectively had not been adjusted by the Authority to their accounts. Necessary adjustments will be made in the future. Internal controls should be strengthened to minimize errors of omission.

1.5.4 Un reconciled Control Accounts or Records

Item	As per Financial Statements	As per correspondin g Record	Difference	Management Comment	Recommendation
-----	----- (Rs.Mn)	----- (Rs.Mn)	----- (Rs.Mn)	-----	-----
(a) A difference of Rs.72.65 Million and Rs. 77 Million respectively were observed in between the opening balance of provision for depreciation of buildings and vehicles, depreciation for the year and the closing balances of the provision for depreciation shown in the accounts and the balances in the relevant Assets Register as at 31 December 2020.	8,640.043	8,490.393	149.65	Agrees with the audit paragraph.	Action must be taken to prevent such errors from recurring.

(b) There was a difference of Rs. 13.76 Million in between receivable balance as per the project salary control account and the overheads control accounts in Financial Statements as at 31 December 2020 of the Authority and expenditure balances of salaries and overheads shown as payable to the Authority for each project. Nevertheless, the reasons for this difference were not explained to audit.	24,255,888	10,492,350	13.76	This is due to the Authority Relevant accounting accounts and entries in the project project accounts in due accounts course and under / should be over estimation of the compared of the periodically. Authority.
(c) There was a net difference of Rs. 970 Million in the current accounts of the Road Development Authority and Maga Neguma Road Construction and Equipment Company (PVT) Ltd. due to the failure to do the adjustments pertaining to current assets and liabilities as required. Further, there was a difference aggregating to Rs. 18.29 Million between the current accounts of Road Development Authority and Maga Neguma Consultancy and Project Management services Company (Pvt.) Ltd. as well.	6,110.08	5,121.79	988.29	Comparison Report Balance between Current comparisons Accounts of Road between the Development Authority and Maga subsidiaries of Authority and Maga the Authority & Machinery (Pvt) should be Ltd and comparison done in a report amounting of timely Rs. 10.3 million manner. between Road Development Authority and Maga Neguma Consulting & Project Management (Pvt) Ltd. has been prepared and submitted to the audit.

1.5.5 Inappropriate Valuation or estimation

Audit Issue	Management Comment	Recommendation
(a) Although there were 53 vehicles of the Authority where the cost was not mentioned in the accounts, actions had not been taken to revalue these motor vehicles and shown in the financial statements.	Asset records could not be settled due to the covid-19 virus. Vehicles that are not in running condition are parked in Angulana work place for sale or destruction. Other vehicles will be verified this year.	All assets of the Authority must be presented in the financial statements at fair value.

1.5.6 Documentary Evidence not made available for Audit

Item Available	Amount	Evidence not	Management Comment	Recommendation
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	(Rs.Mn)			
(a) Although the construction of expressways through the relevant line Ministry as at 31 December 2020 was taken into the assets of the Authority and credited to the Government Grant Account, the source documents based on accounting of government grant value and cost were not submitted to the audit.	606,419	Written evidence provided by the Authority to take the relevant value as a grant to the Authority.	Approved by the Director General of the Department of Public Enterprises by the letter No.PED / E / RDA / 3/111 (i) dated 07.05.2021.	Submitting to the audit sufficient written evidence provided by the Authority to receive the relevant value as a grant to the Authority and Accounting for relevant grants based on that evidence.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comments	Recommendation
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(a) The losses from the accidents of Expressway Operations and Maintenance and Management Division amounting to Rs.10.3 Million including the loss of Rs.06 Million causing from the accident to the Expressway on the Colombo-Katunayake Expressway had not been recovered.	Legal action has been taken in connection with several accidents.	Taking action to recover the relevant dues immediately and Introduction of standards to streamline the process of estimating the damage caused to the expressway by an accident.
(b) A sum of Rs. 1,073 Million had to be received to the Authority from the Ministry of Economic Development, the Board of Investment, the Ministry of Civil Aviation and the Hambantota District Secretariat for projects carried out in the Southern Province within the value of Rs. 16,128 Million remained under the debtors in the financial statements furnished by the Authority as at 31 December of the year under review.	Comparisons are being made regarding some of the balances to be recovered and provisions have been received to settle some more balances. Cash has not yet been received regarding BOI balance.	Action should be taken to recover the relevant amounts.

1.6.2 Payables

	Audit Issue -----	Management Comment -----	Recommendation -----
(a)	The client deposit balance stated in the Financial Statement as at 31 December 2020 of Road Development Authority was Rs. 3,334.9 million. Out of this balance, the unsettled balance between 2 and 4 years was Rs. 1,735.26 million and of which 62% equivalent to Rs.1,075.45 million were outstanding balances in the Western Provincial Offices.	Arrangements to settle the balances will be made in the future.	The remaining balances should be taken into revenue so that only the on-going balances in the client deposits remain.

1.7 Related Parties and Related party Transactions not disclosed

	Audit Issue -----	Management comment -----	Recommendation -----
(a)	Out of the amount of Rs.5.14 Million to be paid to Maga Neguma Emulsion Products (Pvt.) Ltd. under the related party transactions of the Road Development Authority, a sum of Rs. 2.4 Million had remained unsettled for more than 05 years as retention money.	Action will be taken to write off as per the recommendations of the committee appointed for this.	Relevant funds should be settled by verifying the balances or appropriate accounting procedure should be taken.
(b)	Out of the retention money of Rs. 16.22 Million to be paid to the projects pertaining to the Maga Neguma Consultation & Project Management Company Ltd., Rs. 12.24 Million equivalent to 75.5 per cent had remained unsettled for more than 7 years.	Action will be taken in this regard in the future.	Action should be taken to settle the relevant cash balance after confirmation.

1.8 Non-compliance with Laws, Rules, Regulations and Management Decisions, etc

	Reference to the Laws, Rules & Regulations etc -----	Non compliance -----	Management Comment -----	Recommendation -----
a.	Financial Regulation of Democratic Socialist Republic of Sri Lanka			
(i)	F.R. 201	Salaries and allowances had been paid on the salary codes that are exceeding the approved salary scale excluding these regulations by the authorizing, approving, certifying and paying officers regarding personal emoluments.	Issuances of relevant salary codes / steps in accordance with the approved salary codes for new recruits in internal promotions are already underway. After obtaining the approval of the Board of Directors, action	Wages and allowances should not be paid on salary codes exceeding the approved salary scale. Vacancies should be filled only in accordance with the

will be taken to fill the vacancies of cadre currently approved in accordance with the guidelines of the Department of Management Services.

Also, action has been taken to suspend the promotions without the salary codes approved by the Management Services Department and without the proper basic and other qualifications.

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| (ii) F.R. 762 | As a result of failure to maintain optimal inventory management, an inventory balance cost at Rs. 2.6 Million older than 5 years had been in idle. | Information has been called from the provincial offices in this regard. | Optimal inventory management should be maintained and no unnecessary money should be invested in inventory. |
| (iii) F.R. 763 | Stores regulations and procedures in maintaining and operating large quantities of stock had not been prepared by the Authority. | A circular will be issued to make the necessary awareness. | Stores regulations and procedures must be prepared by the Authority. |
| (b) Public Administration
Circular No. 02/2018
dated 24 January 2018 | | | |
| (i) Section 1 | The Authority had not introduced a methodology for human resource development and actions had not been taken to sign annual performance agreements or performance evaluation methodology for staff. | Actions will be taken in the future. | Methodology to sign the annual performance agreements with staff and a performance appraisal system must be introduced. |
| (ii) Sections 5 | A Human Resource Development Plan had not been prepared. | Actions will be taken in the future. | A Human Resources Development Plan should be prepared. |

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

- (i) Section **8.3.9** Seventy vehicles valued at Rs. 215.72 Million owned by the Authority had been given to external institutions. Similarly, 72,400 square feet from the Authority's headquarters building was given to the Ministry of Highways for its usage. Likewise, the maintenance cost and the utility costs of 72,400 square feet had been incurred by the Road Development Authority.
- Looking for information on vehicles provided to RCDC and vehicles provided to the Ministry have been provided on a temporary approval. Vehicles have been provided to Maga Neguma Company with lease agreements.
- Assets owned by the Authority, including vehicles, should be prevented from being transferred in accordance with this circular.
- (ii) Section **9.12** Although the prior approval of the Treasury should be obtained to spend expenditures on welfare activities, the aforesaid approval had not been obtained for the providing of staff transport services.
- A decision will be made after discussions with top management.
- Prior approval of the General Treasury is required for spend expenditures on welfare activities.
- (d) **Public Enterprises**
Circular No. 30
dated 22 September
2006 and No. 30 (I)
dated 01 June 2009
- Approval had been given to implement the recommendations on restructuring the staff of the Authority submitted by the Department of Management Services subject to preparation of a Scheme of Recruitment and Promotion prepared in accordance with the regulations and guidelines of the Department. Nevertheless, the salary scales which were not approved had been granted by the Board of Directors ignoring those terms regulations. Accordingly, the overpayment of the salaries
- The recruitment scheme up to the year 2005 has been implemented with the approval of the Board of Directors. The new recruitment scheme has not yet been approved by the Management Services Department. Accordingly, all recruitments and promotions have been made with the approval of the Board of Directors. Granting promotions outside the salary codes approved by the Department of Management Services has been suspended.
- Getting the approval for the recruitment procedure of the authority expeditiously, Correction of payments outside the requirements of the Department of Management Services and relevant payments should be recovered from the officers who dealt with overpayments.

only in the year 2020 was approximately Rs. 157 Million due to the substitution of higher salaries exceeding the approved salaries.

(e) **National Procurement Guideline 2006**

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| (i) Sections 4.2.1 (a), (b), and (e) and Section 4.2.2 (a), | Preparation of a Master Procurement Plan for a period of at least 03 years and to be regularly updated in a period not exceeding 06 months and a Procurement Time plan that systematically describes the steps in the procurement process had not been prepared by the Road Development Authority. | This will be done in the future. | Master Procurement Plan according to the National Procurement Guidelines and Procurement time plan should be prepared. |
| (ii) Section 3.4.3 (a) | The prescribed procedures had not been followed when purchasing of the items with low value which are economically disadvantageous for advertising and frequently use items and when registering of suppliers. | Due to things like the covid-19 and the Easter attack, the registration process could not be completed. Makes newspaper ads for higher prices and sealed quotes for lower prices as per the Procurement Guidelines. | Procedures should be followed in registering suppliers. |
| (iii) Section 8.10.1 and 8.11.4.(a) (i) | The information on the contracts awarded by the Authority had not been published on the Authority's website or in any other appropriate media and a source of data on defaulting suppliers had not been maintained. | Information will be published after the website is updated. Details of the contractors selected for the National Competitive Procurement are already posted on the website. Maintaining data sources to identify the failed bidders has begun and steps will be taken to avoid purchases from such bidders in the future. The security bonds of the defaulting contractors are cashed and obtained to the Authority and | Contracts awarded under the National Procurement Guidelines should be made public on the Authority's website or in any other appropriate medium.

A source of data on contract defaulted suppliers should be maintained. |

the relevant contract is terminated.

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| (iv) Sections 4.3. 1(a), 5.3.3 and 7.8.4 (e) | Non- preparation of formal total cost estimates, non-elaborating on the need for procurement in the bidding documents, and evaluation of bids that have not been substantially unresponsive had been made in respect of the procurements relating to obtaining tipper service, purchase of granite, purchase of tar effluent and purchase of bituminous emulsion with estimated value of Rs. 463 Million by the Authority in the year 2020. | Approval has now been obtained for the estimates. Bids will be evaluated in the future as per the procurement guidelines. | Take actions to prepare formal total cost estimates with respect to procurement, explain in detail the need for procurement in bidding documents and not to evaluate bids that have not been substantially responded. |
| (v) Section 5.4.10 (b) | Performance Bonds in respect of procurements with an estimated value of Rs. 251 Million had not been duly obtained and analyse the unrealistic rates and post eligibility examination of the bidder had not been conducted in connection with procurement with an estimated value of Rs. 100 Million. | Actions will be taken to duly obtain the Performance bond in the future and identify the existing shortcomings, check the qualifications and select the most suitable contractor. | Performance bonds should be duly obtained, unrealistic rates should be analysed and bidders' post-qualification should be checked. |
| (vi) Section 8.9.1 (b) | Not entering into formal contractual agreements or significant delay in reaching agreements had occurred. | Although there have been time delays due to the covid-19 situation and steps will be taken not to do so in the future. | Action should be taken to enter into formal contract agreements immediately. |
| (vii) Section 8.8.1 (a) | Although the failed bidders should been informed the reasons for the unsuccessfulness of their bid, the procurement entity had not made such a notification. | Explanations have been made orally, but written notice will be forthcoming. | Failed bidders should be informed of the reasons for the failure of the bid. |

(f) In terms of Sections 13 and 14 of the National Thoroughfares Act No. 40 of 2008 and the Paragraph 07 of the Extraordinary Gazette Notification No. 1732/12 dated 18 November 2011, the fees thus collected should be credited to the Authority's Fund and used for the development and maintenance of user fee National Highways.

Out of the Rs. 52,056 Million collected from expressways as at 31 December of the year under review, nearly a sum of Rs.15,000 Million that is about 30 per cent of the income had been provided as fixed deposits and remittance to the Treasury and the rest of 70 per cent had been spent for the maintenance of expressways and the general expenses, salaries and payments of projects of the Authority and to facilitate the officers of the Police Department which fall excluding the provisions of the above Gazette.

Revenue collected from expressways is Rs. 1,500 million has been pledged by a loan obtained from the Bank of Ceylon for the construction of the Central Expressway. Rs. 4,000 million has been provided as treasury levies.

Revenue from expressways was used with the permission of the Treasury to fund the shortfall in salaries. Expenses for operation and maintenance of expressways are met from expressway revenue and since the duties of the Police Division are directly related to the operation of the Expressway, that cost is also borne by the Expressway Revenue.

The provisions of the above gazette notification regarding the expenditure of expressway revenue should be complied with.

Further, expenditure incurred on behalf of the Police Department should be limited to essential recurrent expenditure.

(g) **National Thoroughfares Act No. 40**

(i) Section 4(3)

An "Action Plan for Integrated Road Network Development and Maintenance" had not been prepared specifying the Road Development Projects in the District to be accepted by the Road Development Authority, the relevant Provincial Council, the relevant Local Government Institutions and other agencies.

Covid-19 has made it difficult to deal with this. At the District Development Committee meetings a function similar to that of this action plan is performed.

An "action plan for the development and maintenance of integrated road systems" should be prepared in accordance with the requirements of the Act.

(ii) Section 6(1)

"Road Network Development Advisory Council" which should be established to advise the Minister had not been established to formulate an advanced road network policy, to develop strategies, to take action on road

Due to covid-19 it has not been possible to deal with this and action will be taken in the future.

The Road Network Development Advisory Council should be established in accordance with the requirements of the Act.

research and road safety and to work on road plans submitted by the Authority.

- (iii) Section 7(1) The “District Road Network Development Coordinating Committee” which should be established to recommend to the Minister had not been established to formulate an action plan for the development and maintenance of integrated road network for each District, to coordinate and monitor the road development and maintenance, to formalize the handing over of road development projects and acceptance of projects.
- Covid-19 has made it difficult to deal with this. The Road Development Authority reports on matters related to road development and maintenance at the District Coordinating Committee meetings.
- The Road Network Development Advisory Council should be established in accordance with the requirements of the Act.

2. Financial Review

2.1 Financial Result

The operating result for the year under review was a surplus of Rs. 178,839 million and the corresponding surplus for the previous year was Rs. 139,909 million. Accordingly, a growth of Rs. 38,930 million was observed in the financial result. An increase of Rs. 61,496 million in government grants arising from non-exchange transactions and a decrease of Rs. 5,264 million in development and maintenance expenditure were the main reasons for this.

2.2 Trend Analysis of major Income and Expenditure items

Item	Year 2020	Year 2019	Percentage difference compared to 2018
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	Rs. million	Rs. million	
Government Grant	215,632	165,883	58
Interest Income	937	1,067	(13)
Development & Maintenance Expenditure	10,257	15,142	(32)
Financial expenditure	13,727	14,721	(07)
Personal Emoluments	10,287	8,979	14
PPE Depreciation	39,769	29,582	34

- When the completed road project is handed over to the Authority, the government grant revenue equivalent to the assets so transferred has increased by a very significant percentage and due to the fall in interest rates in the financial markets, fixed deposits increased and interest income declined relative to the corresponding year.
- Development and aintenance expenditure had increased last year due to treat as road construction costs for the Authority-implemented Ran Mawath project, which had returned to normal in the current year.
- As a result of the Authority's debt restructuring, financial expenditure has further decreased compared to the previous year and Expenditure on salaries had increased as compared to the previous year due to the expansion of the expressway system, recruitment of new employees and filling of vacancies in the Authority.
- The expansion of the Asset base due to the transfer of assets including roads after the completion of expressway projects led to an increase in the Depreciation of Property Plant and Equipment Compared to Last Year.

2.3 Ratio Analysis

	2020	2019
Current asset Ratio	2:1.44	2:1.23
Quick asset Ratio	1:1.42	1:1.21

The current ratio represents some positive increase compared to the current ratio of previous year and the quick asset ratio has also reached the expected minimum and is also showing growth with the previous year.

3. Operational Review

3.1 Identified Losses

	Audit Issue	Management Comment	Recommendation
(a)	As a result of failure of inadequate supervision, the supply of goods or delivery of services for the functions of interim payments and final payments in accordance with the 8.12.1 (a) of the Government Procurement Guidelines, a financial loss of Rs. 1.3 Million had occurred to the Authority in purchasing of bituminous emulsion at the Estimated cost of Rs. 60 Million.	The purchase has been approved by the Authority's Board of Directors through Maga Neguma Emulsion. As this is a company under the authority, the prices of other private suppliers cannot be compared. There is no loss as the money charged for the use of machines by the Road Development Authority and the profit margin of the Authority goes directly to the Authority.	Procurement should be done with a focus on economics and value for money, which are the basis of government procurement guidelines.
(b)	Out of the 50 per cent of the amount of advance given to the Central Engineering Consultancy Bureau non-compliance to the 5.4.4 of the Procurement Guidelines, the balance to be received amounting to Rs. 3.86 Million could not be able to recovered due to non-completion of contract work.	Agreed with Audit paragraph.	The supervisory process of the Authority should be strengthened to recover the money due to the Authority or to carry out the assigned task.
(c)	The financial loss occurred to the Authority was Rs. 8.2 Million due to the failure of collecting lease rent as required in respect of the extent of 81.8 perches road reserve leased out by the Road Development Authority to Ceylon Biscuit Limited and the write off of arrears lease rent.	The Director General has approved the recommendations made by the Remuneration Committee of the Asset Management and Revenue Division to cut arrears. The Authority has gained a financial advantage by leasing land without any income.	Assets owned by the authority should be managed in such a way as to bring maximum economic benefits.

3.2 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	Actions had not been taken to establish an Asset Management System in order to make the necessary regulations from the time of issuance of the purchase order in respect of the assets purchased by the Authority to the time of removal of those	Action will be taken in this regard in the future.	An asset Management System should be established.

assets and from the work-in-progress on building of assets to capitalization.

(b) The construction works on the first phase of the Central Expressway had been awarded to China Meteorological Company in contrary to the provisions of the Procurement Guidelines at a cost of Rs. 158,386 million to reimburse the expenses incurred by the Company in Northern Expressway. Similarly, The Road Development Authority had entered into a construction agreement with the relevant company on 18 August 2016 without a funding agency. Further, the amendments proposed by the Attorney General on 02 October 2018 in respect of the rights and obligations of the parties of the agreement in complying with Chinese law, had not been accepted by the Company at the time of entering into the agreement. Further, a sum of Rs. 5 Million and Rs. 83 Million which had to be borne by the Contractor for occupational compensation insurance under the Packages 1 and 2 respectively had been entered in the Bills of Quantity as a separate work item.

(c) Geometric Plans valued at Rs. 1,773 Million to be performed by the contractor and the Performance Bond cost at Rs. 805 Million had been included in the Bills of Quantity as a separate work item for Phase II of the Central Expressway. Likewise, although the incentives amounting to Rs. 30 Million had been paid to expedite the process of land acquisition, the work had not been completed even by 10 August 2021. Even though there should be an agreement with the funding agency for the project at the time of implementation of the project, as per the Circular of the Department of Management Services No. 1/2016 dated 24 March 2016, the Project had been in operation for nearly five years without such an agreement.

It can be accepted that the contract for the construction of Part 1 of this Central Expressway has been awarded outside the relevant procurement procedures.

The contractor had not made a written request to reimburse such an expense and there was no agreement for that. At the same time, the liability of the relevant contractor for this project or any other Central Expressway project has not been taken into account. It is also correct to state that a sum of Rs. 5 Million and Rs. 83 Million which had to be borne by the Contractor for occupational compensation insurance under the Packages 1 and 2 respectively had been entered in the Bills of Quantity as a separate work item.

Although all plans other than geometric design are to be carried out by the Contractor in accordance with the sub-clauses of the Contract Specific Terms, cannot be agreed with the statement that a separate work item of Rs. 1,773 million had been included in the bill of Quantity.

However, agrees with the statement that although an incentive of Rs. 30 million had been paid to expedite the process of land acquisition process, the work had not been completed even by 10 August 2021.

Projects should be started after planning the projects properly and making sure that they are funded.

Further, to ensure that every project award is in accordance with the provisions of the Procurement Guidelines and Preparation of Bill of quantities for maximum benefit to the institution

Preparations of quantity sheets for maximum benefit to the institution and clear the site as soon as possible by accelerating the process of land acquisition.

- (d) Although the civil construction works on the Central Expressway – Phase III had not been commenced so far, a sum of Rs. 834 Million had been spent for the Project Management Units established in the year 2013. Similarly, even though incentives of Rs. 32.3 Million had been paid to 04 state institutions to expedite the land acquisition process, the land acquisition activities were being done in a very slow manner. Accordingly, it was planned to acquire 3,264 plots of land and compensation of Rs. 4,834 Million for 2,556 plots of land out of this and Rs. 98 Million for compensation interests had been paid by 31 December 2020. However, any plots of land had not been registered with the Road Development Authority in accordance with the Section 44 of the Land Acquisition Act up to now.
- Although procurement work has been done on several occasions since 2014 for awarding the construction contract for Part III of the Central Expressway Project all procurement prior to 2021 was halted due to government decisions or the inability to reach a final agreement on the loan amount. The work was further delayed due to Political changes, resulting that changes in ministers and officials, Non-receipt of financial provisions as planned, delays due to their busy schedule in appointing Divisional Secretaries and Assistant Divisional Secretaries instead of retired Administrative Officers for title inquiries and the corona epidemic since year 2020. Action has been taken to expedite the transfer process under Section 44 for all the pieces for which interest has been paid so far and the transfer of 70 pieces has been completed and received to the project on 05.11.2021.
- A program should be formulated in which government agencies work together to set up a program to plan projects properly and expedite land acquisition.
- (e) Although there should be a written agreement in between the Government of Sri Lanka and the funding agency for the projects exceeding US \$ 5 Million as per the Department of Management Services Circular, the salaries and allowances had been paid to the staff for Central Expressway – Phase IV without such an agreement. Further, a sum of Rs. 353 Million had been spent for nearly five years for the Project Management Unit without an agreement with the Funding Agency on the granting of funds to the Project. Although the incentives amounting to Rs. 6 Million had been paid to 04 government agencies to expedite land acquisition, land acquisition activities were being done in a very slow manner.
- There is no special provision in the Management Services Circular No. 1/2016 that there should be a written agreement between the Ministry of Highways and the Road Development Authority for projects exceeding US \$ 5 million. Construction could not begin due to delays in the provision of financial facilities by the contractor to EXIM Bank of China. Subsequently, as per the decision of the Cabinet of Ministers in 2020, it was decided to call for technical and financial proposals from an individual investor again and the procurement process has commenced for that.
- A program should be formulated in which government agencies work together to set up a program to plan projects properly and expedite land acquisition.

Action has been taken to pay the relevant incentives with a view to completing the process even if the relevant time period has elapsed in completing the incentive payment methodology.

- (f) Out of the carrying value of total assets amounted to Rs. 992,176 Million belonging to Road Development Authority; Rs. 754,747 Million which is 76 per cent represents the value of Property, Plant and Equipment. However, the existing internal control mechanisms regarding the fixed assets of the Authority and the human and physical resources deployed on them were not at a significant level.
- Future work will be done to introduce a new computerized package as a fixed asset management system and to increase the required human and physical resources.
- Establishment of a formal internal control system for the fixed assets of the Authority and allocation of adequate human and physical resources for that purpose.

3.3 Idle or underutilized Property, Plant and Equipment

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
The road reservations had been leased out to external parties for various economic activities without obtaining the approval of the Board of Directors of the Authority. Even though the lands were used by the lessees for activities excluding the contractual functions the Authority had not taken any action in this regard. Similarly, the land at Attidiya Area in extent of 11 Acres 02 Roods 38.3 Perches valued at Rs. 123 Million as shown in the Financial Statements is being occupied by the Vocational Training Authority and the German Technical College and the rest of the land plots had been encroached by the unauthorized persons.	The construction of a boundary wall around the rest of the land is 90 percent complete except for the area where the unauthorized occupants live.	To implement a proper security arrangement regarding the assets of the Authority through the Executive Engineering Offices and to deploy the intended purpose for which the assets were purchased.

3.4 Defects in Contract Administration

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
(a) The estimated cost of the road projects which were inspected had been overestimated by Rs.	Estimates based on 2019 HSR prices were revised later. Although	Action should be taken to prepare a suitable

212.2 Million in 61 projects implemented in the Karunagala District during the year under review with the estimated cost of Rs. 2,743 Million under National, Regional and Rural 100,000 km Alternative Road Rehabilitation Project because of the reasons such as estimating of 34 work items in the estimates above the price rates mentioned in the standard rates for highways, estimating wastes on an extraordinary scale, overestimating transport costs and overestimating of costs exceeds requirement. Similarly, laying of ABC was not done to the required standard in the total length of 16.27 km. roads and 9 roads with an estimated value of Rs278.29 Million. This condition directly affects the durability of the road and payments had also not been made to contractors for the constructions which were lack of proper standards.

the waste is estimated at 10 percent by concerning the transportation, topographic weather conditions, the situation was then checked and reduced to 5 percent and the estimates were revised. Although estimates have been prepared based on the authorized licensed raw material supply points of the authority, it is then advised to consider new locations where cheaper and quality raw material can be obtained.

specification for roads that non-highway and to regulate the Authority's supervision regarding the Construction.

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| (b) | The payments had been made for the estimated value of Rs. 74 Million of work items which not been completed during the physical inspections though these were included in the road development estimates .The matters such as failure to carry out the works to be done under the lump sum payment system, installation of business name boards, traffic control and workplace insurance and receiving of orders not to perform the work mentioned in the estimates were consisted of within this. | Payment will only Be done when the work items mentioned here are completed. | Estimation should be done as realistically as possible. |
| (c) | A length of 50.58 km, which was recently developed and has a quantitatively suitable condition for use had been re-estimated under the 100,000 km Alternative Road Rehabilitation Project valued at Rs. 923.91 Million for re-development and had been rehabilitated. | Coordinating the relevant local authorities will identify the roads to be developed and the engineers of the authority will decide way it's developed. These roads will be handed over to the relevant agencies after development and the Authority will assist in their maintenance. | In selecting roads for development should be taken up the road that should be given the highest priority and the scare resources should be managed accordingly. |
| (d) | The roads and bridges construction contracts awarded for a Rs. 103.49 Million to several private contractors in 2013 had been suspended due to poor performance and the construction works had been completed by using the direct labor of the authority. Further, a sum of Rs. 7.58 Million out of the mobilization advance given for these contracts had remained in the hands of the | The settlement process for this has been halted and no agreements have been entered with the contractors in 2019 and 2020. A provision has been made for that due to inability to take legal action because time is running out. It has been decided to refer the matter to the Attorney | Prior to awarding the contract the ability of the contractor to complete the work prior to awarding the contract should be carefully identified and the work should be completed by |

contractors furthermore. Further, The mobilization advance balance was Rs. 2.1 Million due to failure to enter into a written agreement with the contractor for three contracts awarded to another private contractor in 2012 amounting to Rs. 25.7 Million and stop of the contract works within the given contract period without completing the contract works.

General for further advice.

the contractor within the expected time. Also, contractors who do not make the expected progress should not be re-awarded contracts and If the existing laws are not adequate for that, action should be taken immediately to that.

3.5 Resources Released to other Organizations

Audit Issue	Management Comment	Recommendation
(a) Even though the Ministry of Highways uses 72,400 square feet which is 28.7 per cent of the Road Development Authority Headquarters Building, a lease rent had not been charged for that. Further, using an extent of 8,290 square feet from the Sethsiripaya building for carrying on the Road Development Authority offices, a rent of Rs. 11.49 Million had to paid by the Authority in the year 2020 for that.	Requests have been made to inform the decision of the Line Ministry in this regard. It has been informed that the rent cannot be paid due to insufficient provision. Work is also underway to hand over this part of the building along with other assets used by the Line Ministry. The location of the Ministry and the Authority in the same premises facilitates office work. The premises do not have space for all the offices of the Authority and therefor the outdoor premises are rented out.	Action should be taken to identify the assets taking into account the risks and benefits associated with the assets. Action should be taken to reimburse the assets related expenses incurred.

3.6 Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) There were 28 vacancies in the Senior Management Level of the Road Development Authority as at 31 December 2020 and the existence of vacancies in these posts had a direct impact on the management as well as the performance of the Authority. Further, there was also an excess of 958 officers as at the same date and the total expenditure on salaries for the year 2020 had been Rs.10, 287 Million. The value of the grants received from the General Treasury for this was Rs. 7,399.5 Million. An additional amount of Rs. 2,887.5 Million had been paid from the funds of the Authority to pay salaries to the entire staff including excess number of employees.	Due to the expansion of road construction and maintenance activities, the number of employees has been increased beyond the approved staff. By the end of the year under review the number of redundant employees has decreased. Funds from the Authority have been used to pay salaries due to insufficient annual provisions.	Obtaining staff approval and increasing the use of technology in comparison to the expansion of the Authority's activities.