Road Development Authority - 2021

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Road Development Authority ("Authority") for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 presented 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 financial statements give a true and fair view of the financial position of the Authority as at 31 December 2021 and its financial performance and 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 the 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 Authority'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 Authority'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 relevant Standard	Comments of the Management	Recommendation
(a)	According to provisions of Sri Lanka Public Sector Accounting Standard 07, action had not been taken to depreciate various sub-sections of expressways with different useful lives, by determining depreciation rates thereof on a professional valuation.	It was decided to obtain a professional valuation for relevant depreciation rates.	As it is observed that useful lives of various sub-sections of an expressway are different to each other, those sections should be depreciated under appropriate rates.
(b)	Contrary to provisions mentioned in Sri Lanka Public Sector Accounting Standard 1, retention money of Rs.21.37 million and loan installments payable amounting to Rs.659 million to be settled in the year relating to 54 projects of which the liability period was due to be completed in the year 2022 or prior to that, had been shown in the financial statements under non-current liabilities. Moreover, mobilization advances amounting to Rs.51.53 million to be settled in the ensuing year had been indicated under non-current assets. Furthermore, 60 per cent and the remaining 40 per cent of the retention money	The relevant officers have been instructed to take the responsibility of avoiding such things hereinafter.	In the preparation of financial statements, current and non-current assets and liabilities should be recognized accurately according to the Accounting Standard.

	of Rs.3,671 million payable under the 100,000 Kilometres of Roads Project implemented by the Authority, had been indicated as current liabilities and non-current liabilities respectively and 75 per cent and 25 per cent of the mobilization advances of Rs.13,347.5 million relating to the said project, had been indicated as current assets and non-current assets respectively in the financial statements without any acceptable basis.		
(c)	A number of 155 vehicles costing Rs.394.9 million and buildings costing Rs.56.6 million belonging to the Authority had been fully depreciated by 01 January 2021. Even though the said vehicles and buildings are still being used by the Authority, necessary disclosures on those assets had not been made in the financial statements in terms of Sri Lanka Public Sector Accounting Standard 07. Moreover, action had not been taken in terms of Sri Lanka Public Sector Accounting Standard 03 to rectify the estimated error on useful life of the said assets and to adjust them in accounts.	Necessary revaluations will be made in future.	If fully depreciated assets are still in use, those should be revalued and included in books as per the Standard.
(d)	A sum of Rs.556.8 million spent for the construction of the coastal road up to Panadura which should have been capitalized by identifying as an asset as per Sri Lanka Public Sector Accounting Standard 7, had been written off from the income as a revenue expenditure of the year under review. Accordingly, profit of the year and fixed assets had been under stated by the same amount.	The cost of this Project had not been brought to account as work-in-progress by mistake.	Expenses for non-current assets should be capitalized.

1.5.2 Accounting Policies

Audit Observation	Comments of the Management	Recommendation
A sum of Rs. 82,692 million spent up to 31 December of the year under review for the construction of roads not belonging to the Authority under the 100,000 Kilometres of Roads Programme, had been indicated under work-in-progress.	Further studies will be carried out thereon and an appropriate accounting system will be introduced in future.	In incurring capital expenditure not relevant to the Authority, the Policy on the accounting system

			should be recognized.

1.5.3 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	According to disclosures made on inventories, inventories shall be accounted at cost or net realizable value whichever is lower. However, instead of that, a sum of Rs.26.7 million had been provisioned for immovable inventories as at 31 December 2021.	It had not been disclosed in the financial statements by mistake.	The Policy of accounting inventories should be accurately identified and, it should be accounted accordingly.
(b)	The value of stationery inventory as at 31 December 2021 amounted to Rs.63.6 million and the value of non-stationery items included therein was Rs.5.2 million. As such, the value of stationery inventory as at that date had been over stated by the same value.	Inventory values of certain non-stationery items have been shown under the stationery inventory by mistake.	Inventories should be classified, computed and brought to account accurately.
(c)	Even though the total distance pertaining to the A and B class roads owned by the Authority was 12,225 km, only a distance of 3,179 km belonging to 144 roads had been capitalized as at 31 December 2021 from the year 2018, on which the capitalization of national highways was commenced. Accordingly, the value of distance of 9,046 km relating to A and B class roads owned by the Road Development Authority had been excluded from the statement of financial position and it was observed that the said distance represented 74 per cent of the total distance of the highway.	A proper system is due to be implemented since the year 2022.	Action should be taken to capitalize national highways which are the assets of the Authority and depreciate them appropriately.
(d)	The cost of the distance of 271 km of the expressway amounting to Rs.605,646 million indicated in the financial statements of the Authority as at 31 December 2021, had been borne by the line Ministry and the total value of the said construction had been capitalized as expressways. However, supporting documents relating to the seeking approval of the Treasury to capitalize those assets, had not been made available to Audit.	Requests had been made to the Director General of the Department of Public Enterprises and replies therefor had not been received so far.	It should be capitalized with the concurrence of the Treasury.

(e)	A number of 258 vehicles of which the value is not mentioned in the Register of Assets of the Authority, but owned by the Authority, physically existed and action had not been taken to revalue and indicate those vehicles in the financial statements. Furthermore, a sum of Rs.492.95 million had been spent to insure the vehicles owned by the Road Development Authority for the years 2022/2023 and 54 out of those insured vehicles, had not been included in the Register of Motor Vehicles of the Authority.	Further action will be taken by the Mechanical Division to include those assets in the Register and make necessary adjustments in accounts.	Proper arrangements should be made to take over the vehicles and to revalue and indicate in the financial statements. Moreover, only vehicles owned by the Authority should be insured.
(f)	Four plots of lands of 07 acres in extent valued at Rs.34 million purchased and registered by the Road Development Authority in the years 2016 and 2017 for the resettlement of persons who were displaced during road development activities and lands valued at Rs.8.2 million handed over to the Authority by the Project in the completion of Outer Circular Expressway Project- Phase II, had not been included in the financial statements as assets of the Authority.	Information on plots of lands will be called for and brought to account in future.	All assets owned by the Authority should be brought to account by identifying accurately.
(g)	According to schedules made available to Audit by the Accounts Division, the compensation and interest thereon payable for lands acquired as at 31 December 2021 by the Land Division and acquired for projects amounted to Rs.585.19 million. However, according to the information in this connection made available to Audit by the Land Division, the corresponding payable compensation and interest thereon amounted to Rs.958 million. Moreover, it was observed that failure in computing the compensation and the interest relating to lands based on the accrual basis, had attributed to the said matter. However, reasons for the difference of those balances had not been reviewed and rectified as necessary.	Computation of accrued expenditure for land compensation and interest thereon has failed due to difficulties arisen in obtaining information practically.	Land compensation and interest thereon should be computed based on accrual basis and brought to account.
(h)	According to laws, rules and regulations of the acquisition of lands, the total statutory compensation and the interest thereon liable	Action will be taken to rectify this situation in future.	The value liable to pay should be brought to account.

	to pay as at 31 December 2021, had not been identified and brought to account by the Authority. However, it was observed according to a sample audit test check that the interest payable which was not accounted so, as at 31 December 2021 amounts to Rs.307.07 million.		
(i)	The sum of Rs.135.8 million allocated in the year 2020 as the compensation and the interest payable relating to the acquisition of lands under the Project of Southern Expressway Road Extension –II, had been brought to account again as an expenditure in making payments during the year 2021 and the interest payable relating to the expansion and improvement of roads had been over accounted by Rs.308.92 million. As such, expenditure on interest of the year under review had been overstated by Rs.444.72 million in the financial statements.	Submission of these documents on due date was delayed due to the crisis prevailing in the country.	Income and expenditure relating to the accounting period should be identified and brought to account accurately.
(j)	Information systems totalling Rs.1,400.15 million received to the Authority from foreign funded projects and other ways and fixed assets such as bridges and furniture costing Rs.3,958 million had not been included in accounts and indicated in the financial statements of the Authority.	Information will be obtained from relevant Divisions and brought to account in future.	Accurate values of all assets received to the Authority from foreign funded projects and other ways should be computed and brought to account.
(k)	A sum of Rs.362.11 million spent for the reconstruction of weak bridges during the year under review, had been indicated in the financial statements under cost development and maintenance expenditure instead of capitalizing .	Action will be taken to identify the cost separately and capitalize in future or to write off as an expenditure.	Expenditure should be classified accurately and brought to account accordingly.

1.5.4 Unreconciled Control Accounts or Records

	Item	Value as per Financial statements (Rs.Mn)	Value as per corresponding Reports (Rs. Mn.)	Difference (Rs. Millions)	Comments of the Management	Recommendation
(a)	Difference between current accounts of the Road Development Authority and Maga Neguma Road Construction Equipment Co (Pvt) Ltd	13,953	16,221	2,268	Relevant officers were instructed on matters which caused this difference and to call for information.	Relevant reconciliations should be made in a timely manner.
(b)	Difference between the Client's deposit balance remained as at 31 December of the year under review and assets represented from it.	3,070.9	4,801.6	1,730.7	Action will be taken to introduce an appropriate accounting policy after carrying out a proper study.	Relevant reconciliations should be made in a timely manner.

1.5.5 Lack of Documentary Evidence for Audit

Item	Audit Evidence not made available	Comments of the Management	Recommendation
Buildings and other assets valued at Rs.529 million indicated under non-current assets in the financial statements of the Authority as at 31 December of the year under review, had not been included in the Register of Fixed Assets and evidence relating to the identification of those assets had not been made available to Audit.	Register of Fixed Assets, Party who uses assets	Action will be taken to update the Register of Fixed Assets after receiving valuation reports.	All non-current assets included in the financial statements should be included in the Register of Fixed Assets.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit Observation	Comments of the Management	Recommendation
(a)	Sums of Rs.306 million and Rs.124 million receivable from the Ministry of Economic Development and the Board of Investment respectively to the Authority on behalf of projects executed by the then Ministry of Economic Development in Southern Province in the years 2012/13, had further remained unrecovered.	Necessary action is being taken for the said recoveries.	Action should be taken to recover the money by implementing necessary measures continuously for the recovery of receivables.
(b)	Out of the balance of Mobilization Advances recoverable to the Authority as at 31 December 2021, the balance between 02 and 05 years and the balance over 05 years were Rs.53.25 million and Rs.58.11 million respectively.	Provincial Road Development Authority has been briefed thereon.	Action should be taken to recover the money by implementing necessary measures continuously for the recovery of receivables.

1.6.2 Payables

	Audit Observation	Comments of the Management	Recommendation
(a)	Out of the retention money payable to the Maga Neguma Road Construction Equipment Co (Pvt) Ltd and Maga Neguma Consultancy & Project Management Services Company (Pvt) Ltd.by the Construction Division as at 31 December 2021, the sum remained unsettled for a period over 05 years and a period between 4 and 5 years amounted to Rs.687.9 million and Rs.126.7 million respectively.	Action will be taken to pay after receiving imprests and Provincial Directors were informed to submit vouchers for the remaining payments.	Action should be taken to settle payments.
(b)	Award of contracts had been completed for 11,595 road projects valued at Rs.356.44 billion by 31 December 2021 under the National , Regional and Rural Programme of Rehabilitation of 100,000 Kilometres of Alternate Roads implemented under domestic bank funds and the Rural Road Project. A sum of Rs.92.25 billion had been spent for this Programme as at that date and further payments should	The financial sources of the 100,000 Kilometres of Roads Project are domestic banks and the Government Treasury. As such, payments for contractors will be made as per the remittance of funds by those sources to the Project.	Action should be taken to settle relevant balances.

have been made for bills valued at Rs.15.65 billion. The value of bills unsettled as at 31 October 2022 was Rs.52.5 billion and out of that, a sum of Rs.25.49 billion had lapsed 3 months.

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

	Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a)	Payment of Gratuity Act, No.12 of 1983	The gratuity entitled to officers who had terminated the service by completing a continuous period of service of 05 years should be paid within the period of 30 days of such termination. Nevertheless, gratuity had not been paid during the year 2021 for 32 officers who had retired, resigned, deceased and left the service during the year 2021. As such, an interest as well should be paid based on the period of delay in making such payments.	It is agreed to pay within 30 days.	Action should be taken in terms of the Payment of Gratuity Act to make relevant payments.
(b)	Sections 01 and 05 of the Public Administration Circular No. 02/2018 of 24 January 2018	The Authority had not prepared a human resource development plan and introduced a methodology for human resource development. Further, action had not been taken to sign annual performance agreements or introduce a methodology for the evaluation of the performance, for the staff.	Action will be taken in future.	Action should be taken in terms of circular provisions.
(c)	Public Enterprises Circulars No.30 of 22 September 2006 and No.30(1) of 01 June 2009	Instead of implementing recommendations for restructuring the staff, submitted by the Department of Management Services and subject to the preparation of a Scheme of Recruitment and Promotion as per the rules and guidelines of the said Department, salaries had been paid by preparing false salary scales for 287 officers relating to 23 posts on decisions of the Board of Directors without taking into account such rules.	It is totally agreed.	Action should be taken in terms of circular provisions and instructions of the Department of Management Services.

(d)	National Procurement Guidelines 2006 Guidelines 4.2.1 (a), (b), and (e) and Guideline 4.2.2 (a)	A Master Procurement Plan should be prepared at least for a period of 03 years and a Procurement Time Schedule should be prepared for a period not over 06 months. Nevertheless, plans had not been prepared accordingly.	Those Plans have been prepared and implemented by now.	Action should be taken in terms of Guidelines of the National Procurement Guidelines 2006.
(e)	National Procurement Guidelines 2006 Guidelines 8.10.1 and 8.11.4.(a) (i)	The information on contracts awarded had not been published in the Authority's website or in any other appropriate media and a source of data on defaulting suppliers had not been maintained.	Publishing in Authority's website has been commenced. .	Action should be taken in terms of Guidelines of the National Procurement Guidelines in respect of data on contracts and suppliers.
(f)	Circular No. RDA/GM/10/169 of 10 June 2010 of the Director General of the Road Development Authority	In providing transport facilities, approval had been granted only for providing transport facilities to the Engineer who directly involves in the contract. However, contrary to that, vans, cabs and motor cars had been hired for providing transport facilities for Engineers and Technical Officers of Southern Provincial Offices of the Road Development Authority, who had not directly involved in contracts and a sum totalling Rs.23.3 million had been paid as the hire therefor.	As there was a direct service requirement of Engineers as well as Technical /Mechanical officers for the 100,000 Kilometres of Roads Project and a large number of projects are executed at the same time, transport facilities were provided as per the Procurement Committee Decisions to employees during period of Covid pandemic prevailed in the country.	As per the circular provisions, transport facilities should be provided only to the Engineer who directly involves in the contract.
(g)	National Thoroughfares Act, No. 40 of 2008 Sections 4(3), 6(1) and 7(1)	In terms of Sections, the Action Plan for "Integrated Road Network Development and Maintenance" had not been prepared and the "Road Development Advisory Council" and the "District Road Network Development Co-ordinating Committee" had not been established.	Action is being taken in this regard by the line Ministry.	Action should be taken in terms of relevant provisions of the Act.
(h)	Sections 13 and 14 of the	The fees thus collected on a user fee national highway should be credited	The income collected from highways was	Action should be taken in terms of

National Thoroughfares Act, No. 40 of 2008 and paragraph 07 of Gazette Extraordinary No.1732/12 of 18 November 2011	to the Authority's Fund. However, out of the income of Rs.61,435 million collected from highways as at 31 December of the year under review, a sum Rs.18,473 million had been spent for the payment of taxes on all income sources of the Authority. Furthermore, contrary to rules of the Gazette, sums of Rs. 10,713 million for salaries and allowances of employees of the Authority, Rs.3,402.3 million for General expenditure and projects and a sum over Rs.650 million had been spent for providing facilities to officers of the Department of Police.	used to cover deficiencies in funds, occurred in the payment of salaries with the permission of the General Treasury.	provisions of the Act.

2. Financial Review

2.1 Financial Result

The entire operations for the year under review resulted in a surplus of Rs.86,181.42 million as compared with the corresponding surplus of Rs.183,437.38 million of the preceding year, thus observing a decline of Rs.97,255.96 million in the financial result. The decrease of Rs.140,604 million in capital grants received relating to capitalization of assets of projects after completion of project works as compared with the preceding year had mainly attributed to this decline. However, the grants received through line Ministries and State Ministries for maintenance and development had increased by Rs.39,221 million as compared with the preceding year. Moreover, the increase in development and maintenance expenditure by Rs.2,912 million due to completion of construction of roads relating to 100,000 Kilometers of Roads Programme not owned by the Authority and writing off from accounts had attributed to the decline in the financial result as well.

2.2 Trend Analysis of Major Income and Expenditure Items

Item	2020	2021	Difference	Percentage of Difference compared with the corresponding year
Recurrent Grants	36,482	83,848	47,366	130
Capital Grants	222,876	82,272	-140,604	(63)
Income from Expressway	3,760	4,530	770	20
Development and Maintenance Expenditure	10,110.48	12,681.15	2,570.67	25

The following observations are made.

i. The increase in grants received through line Ministries and State Ministries for maintenance and development by Rs.39,221 million as compared with the preceding year, had mainly attributed to the increase in recurrent grants by 130 per cent.

ii. The decrease in capital grants received for capitalization of assets of projects after completion of works thereof had decreased by Rs.140,604 million as compared with the preceding year, thus attributing to the decrease in capital grants by 63 per cent.

iii. The relative increase in the use of expressways due to relaxing of travel restrictions that prevailed in the year 2020 as a result of the Covid- 19 pandemic, had attributed to the increase in income from expressways by 20 per cent.

iv. The completion of construction of roads not owned by the Authority and writing off from accounts relating to the 100,000 Kilometers of Roads Programme had mainly attributed to the increase in development and maintenance expenditure by Rs.2,912 million representing 25 per cent.

2.3 Analysis of Ratios

Ratio	**As at 31 December 2021**	**As at 31 December 2020**	**Whether favourable or unfavourable as compared with the preceding year**
Current Ratio	1.41	1.20	Favourable
Quick Ratio	1.38	1.18	Favourable
Net Profit Ratio	49	68	Unfavourable
Debt Equity Ratio	0.47	0.42	Unfavourable
Total debt- Total Assets Ratio (per cent)	30.81	28.72	Unfavourable

The following observations are made.

i. The current ratio and the quick ratio as at 31 December of the year under review were at the minimum accepted level and as compared with the preceding year, a positive increase in the said ratios was reflected.

ii. Whereas the long term loan increases by 24 per cent as at 31 December of the year under review as compared with the preceding year, the increase in the equity of the Authority by approximately 12 per cent as at that date had attributed to unfavourable gearing ratios as compared with the preceding year.

The total loan balance unsettled as at 31 December of the year under review was Rs.359,479 million and it comprised bank loans of Rs.268,313 million and Rs.91,166 million of debentures. These loans had been obtained for the 100,000 Kilometers of Roads Programme, construction of the Central Expressway, widening and development of roads and working capital requirements of the Authority and the interest thereon had been prescribed by adding a value ranging from 2 per cent to 2.8 per cent at the maximum, on the weighted primary loan ratio. Treasury Guarantees had been issued in obtaining all these loans.

3. Operating Review

3.1 Identified Losses

	Audit Observation	Comments of the Management	Recommendation
(a)	In the development of roads owned by the Provincial Road Development Authority, the estimates of several roads belonging to the Matara, Polonnaruwa, Kandy and Nuwara Eliya Districts had been over computed by Rs.326.2 million due to reasons such as including expenses not permitted by the Authority, average wastages in extraordinary quantities, selected price ratios being erroneous, estimate of expenditure without identifying the requirement and failure in selecting the optimum method by which the requirement could be fulfilled. As the contractors were paid based on erroneous estimates in this manner, several instances were observed in audit where an overpayment of Rs.61 million had been made. Moreover, despite the fact that the Items of Work mentioned in the estimate were not properly executed and laying of low standard ABC and Asphalt, the contractors had been overpaid with a sum of Rs.14.2 million for several projects implemented in the Matara District.	The final payments relating to the projects subject to this inspection had not been made up to now and in the lump sum payment method, the estimate should be revised before making payments. The said estimates are being currently revised.	Estimates should be prepared as accurately as possible under proper supervision.
(b)	The period of the agreement entered into between the Road Development Authority and the Bank of Ceylon on 18 December 2014 for charging electronic fees of the Colombo Katunayake Expressway had terminated on 08 June 2020. However, action had not been taken to enter into a new agreement. Furthermore, of the fees charged to encourage users of the method of paying electronic fees of this expressway, it had been permitted	The technical teams always make maximum effort to solve issues.	Fees should be charged according to proper and updated systems.

	to provide a 10 per cent discount only for those users for the period of the first 06 months of changing into the method of paying electronic fees. However, the said 10 per cent discount has been provided even after exceeding the period of 06 months. As such, the Authority had lost a sum totalling Rs.56 million comprising Rs.29 million and Rs.27 million relating to the years 2021 and 2020 respectively. Moreover, there had been a delay in remitting electronic fees collected daily, to the Revenue Collection Account of the Authority.		
(c)	The relevant Project Director had informed all Provincial Directors, Chief Engineers and Executive Engineers to revise and rectify Engineers' estimates prepared under the National, Regional and Rural Programme on Rehabilitation of 100,000 Kilometres of Alternate Roads implemented under the local bank funds and the Rural Road Project. However, the relevant rectifications had not been made relating to 146 projects valued at a total of Rs.15,690.5 million even by 30 October 2022. Accordingly, it was observed that there are instances in which the Government may sustain a financial loss by paying a price rate above the standard rates to contractors in future.	Payments of the project, are recommended as a significant percentage, computed with the progress of the project for the contractual sum. Revision of payments for this project under Work-In-Progress, will be made within the above system, before the final payment as agreed at the discussion held between the Ministry of Highways and Audit Divisions.	Estimates should be prepared in a proper, economical and effective manner under supervision.

3.2 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	The Expressway Transport Company of the subsidiaries of the Authority had not submitted its financial statements to Audit since the year 2016.	Has not commented.	The financial statements should be submitted to Audit within the prescribed time frame.

(b)	The Audit Opinion on the financial statements of the Maga Neguma Road Construction Machinery Company (Pvt) Ltd. of the subsidiaries of the Authority, was being disclaimed since the year 2017 and the Audit Opinion in the financial statements of the Maga Neguma Consultancy and Project Management Services Company (Pvt) Ltd. as well was disclaimed for the year 2019.	Has not commented.	The affairs of subsidiaries should be properly supervised.
(c)	In terms of Section 133 of the Companies Act, No.7 of 2007, a company shall call an annual general meeting of shareholders to be held once in each calendar year. However, none of the companies belonging to the Authority had taken action accordingly.	Relevant companies have been briefed in this regard.	The affairs of subsidiaries should be properly supervised.
(d)	Retentions without explanations amounted to Rs.3,360.9 million as at 31 December 2021 and a sum of Rs.99.4 million had been retained as the contractors have not requested therefor. Action should be taken to carry out a repeat review on the standard of road constructions, adhered to proper procedures and to credit these balances to the income. Nevertheless, the value proposed to be credited to the income of retention money payable as at 31 December 2021 had been only Rs.81.8 million.	Necessary arrangements will be made to release relevant retention money by briefing the relevant contractors or to credit them to the income on the recommendations of the committee.	Action should be taken to credit all retention money which could be credited to the income and to carry out a repeat review of construction standards relating to money not requested for.
(e)	In the audit test check carried out relating to the Constructions Division, Provincial Directors' Offices and Payment Division of the retention money payable as at 31 December 2021, the amount which should be retained without paying despite exceeding the defects liability period relating to 04 construction components amounted to Rs.95 million. Action had not been taken to credit this amount to the income after carrying out a proper investigation thereon.	Necessary arrangements will be made to release relevant retention money by briefing the relevant contractors or to credit them to the income on the recommendations of the committee.	This amount should be credited to the income after carrying out a proper investigation thereon.
(f)	A sum of Rs.1,217.19 million had been paid to the contractors for value of works done at Rs.1,142.81 million as at 31 December 2021. As such, the sum paid previously exceeding the value of works done, is Rs.167.92 million. This included mobilization advances released for projects without any progress.	The amount recorded as paid exceeding the value of works done relating to projects, are the instances where advances have not been fully recovered.	Action should be taken to recover mobilization advances released for projects without any progress, through performance securities.

3.3 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
It was observed that using the Highway Schedule of Rates (HSR) and specifications in the development of roads under the National, Regional and Rural Programme on Rehabilitation of 100,000 Kilometres of Alternate Roads implemented under the local bank funds and the Rural Road Project, is not economical and effective. As such, specifications specified for rural roads should be prepared and followed.	As methods of preparing roads relating to all roads are equal, commonly used project specifications, are appropriate.	A separate specification for rural roads is appropriate, as it is more effective economically.

3.4 Transactions of Contentious Nature

	Audit Observation	Comments of the Management	Recommendation
(a)	Disclosures had been made in the financial statements of the Authority that the Authority holds 99 per cent of shares of the Maga Neguma Emulsion Company. However, the share certificates therefor had not been made available to Audit. Even though it is mentioned in the financial statements of the Authority that the Authority had bought shares worth Rs.1,000,100 of this Company, in comparison therewith, the subsidiary had indicated in its financial statements that the sum of Rs.01 million as a loan granted to the company by the Authority, indicating that the value of shares held by the Authority as only Rs.100, which was of contentious nature. However, the Authority had not taken action up to the date of this report to settle the confusing state of affairs on the ownership of shares.	Even though the Road Development Authority had demanded the share certificates a number of times, the said certificates have not been received to the Authority so far.	This disagreement on the ownership of shares should be settled immediately and action should be taken to disclose the actual situation in the financial statements of the Authority.

3.5 Delays in Projects or Capital Works

	Audit Observation	Comments of the Management	Recommendation
(a)	According to information made available by the Construction Division of the Road Development Authority, it had been planned to implement 239 contractual works with an estimated value of approximately Rs.36,349 million under	Progress of projects as at 31-05-2022.	Necessary maximum measures should be taken to complete the contracts planned, within the expected period.

	widening and development of roads from the year 2018 up to 31 December 2021. From among the said contracts, only the constructions of 24 contracts had been completed as at 31 December 2021 and it was only 10 per cent of the total contracts. Thirty eight more contracts were in progress and one contract had been abandoned half way due to lack of funds and another 32 contracts had not been awarded due to lack of provision.		
(b)	The targeted dates of completing 26 contracts had expired as at 31 December 2021 and the validity period of mobilization advance securities of the said contracts as well had expired. The balance of advances further recoverable from those contracts as at 31 December 2021 was Rs.11.93 million. The management had failed to extend the validity period of the mobilization securities relating to the above contracts or to encash them.	The steps taken in this connection and the current position thereon have been mentioned.	Necessary action should be taken to complete the contracts planned within the expected period and in case of failure to do so, steps should be taken to extend the validity period of mobilization securities. Moreover, in case works are incomplete on the targeted dates, mobilization securities should be recovered timely to minimize loss.

3.6 Procurement Management

Audit Observation	Comments of the Management	Recommendation
According to the Government Procurement Guidelines, it is illegal to permit sub-contracts for which provisions are not made in the bidding documents. However, a project implemented in the Polonnaruwa District for which agreements had been entered into for a value of Rs.165.9 million, had been awarded with a sub-contract to another private company.	Development activities are being carried out with the contribution of service suppliers.	The Government Procurement Guidelines should be followed.

3.7 Deficiencies in Contract Administration

	Audit Observation	Comments of the Management	Recommendation
(a)	The number of projects abandoned by	The responsibility was	The contractors who are

	11 contractors without performance under the Programme on Rehabilitation of 100,000 Kilometres of Alternate Roads, stood at 18 and the contractual value thereof amounted to Rs.593.88 million. Four of those contracts valued at Rs.147.45 million, had not been commenced by the aforesaid contractors. Nevertheless, the attention of the management had not been drawn towards formulating a legal framework required for blacklisting the contractors who were not up to the expected level of performance.	taken not to award contracts to contractors who failed to act in terms of agreements hereafter and take steps to blacklist the contractors as well.	not up to the expected level of performance, should be blacklisted.
(b)	A period of 290 days had lapsed after the termination of a project with an estimated value of Rs.234.7 million implemented in the Matara District. However, as a further 76.58 per cent of the contract remained to be executed, penalty for delays should have been recovered.	Delays due to Covid pandemic, restriction of imported goods and lack of basic construction material had effected this situation and the contractor has requested for an extension of period relating to this project and it is being studied at present.	Contractual works should be executed without delay and action should be taken to charge penalty for delays from delayed projects in terms of agreements.

3.8 Resources given to other Organizations

	Audit Observation	**Comments of the Management**	
(a)	Fifty nine vehicles comprising 44 vehicles costing Rs.122 million and 15 vehicles of which no cost whatsoever had been mentioned, belonging to the Authority, had been released to the Ministry of Highways, State Ministry and the Presidential Secretariat respectively.	Information thereon has been made available.	Resources belonging to the Authority should not be released to other institutions.
(b)	An extent of 72,400 square feet of the Head Office building of the Authority belonging to the Road Development Authority is used by the Ministry of Highways and the State Ministry and annual depreciation of Rs.11.87 million relating thereto and overhead expenses including electricity, water, telephone, security and fuel had been borne by the Authority as well.	Necessary steps will be taken in this connection once further discussions are held with the line Ministry.	Action should be taken to recover overhead expenses from relevant institutions on an appropriate basis.

	Audit Observation	Comments of the Management	Recommendation
(c)	Expressway Operation, Maintenance and Management Division had provided 49 vehicles to the Highway Police Division and the expenditure incurred therefor had been Rs.185.5 million.	Out of Rs.189.5 million incurred by the Authority as rentals, a sum of Rs.185.5 million had been spent on Expressway Operation, Maintenance and Management Divisions.	A proper policy should be formulated on the expenditure relating to police operations on the expressways by agreement with the Police Department.

3.9 Human Resource Management

	Audit Observation	Comments of the Management	Recommendation
(a)	The approved cadre and the total number of vacancies stood at 11,277 and 1,044 respectively as at 31 December 2021 and there was an excess cadre of 630 officers. Of those, 26 vacant posts were in Senior Management Level while 04 posts were in excess.	Action will be taken to fill the vacancies.	Human resources of the Authority should be utilized effectively.
(b)	The total expenditure incurred by the Authority on employees' salaries and wages in the year 2021 was Rs.11,877 million and in addition to the provision made therefor by the General Treasury, a sum of Rs.4,129 million had been spent for salaries and wages from the funds of the Authority.	A sum of Rs.1,839.89 million had been paid from the income from expressways for salaries and related expenses of the Expressway employees and income from investment interest of Rs.699.75 million has been used. Furthermore, the remaining funds necessary for paying salaries have been obtained from other income earned by the Authority.	Additional expenses should be incurred under proper approval.
(c)	The Authority had not prepared a Scheme of Recruitment and obtained approval therefor from the Department of Management Services even by the end of the year under review.	No Schemes of Recruitment have been approved so far due to various revisions in effect.	A Scheme of Recruitment approved by the Department of Management Services should be implemented for proper and effective utilization of human resources.