

**Transactions report of the Maga Neguma Road Construction Equipment Company (Private) Ltd
2023/2024**

The audit of the operational activities of the Maga Neguma Road Construction Equipment Company (Private) Ltd for the period from 01 January 2023 to 31 December 2024 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. The financial statements for the years 2023 and 2024, which were required to be submitted in accordance with Section 150(1) of the Companies Act, No. 07 of 2007, had not been submitted even by 31 March 2025. In terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, my observations on the functionality of the Company which I consider should be reported to Parliament appear in this report.

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

In terms of Section 16(1) of the National Audit Act, No. 19 of 2018, every auditee entity shall maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared in respect of such entity. In terms of Section 16(2) of the said Act, annual financial statements shall be submitted by the Chief Accounting Officer to the Auditor-General along with the annual performance reports of those entities within such period as may be provided by rules. The Section 38(1) (d) of the said Act requires ensure the preparation of annual reports and other financial statements within the required time and in addition, the Chief Accounting Officer shall be responsible to submit the annual reports pertaining to the auditee entity to Parliament.

2. Audit Observations

2.1 Establishment

Observations	Comments of Management	the Recommendation
(a) Even though approval was given to completely close down the Road Construction and Development Private Company (RC & DC), which operated as a company owned by the Road Development Authority, and to examine the possibility of establishing a private public company by the Ministry of Highways and the Treasury by the Cabinet Decision No: CP/04/0053/104/004 dated 21 January 2004, the company had been incorporated in a manner inconsistent with that decision.	Agreed to the audit observation.	Measures should be taken to protect the rights of the government by taking action in accordance with laws and rules of the government and Cabinet decisions.

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| <p>(b) Even though the approval had been given to establish the company by entering into a partnership with the National Construction Association and the National Association of Contractors as per the Cabinet Decision No. CP /04/0848/004/013-I dated 27 August 2004, the Company had been incorporated on 11 June 2004 by the Board of Directors' decision No. 795/2004 of the Road Development Authority prior to the said Cabinet approval.</p> | <p>Agreed to the audit observation.</p> | <p>Measures should be taken to protect the rights of the government by taking action in accordance with laws and rules of the government and Cabinet decisions.</p> |
| <p>(c) Even though the Cabinet decision No. CP /13/0134/505/004 dated 18 February 2013 had been given to amend the Articles of Association of the Company so that the majority ownership of the Company would be transferred to the Treasury and the remaining share would be given to the Road Development Authority, the Articles of Association of the Company had not been amended in accordance with that Cabinet decision.</p> | <p>Agreed to the audit observation.</p> | <p>Measures should be taken to protect the rights of the government by taking action in accordance with laws and rules of the government and Cabinet decisions.</p> |

2.2 Submission of Financial Statements

Observations	Comments of the Management	Recommendation
Financial statements of the Company for the year ended 31 December 2022 were submitted to the Auditor General on 08 October 2024, more than 01 year and 07 months late and financial statements of the Company for the years ended 2023 and 2024 have not been submitted to the Auditor General to date.	Agreed to the audit observation.	In accordance with Section 6.6 of the Guideline for State-Owned Enterprises by Public Enterprises Circular No. PED/01/2021 dated 16 November 2021, the financial statements of every state company should be submitted to the Auditor General within 60 days of the end of the financial year.

2.3 Assets, Liabilities, Income and Expenditure

The assets, liabilities, income and expenditure as per the financial statements for the year ended 31 December 2022 were as follows.

Description	Value as per financial statements (Rs.)
Total assets	34,943,756,587
Total equity	3,042,851,785
Total liabilities	31,900,904,802
Income	18,370,592,517
Cost of sales	17,451,262,405
Gross profit	919,330,112
Other income	401,884,682
Expenditure	561,569,481
Taxes	95,853,101
Profit/ (loss)	663,792,213

2.4 Audit Opinion on the Financial Statements of the Previous Years

The audit opinion on the financial statements for the years of 2018, 2019 and 2021 has been disclaimed due to the limitation of the auditor's scope owing to accounting deficiencies occurred in the preparation of the financial statements of the Company, non-reconciliations, errors, omissions and not submitting evidence, and adverse audit opinions have been provided on the financial statements of the years 2020 and 2022 due to weakness in internal controls over the preparation of financial statements, non-compliance with Sri Lanka Accounting Standards, accounting deficiencies, non-reconciliations and disagreement of the management regarding the uncertainty of going concern.

2.5 Going Concern and Operational Activities of the Company

Observations	Comments of the Management	Recommendation
(a) A private company had filed a case on 02 May 2023, requesting that all monies owed to it be paid and liquidated, as the decision had been taken by the Cabinet decision No.23/0394/608/033 dated 28 March 2023 to consolidate the companies namely, Maga	Agreed to the audit observation	The liquidation of the company should be completed in accordance with the policy of the government and the legal provisions.

Neguma Road Construction Equipment Company (Pvt) Ltd., Maga Neguma Emulsion Production Company (Pvt) Ltd. and Maga Neguma Consultancy and Project Management Services Company (Pvt) Ltd to form a single company. In addition, the private company had indicated that it would once again follow a method of winding up the company at its own discretion, outside the court process, making payment to selected service providers and creditors, and disposing of the immovable property. Accordingly, the court has issued an interim order to the company to appoint a temporary liquidator and prevent the company from liquidating outside the court process. During the period from 10 August 2023 to 01 September 2023, the court had appointed a private entity as a temporary liquidator and his functions were limited only to the administration of bank accounts and treasury bills. Even though actions were taken to appointment and removal of a temporary liquidator from time to time, the liquidation of the company had not been completed by the date of the audit. Further, action had not been taken to establish a single company.

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| (b) | <p>After removing the order of appointing a provisional liquidator, payments to service providers and creditors resumed on 02 August 2024. On that date, the balance due to service providers and creditors was Rs. 8,570,116,489, of which Rs. 4,124,527,967 had been paid as of 21 February 2025, and the balance still to be paid was Rs. 4,445,588,522. However, as per the data in the company's computer system as of 08 May 2025, the balance payable to service providers and creditors as of 02 August 2024 was Rs. 8,659,481,440 and the balance still to be paid as of 21 February 2025 was Rs. 4,562,128,576 and the relevant confirmations had not been submitted.</p> | <p>According to the data available in the computer database as of May 08, 2025, the balance payable to service providers and creditors as of August 02, 2024 is Rs. 8,659,481,440. Further, according to the data of the computer system, as of 21 February 2025, the balance payable to service providers and creditors was Rs. 4,562,128,576.</p> | <p>Action should be taken to correctly identify the balance payable with relevant confirmations.</p> |
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| <p>(c) Action should be taken after reducing the staff through the introduction of a voluntary retirement scheme, the three Maga Neguma companies owned by the Road Development Authority should be consolidated and establish a single company in accordance with the Cabinet Decision No. CP/23/0394 /608 /033 dated 28 March 2023, and the necessary staff should be retained until the liquidation process is completed. However, on 24 March 2023, the Board of Directors decided to send on retirement of the company's employees. Before the closure of operations, 804 employees were employed in the company and by the end of the year 2024, 670 employees had been sent on retirement under the voluntary retirement scheme with a compensation of Rs. 740,187,761. In addition, 121 employees had been sent on compulsorily retirement with a compensation of Rs. 85,407,916 in accordance with the provisions of the Termination of Employment of Workmen Act.</p> | <p>The amounts paid to retired employees are correct.</p> | <p>Action should be taken in accordance with the Cabinet decision and measures should be taken to retain the necessary staff until the liquidation process is completed.</p> |
| <p>(d) While the operations of the company were suspended, 91 employees who retired under the voluntary and compulsory retirement schemes were recruited on agreements of assignment of work and three more were recruited on an assignment of work basis as per the decision of the Board of Directors on 30 May 2023. Even though a sum of Rs. 172,280,973 had been paid to these officers as salaries and allowances from 01 June 2023 to 28 February 2025, the company had not commenced the liquidation process. Further, the basis for selecting these employees had not been submitted to the audit to date and in a context where operations have been suspended, the audit did not observe sufficient need to recruit two Deputy General Managers (Finance) with a monthly salary of Rs. 245,000 and two Finance Managers with a monthly salary of Rs. 172,000 with effect from 06 June 2023.</p> | <p>The officer recruited to the post of Deputy General Manager (Finance) was in service for about a month. No recruitment has been made to that post. However, two Finance Managers have been recruited based on service requirements.</p> | <p>Action should be taken to minimize uneconomic expenses and implement the Cabinet decision without delay.</p> |

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| (e) | <p>Even though the operations of this company had been terminated and the staff had been sent on retirement in accordance with the Cabinet Decision No. CP/23/0394/608/033 dated 28 March 2023, it was observed during the audit that the company had the following idle, underutilized and inactive assets.</p> <ul style="list-style-type: none"> • 66 of machines and plant and 32 vehicles worth Rs. 588,762,952 and Rs. 116,148,540 respectively, and 90 machines and plant and 60 vehicles of unknown value owned by the company, and a large amount of furniture and equipment of unknown value used in the working premises of Peliyagoda, Ganewalpala, Ambalangoda, Katugampala, Kundasale and Kurunegala were remained idle in the company's canteen and the Welfare Association office. • vehicles with a cost of Rs. 38,595,000 and 05 vehicles of unknown value, and 05 machines and 03 plant owned by the company remained as underutilized assets. • 14 machines and 04 vehicles costing Rs. 16,750,000 and Rs. 18,858,000 respectively, and 12 machines and 09 vehicles of unknown value remained as inactive assets. • 44 machines and plant of unknown value and 50 vehicles of unknown value that had been handed over to the Road Development Authority were parked as idle assets on the premises of the company and work sites. | <p>It can be agreed on the number of machines/vehicles. However, there is no clear understanding of the sources from which the pool of idle assets, underutilized assets and inactive asset costs were derived.</p> <p>Immediate action should be taken to effectively utilize usable assets and dispose of inactive assets.</p> |
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2.6 Non-Compliance with Laws, Rules and Regulations

	Reference to Laws, Rules and Regulations	Non-Compliance	Comments of the Management	Recommendation
(a)	Section 78 of the Companies Act, No. 7 of 2007	Every company is required to complete and be ready for delivery the certification of all shares within 2 months from the date of allotment of any of its shares and within two months from the date of transfer of such shares to the company. Even though the Road Development Authority owns the full ownership of the company, the relevant share certificates have not been issued to date.	Answers have not been given.	Action should be taken to ensure that the full ownership of the company is vested in the government through the Road Development Authority.
(b)	Section 4.2 of the Guidelines on Corporate Governance introduced by Public Enterprises Circular No. 01/2021 dated 16 November 2021	Even though the Audit Committee is required to meet at least once every 03 months during the financial year, the Company has not had an Audit Committee since its inception. Accordingly, the activities of the Company were managed and controlled without considering the principle of good governance.	The Audit Committee has already been appointed.	Audit Committee should be appointed in accordance with the Circular referred to and meet at least once every three months to make necessary recommendations.

2.7 Legal proceedings

Observations	Comments of the Management	Recommendation
(a) 06 cases filed against Maga Neguma Road Construction Equipment Company (Private) Ltd by employees and officers of the company and 06 cases filed by other parties had not been concluded even by 01 February 2025, and the company had incurred lawyer charges of Rs.95, 765,807 for these cases.	Agreed to the audit observation.	The company should provide maximum support to the speedy conclusion of the ongoing legal proceedings against the company, and the legal proceedings should be concluded expeditiously in a manner that protects the rights of the Government.

2.8 Financial Management

Observations	Comments of the Management	Recommendation
(a) The bank had debited Rs. 21,846,432.10 to the current account maintained in the name of the company at the People's Bank, Katubedda branch for a cheque worth Rs. 464,348.79 issued by the Maga Neguma Road Construction Equipment Company (Private) Ltd to a private institution for payment in relation to a road construction project. The Internal Auditor of the Road Development Authority had conducted a preliminary investigation in this regard. According to the report of that investigation, it was stated that a financial irregularity had been committed by fraudulently changing the value of the cheque (as per the report of the Government Analyst) and that the suspicion that the company's Chairman, General Manager, Finance Officer and officers working in the Finance Division were involved in committing this financial irregularity could not be excluded. However, disciplinary actions had not been initiated against the officers responsible for the said financial fraud to date.	On 18.12.2024, in order to carry out the activities of the Finance Division under certain security measures, the salaries of the Chairman and the General Manager were suspended and the online payment system was adopted to carry out the activities of the Finance Division more securely, and after a complaint was made to the Special Criminal Investigation Department to conduct an investigation in this regard, investigation activities are being carried out. Since this is a criminal offence, disciplinary action will be taken against the relevant responsible officers based on the reports and observations issued after the completion of the ongoing	Prompt disciplinary action and legal action should be taken against the officers responsible for the financial fraud. Accordingly, action should be taken to recover the losses from the relevant parties and internal controls should be strengthened to prevent such frauds from occurring in the future.

investigations of the Criminal Investigation Department in this regard.

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| <p>(b) The company has been maintaining 03 petty cash imprests of Rs. 60,000, Rs. 100,000 and Rs. 150,000 respectively for the purpose of incurring petty cash expenses on food, fuel and general activities, subject to a maximum of Rs. 10,000 at a time, since November 2023. By the end of the year 2024, fuel expenses amounted to Rs. 2, 462,927, food expenses amounted to Rs. 2, 547,153 and general activities amounted to Rs. 1,192,981, totaling Rs. 6,203,061. IOU vouchers were used instead of petty cash vouchers for petty cash payments, and instead of a petty cash book, entries were only made using a spreadsheet (Excel). Accordingly, the company had not established a good internal control system for petty cash payments.</p> | <p>Agreed to the audit observation.</p> | <p>The company should establish a good internal control system for petty cash control.</p> |
| <p>(c) Even though there was a balance of Rs. 6,313,510 in 06 dormant bank current accounts of the company for a period of two to four years as at 31 December 2024, no action had been taken to close these inactive bank accounts</p> | <p>Agreed to the audit observation. Action will be taken to close these accounts.</p> | <p>Action should be taken to invest the money effectively in current accounts and obtain maximum economic benefits.</p> |

2.9 Procurement Management

Observations	Comments of the Management	Recommendation
(a) Even though the Company was required to obtain a performance security of 5 percent of the estimated contract value as per Section 5.4.8 of the Procurement Guidelines, performance securities had not been obtained for 1608 out of 1753 work orders worth Rs. 125,730 million.	The money related to the performance security has been retained until the completion of the work assigned in making payment of approved bills of service providers who have not provided performance securities.	Parties involved in activities not following the instructions of the procurement guidelines should be identified and formal action should be taken.

2.10 Deficiencies in Contract Administration

Observations	Comments of the Management	Recommendation
(a) The Road Development Authority had awarded 2481 work orders worth Rs. 193,518 million to the company for the construction of the 100,000 km road project in the years 2020, 2021 and 2022. Out of which, 351 work orders worth Rs. 32,736 million have been cancelled, and construction work on 306 work orders worth Rs. 29,130 million had not commenced. The company had directly undertaken the contract work of 71 work orders worth Rs. 5,920 million, which is only 03 percent of the total work orders. Contrary to the decision taken by the Board of Directors of the Road Development Authority on 01 August 2008, 1,753 work orders worth Rs. 125,730 million, which is 97 percent of the total order value, were awarded as subcontracts	Our institution was not aware of the decision of the Board of Directors of the Road Development Authority	The company should take action to be aware in advance of and agree to the laws, rules, and regulations applicable to its operations in undertaking work orders.

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| (b) | In the 100,000 km road project, 2557 roads with a length of 3575 km were planned to be completed in 2022. However, by the end of the year, only 970 roads with a length of 1420 km had been completed. That is, only 38 percent of the expected construction distance had been completed. Even though the relevant calculations had been made to include the 5 percent income received from subcontracts under income in the financial statements and the subcontract expenses under cost of sales, the institution had informed that the revenue accounting for the year 2023 has not so far been completed. | Only 38 percent of the expected construction distance has to be completed due to the suspension of construction of the 100,000 km road project by the Road Development Authority by 02.05.2022. | Action should be taken to improve physical performance, and income should be accounted in a timely manner. |
| (c) | The company had recruited Provincial, District and Zonal Coordinators to evaluate the road construction progress of the 100,000 km road project in 2020, and had paid Rs. 16 million to the coordinators in 2022. However, the information related to the recruitment of coordinators and the progress reports provided by the coordinators were not submitted to the audit. Therefore, the audit could not verify whether qualified personnel were recruited in a formal and transparent manner and whether payments were made to the coordinators after evaluating the progress of the work. | Agreed to the audit observation. | The information and documents required for the audit should be provided promptly, and action should be taken to recruit qualified coordinators in a proper manner, and make the payments only after checking the progress of the work. |
| (d) | In implementing road construction projects, the Road Development Authority prepares the cost estimate based on rates, adds a profit margin of 25 percent to it, determines the contract value and awards the contract to the company. The company has given 20 percent of the above profit margin to the subcontractors and kept a profit margin of 5 percent for the company, and earned a profit of Rs.1, 386 million | Revenue accounting for the year 2023 has not yet been completed. This calculation will also require further clarification. | Government funds should be used efficiently and effectively so that the Government can obtain maximum benefits. |

in 2023 by acting as a mediator between the Road Development Authority and the service providers without interfering in the project activities.

2.11 Management Inefficiencies

Observations	Comments of the Management	Recommendation
(a) The value of unsettled prior work advances given by the company to 38 contractors for projects without obtaining bank guarantees by 01 February 2025 was Rs.965, 997,986. Of this, Rs.584, 583,650 was more than 5 years, and within that balance, there was an old balance of Rs.420, 194,759 between 7 and 10 years.	Further clarification will be required regarding the source documents from which the data presented during the audit was obtained.	Formal measures should be taken against officers who paid pre-work advances without obtaining bank guarantees, and action should also be taken to recover the unsettled prior work advances.
(b) The company had paid Rs.1, 401,792,495 as prior work advances without obtaining bank guarantees for work orders by 18 February 2025.	Further clarification will be required regarding the source documents from which the data presented during the audit was obtained.	Before granting prior work advances, adequate and valid bank guarantees should be obtained, and formal action should be taken against the relevant officers for failing to do so regarding the payment of prior work advances.
(c) Even though the financial control powers approved by the Board of Directors should have been distributed, there had been no formal distribution of authority within the limits approved by the Board of Directors, and in exercising authority over the transactions of the company, the authorization, approval, certification and payment had not been divided among several persons so that each transaction was subject to examination by two or three officers, and the nature of the transaction or the amount of money or	Agreed to the audit observation	The company should comply with the approved laws, rules and regulations and follow up regularly in that regard.

any restrictions imposed in the delegation of such powers had not been specified in writing. Accordingly, the company's revenue collection and expenditure were carried out without formal control. Accordingly, there was a serious risk of fraud, corruption and irregularities occurring and not being detected.

2.12 Systems and Controls

Observations	Comments of the Management	Recommendation
<p>(a) The company used computer software for its financial reporting activities, and although payments were made online through this software, receipts could not be made online, and the following control weaknesses were observed in this system, so the accuracy and reliability of the information related to financial reporting were not at an acceptable level.</p> <ul style="list-style-type: none"> • This software system was not designed with sufficient coverage to suit the nature of contract administration and settlement of bills in the road construction industry, which is the company's primary business activity. • A proper authorization process was not established for entering journal entries into the system. • When the reporting period is locked, the date of entering journal entries can also be changed with the approval of the system administrator. • Additional backup facilities were not provided. 	<p>An authorization process has been established in entering journal entries into the system and additional backup facilities have also been provided.</p>	<p>An authorization process has been established for entering journal entries into the system and additional backup facilities have also been provided.</p>