Road Development Authority - 2022

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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 2022 comprising the statement of financial position as at 31 December 2022 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 2022 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 Authority 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 Paragraph 25 of Sri Lanka Public Sector Accounting Standard No. 02, although staff loans should be shown under investment activities, , the net result of loans amounting to Rs.13.06 million granted and recovered from the staff during the year under review had been stated under changes in working capital.	The Authority's granting/ recovering staff loans are not an investment in the resources required to perform the future services of the organization. It is shown under operating activities as it is done in the operating cycle exclusive from investments.	Adhere to Sri Lanka Public Sector Accounting Standard No.02.
(b)	134 vehicles with a cost of Rs.503.5 million, 94 buildings with a cost of Rs.50.4 million and ferry boats and containers with a cost of Rs.111.5 million belonging to the Authority had been fully depreciated by 01 January 2021. However, although those assets were still being used by the Authority, the required disclosures regarding those assets in the financial statements had not been made according to Public Sector Accounting Standard No. 07. The estimated error on the effective life of those	Appropriate adjustments are expected to be made to their estimated values in respect of fully depreciated vehicles. The numbers of fully depreciated buildings were 95. Currently, this building class is being valued through the Valuation Department.	The useful life of the assets should be reviewed annually and the provision for depreciation should be made as per the Standard.

	assets had not been corrected and adjusted in the financial statements according to Public Sector Accounting Standard No. 03.		
(c)	According to Paragraph No. 42 of the Sri Lanka Public Sector Accounting Standard No. 07, although the fair value of an item of property, plants and equipment should be accounted after recognise as an asset when the fair value could be measured reliably, action had not been taken to show in the financial statements of the value of the 271 motor vehicles used by the Authority at the end of the year under review.	The relevant accounting procedures will be followed after obtaining the valuation of these 271 vehicles.	The fair value of the vehicles should be assessed and accounted as per Standard.
(d)	According to Paragraphs 43 and 51 of Sri Lanka Public Sector Accounting Standard No. 07, the fair value of items of property should generally be assessed based on market-based evidence and the asset class needs to be revaluated. Although the prevailing market price should be assessed by recognized and relevant professional qualified valuer for that purpose, the value of the 1,689 vehicles owned by the Authority was stated as Rs.7,108.9 million in the financial statements based on the insured value by the insurance company and the cost.	The formal valuation of the vehicles is determined when obtaining the insurance in order to get the insurance for the vehicles owned by the Road Development Authority. This professional revaluation is done by an Authority's committee consisting of chartered engineers.	According to the Standard, vehicles should be valued at fair value based on prevailing market prices by qualified valuer.
(e)	According to Section 58 of Sri Lanka Public Sector Accounting Standard No. 07, when the useful lives of the main components of an entity's property, plant and equipment are different from each other, those components should be depreciated at different rates of depreciation. However, action had not been taken even at the end of the year under review to determine the depreciation rates based on a professional valuation for various components including culverts, road shoulders, road surfaces and road signs of the various expressways with different effective useful lives in each other, which represent 63 per cent of the total assets of the Authority and depreciation had been made at the same rate of depreciation. Accordingly, the fair value of those assets was not represented in the financial statements.	The development of the asset valuation system module has been started now for a systematic approach to this within the Sri Lanka Road Asset Management System.	The individual sections of expressways should be depreciated at appropriate ratios according to the Standard.

(f)	According to Paragraph 51 of Sri Lanka Public Sector Accounting Standard No. 07, although the whole asset class is to be revalued in asset revaluation, contrary to that, 262 buildings out of the 632 buildings belonging to the Authority only had been revalued and accounted by the end of the year 2022.	The entire class of buildings owned by the Authority is already being valued by the Valuation Department.	The entire class of assets should be revalued and accounted when revaluation of assets as per the requirement of the Standard.
(g)	According to Paragraph 09 of Sri Lanka Public Sector Accounting Standard No. 13, the values of 20 shops located in Borella road tunnel and 02 lands rented to subsidiary companies which should be recognized as an investment property amounting to Rs.40 million had not been stated as investment assets in the financial statements.	The consent will be taken in the future regarding the existing shops in the Borella tunnel to show as an investment property.	Investment property should be correctly identified as per the Standard.
(h)	According to Paragraph 16 of Sri Lanka Public Sector Accounting Standard No. 14, the details of related parties and related party transactions were not disclosed in the financial statements.	Related parties will be disclosed in accordance with Paragraph 16 of Sri Lanka public Sector Accounting Standard No.14.	The related parties and transactions with them should be disclosed as per standard.
(i)	According to Paragraph 30 of Sri Lanka Public Sector Accounting Standard No. 16, although the revenue from client works should be recognized at the stage of completion, contrary to that the Authority had recognized Rs.107.28 million as income on the basis of fully completed works in the year under review.	Accounts are prepared in accordance with Section No.33 of Sri Lanka Public Sector Standard No.16 and the revenue is recognized based on the extent to which client work is completed for the period under review.	Revenue and expenditures should be fairly presented in the financial statements by recognizing revenue based on the stage of completion.
(j)	According to Paragraph 141 (n) of Sri Lanka Public Sector Accounting Standard No. 19, although the financial statements should disclose other quantitative assumptions used in calculating employee benefits including the discount rates on principle actuarial assumptions used as at the reporting date, the basis on which the discount rate has been determined and expected rate of salary increases, any such disclosure had not been made in the financial statements.	Action will be taken to disclose the assumptions used in the calculation of employee benefits in the financial statements in the future.	According to the instructions of the standard, relevant information should be disclosed for the information of the users of the financial statements and for the demonstration of its fairness.

1.5.2 Accounting Policies

Audit Observation	Comments of the Management	Recommendation
The Rural Road Project Unit had implemented the Rehabilitate of 100,000 km of Alternative Roads Project at national, provincial and rural levels funded by local banks in additions to the regular scope of the Road Development Authority. Under the project, a sum of Rs.125,586 million spent on partially completed non-national highway roads was recognized as work in progress (WIP) as at 31 December of the year under review. It was disclosed in the notes to the financial statements that, it would be written off as expenses after full completion of these constructions and the impact on the Authority's surplus or deficit due to these expenses would be set off after the imprest received from the Treasury to repay the loan taken for the project. Thus, it was observed that identifying the income recognition and write-offs of expenses in two different periods is contrary to the Matching Concept. Further, although these capital expenditures are stated as capital assets in the public accounts because they were not transferred to the institutions that hold the custody of the assets, it had been written off as recurrent expenditure by the Authority.	The accounting process related to the 100,000 km Alternative Road Rehabilitation Project had been disclosed under the accounting policies. Income and expenditure are adjusted to the relevant period.	The capital expenditure should be transferred to the pradesiya sabhas, urban councils etc. who are in charge of the assets as applicable.

1.5.3 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Although the total distance of A and B grade highways belonging to the Authority is 12,225 km, only 3,267 km belonging to 285 roads had been capitalized until 31 December 2022 after the capitalization of national highways started in 2018. Accordingly, the value for the distance of 8958 km belonging to the A and B grades owned by the Road Development Authority was not shown in the financial statements and this was 73 per cent of the entire road system distance as of 31 December 2022.	The existing and proposed actions were identified under the Transport Connectivity and Asset Management Project (TCAMP) according to the proposed action plan for road capitalization.	The relevant measures should be identified and expediently implemented to capitalize and depreciate accordingly of the highways that are being constructed and rehabilitated from time to time financed by various foreign and domestic projects.
(b)	The 07 acres of land purchased by the Authority for the resettlement of displaced persons during road development activities, a computer information system, 25 motorcycles and 22	Information was called regarding these lands and the relevant adjustment will be	All assets belonging to the Authority should be identified and accounted.

	vehicles purchased at various occasions had not been accounted as fixed assets. Therefore, the assets of the Authority were understated by Rs.263.35 million.	made after receiving that information.	
(c)	According to the financial statements of 08 foreign aid projects, the cost of Rs.34,044.46 million fixed assets handed over to the Authority as at 31 December 2022 was not re-valued and included in the financial statements of the Authority. Therefore, the value of fixed assets was understated.	Assets of 06 projects should be valued and accounted through a formal mechanism.	The Authority should account all the assets such as vehicles, computers and furniture transferring to the Authority by the projects and necessary measures should be taken for their effective utilization.
(d)	Although the Authority's financial statements disclosed that the Authority holds a 99 per cent direct controlling power in Maga Neguma Emulsion Production Company, the share certificates for that were not submitted to the audit and it was observed that the Authority does not have an equivalent representation for that percentage in the board of directors of the company. Further, although the Authority's financial statements state that an investment of Rs.01 million was made in the year 2004, it had been accounted as a loan in the financial statements of the respective company.	The board members of the respective company are appointed by the board of directors of the Authority. Although the share certificates had been requested several times, those certificates were not received to the Authority.	The authority should take the necessary measures to resolve the matter of ownership before the company is dissolved, obtain the relevant share certificates, and appoint the board of directors representing the controlling power.
(e)	A total sum of Rs.1,964.2 million had been given as Rs.494.2 million and Rs.1,470 million in 2021 and the year under review respectively to the Ministry of Highways by the Authority according to the request of the Secretary to the Line Ministry dated 30 September 2022 as the Treasury was failed to grant the allocated provisions for relevant expenditure codes of the Line Ministry as required and the Secretary of the Line Ministry had given instructions on 05 August 2022 to show the relevant amount as a loan amount receivable from the General Treasury in the accounts of the Authority. Accordingly, the Authority had accounted the relevant amount as receivable from the Treasury.	Although the Secretary of the Line Ministry has asked the Secretary of the Ministry of Finance, Economic, Stabilization and National Policies and the Director General of the Department of Public Enterprises on how to account the amount given to the management units by the Road Development Authority, the relevant instructions had not been received yet.	The approval of the Treasury should be obtained to grant a loan to the Line Ministry.

(f)	A 07 per cent annual interest should be paid to the respective compensation holders from the date of issue of the Gazette Notice under Section 38(a) up to the date of the first payment of compensation in relation to land acquired in road widening and improvement. Accordingly, the Authority had not identified and accounted the total amount of statutory compensation and related interest as at 31 December of the year under review.	The payments were made and accounted for vouchers prepared by the Land Division only in relation to the lots for which the allocation had been requested by each Divisional Secretaries Office for payment of relevant compensation and interest.	The statutory compensation to be paid and the related interest should be accurately calculated and accounted.
(g)	The 2,099.41 hectares at a cost of Rs.33,770 million assigned to the Authority by various projects as at 31 December of the year under review had not been identified separately as lands and accounted as property plant and equipment. Accordingly, there was a risk of land value being included in the adjustment of depreciation for assets.	In this regard, the value of this land had been separately shown in Accounting Policy Note No. 2.3 (iii) of the financial statements and it also disclosed that depreciation would not be done.	It should be confirmed that depreciation are not done for the land.
(h)	The amount of compensation and interest payable as at 31 December of the year under review had been overstated by Rs.34.42 million due to the duplicate of 105 vouchers submitted on behalf of the direct acquisition of land by the Authority.	The 105 vouchers were duplicated due to a computer error while calculating the compensation and interest value payable on 31 December 2022.	The formal supervision should be done in the preparation of financial statements.
(i)	Although a sum of Rs.2,112.11 million had provided at the end of the year under review through World Bank support Inclusive Connectivity and Development Project to construct rural roads under the 100,000 km Rural Road Development Programme during 2020-2021, action had not been taken to stated or disclosed that value in the financial statements of the Authority.	The Inclusive Connectivity and Development Project implemented under the World Bank loan assistance had reimbursed a sum of Rs.2,712.11 million during the year under review under the refinancing facility as	The relevant disclosures should be made through the financial statements.

		per the loan agreement.	
(j)	The land assets were understated by that amount due to the failure to capitalize the land acquisition costs of Rs.1,630.68 million assigned to the authority under the Ruwanpura Expressway Project as at 31 December 2022.	The expenditure is taken into the books of the Authority after receiving the winding-up accounts.	The acquired lands should be included in the financial statements of the Authority.
(k)	Although the interest income from fixed deposits and treasury bills during the year under review was Rs.1334.75 million, cash flow from investing activities was overstated by Rs.65.59 million due to it was stated under investing activities as Rs.1,400.34 million.	Noted for future correction.	The financial statements should be prepared with due supervision.
(l)	The values of 8,329 units of assets were not disclosed in the financial statements due to failure to prepare a system which is updating the authority's fixed asset register in the instances of assets purchase and exchange between projects that need to be inventoried when they are purchased and exchanged between projects for the requirement of the project are operating on foreign loans and domestic commercial bank loans.	Although the Director General of the Road Development Authority had issued Circulars from time to time to preventing the exchange of assets owned by the projects between the respective projects, those were forwarded to the projects without being included in the documents contrary to those Circulars.	All assets should be inventoried and transfers in proper manner.
(m)	The value of debtors was overstated and the value of non-current assets was understated by that amount due to the value of net deferred assets amounting to Rs.65.61 million as at the end of the year under review was stated under the debtor's value.	The value of deferred assets had been stated under the debtor's value since 2018 up to now.	The deferred assets and Liabilities should be stated under a separate item.

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. Mn)	Comments of the Management	Recommendation
(a)	Non-current assets including buildings, and machinery	961.71	815.74	145.96	Discrepancies in balances will be checked and necessary corrections will be made in the future.	The related error should be identified and corrected.
(b)	The difference between the current accounts between the Road Development Authority and Maga Neguma Road Construction and Machinery (Pvt) Ltd.	88.64	99.51	10.87	Despite information had been called from the Maga Neguma companies, the relevant information were not received.	The relevant adjustments should be made in time and the differences should be identified and rectified.
(c)	The difference between the cost of land acquisition capitalized under expressways and the same information maintained by the Land Division.	33,815.00	17,169.00	16,646.00	A suitable accounting policy will be introduced after a proper study.	The information should be updated and verified the correctness.

1.5.5 Unauthorized Transactions

	Item	Comments of the Management	Recommendation
(a)	According to Sections 13 and 14 of the National Thoroughfares Act No. 40 of 2008 and Paragraph 07 of the Extraordinary Gazette Notification No. 1732/12 dated 18 November 2011, the amount collected as expressway toll charges should be credited to the fund of the Authority and the funds should be used for the development and maintenance of toll-free national highways.	According to the decisions of the Board of Directors as per the request of the Ministry of Highways a sum of Rs.1000 million was given to Central Expressway Project-I and Ruwanpura Expressway Project for the construction of	Adhere to the conditions of the National Thoroughfares Act.

	However, the collected funds amounting to Rs.1,000 million accordingly had been given to the Ministry of Highways in the year under review contrary to those regulations.	expressways on the basis of recovery.	
(b)	According to Section 4(3) of the National Thoroughfares Act No. 40 of 2008, the "Action Plan for Integrated Road System Development and Maintenance" specifying the road development projects of the district undertaken by the Road Development Authority, the relevant provincial councils, the relevant local government bodies and other agencies had not been prepared.	Action had been taken to set up the relevant committees after informing the Honourable Minister in this regard. Action will be taken in this matter in the future according to the instructions given by the committee.	An action plan should be prepared for the development and maintenance of integrated road systems as per the provisions of the National Thoroughfares Act.
(c)	According to the Cabinet decision No. CP/05/1711/016/110 dated 03 November 2005, the action had not been taken to set up a Road Maintenance Trust Fund.	Actions will be taken by the Line Ministry and the Road Development Authority to implement this Cabinet decision.	The Road Maintenance Trust Fund should be established as per the decision of the Cabinet.

1.5.6 Preparation of Consolidated Financial Statements

Audit Observation	Comments of the Management	Recommendation
The Authority had not prepared the consolidated financial statements relating to the group by consolidating the financial statements of its subsidiary companies of Maga Neguma Emulsion Products Company (Pvt) Ltd, Maga Neguma Consulting and Project Management Services Company (Pvt) Ltd, Maga Neguma Road Construction and Equipment (Pvt) Ltd and Highway Transport Company (Pvt) Ltd.	Matters regarding the failure to prepare consolidated financial statements by consolidating the financial statements of the subsidiary companies are given in Note No. 2.2 of the accounting policies.	The Authority should consolidate the financial statements of the subsidiary companies and prepare consolidated financial statements for the group.

1.5.7 Lack of Documentary Evidence for Audit

Item	Audit Evidence not made available	Comments of the Management	Recommendation
Expressways, Acroew item valued at Rs.767,872.2 million stated under non-current assets in the financial statements of the	Individual assets registers, consent received from Treasury to	The other asset registers were provided as CD other than the related assets. It has been informed that the relevant	The relevant detailed records should be maintained by the Authority and should be

Authority as at 31 December of the year under review.	record the expressway value as government grants.	Line Ministry should legally transfer those assets to the Road Development Authority after the completion of expressways and other projects.	submitted for audit when required.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit Observation	Comments of the Management	Recommendation
(a)	Action had not been taken to recover the receivable arrears rent income of Rs.50.07 million from 28 external organizations and 05 persons for the rent out of machinery, rent out of shops, use of road conservation areas and propaganda in road conservation areas owned by the Road Development Authority.	A sum of Rs.4.09 million had been recovered so far and the balance is being recovered.	Action should be taken to recover the receivable amounts immediately.
(b)	290 officers of the Road Development Authority were employed in 18 project offices during the year under review and the Road Development Authority had paid salaries of Rs.65.1 million for the relevant staff. However, action had not been taken to recover the respective salaries even as at the end of the year under review and 07 projects out of these 18 projects had been completed by the end of the year under review.	A sum of Rs.6.6 million had been received in the month of January 2023 from the projects of the Road Development Authority and requests had been made from the respective projects to settle the remaining balances.	Action should be taken immediately to reimburse the money for the project staff.
(c)	Action had not been taken even as at end of the year under review to recover an over payment of Rs.6.19 million paid by exceeding the provisions of the Government Procurement Guideline 2006 for committee members of the Procurement and Technical Evaluation Committees under 100,000 km Road Programme in 2020 and 2021. Further, the relevant balance also included Rs.3.03 million receivable from an officer who had retired from the Authority.	The officers had been informed to pay this amount and in addition, it would like to inform that it will be recovered from the payments entitled to be paid in the future.	The provisions of the Procurement Guidelines should not be exceeded and the necessary actions should be taken to recover the overpayments.

(d)	Although the inter-company accounts maintained to record the transactions between the Road Development Authority and its subsidiary companies show an amount receivable to the Authority as Rs.107.17 million more than 02 years and Rs.314.58 million more over 5 years, necessary actions had not been taken to settle the respective balances even as at the end of the year under review.	The discussions had been conducted with the relevant companies regarding the existing discrepancies and actions are being taken to settle those.	Actions should be taken to settle inter-company account balances.

1.6.2 Payables

	Audit Observation	Comments of the Management	Recommendation
(a)	The deferred output tax included in the financial statements of the Authority as at 31 December 2022 was Rs.79.58 million and although the balance in this amount for more than 5 years was Rs. 35 million, action had not been taken to settle those balances even as at the end of the year under review.	A sum of Rs.19.69 million out of the deferred output tax of Rs.79.58 million had been settled. Actions are being taken to settle of the value related to Southern Expressway Operation Maintenance and Management Division.	Action should be taken to settle the respective balances.
(b)	Action had not been taken to settle or refund the advances and deposits given for supply of good and services amounting to Rs.16.5 million during the period from 2011 to 2020. Further, this balance also included Rs.5 million which was 50 per cent of the expenditure incurred for organizing the opening ceremony of the Southern Expressway in the year 2011.	The advances stated in Schedules 87, 90, 92 and 95 from 2011 to 2020 is Rs.16.5 million. At present, the heads of the relevant sections are being informed to settle these advances.	Action should be taken to settled or recovered the advances.

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)	The Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i)	Regulations No. 104-108	• When a loss occurs, investigations should be started to determine the value,	A circular was issued informing the relevant divisions to conduct	Action should be taken according to the Financial

		reasons for the loss and to identify those who are responsible. However, According to the information furnished to the audit, action had not been taken to identify the losses incurred to the Authority and the responsible parties in relation to 121 road accidents occurred during the year under review and only 02 preliminary investigations had been conducted.	preliminary investigations for all motor accidents in the future.	Regulations relating to losses and damages.
		• 02 cabs given by the Road Development Authority to the Road Construction and Equipment Company Ltd were completely damaged due to the riots that took place on 09 May 2022 and although the estimated insurance compensation for that is Rs. 27.5 million, the relevant compensation had not been received by the end of the year under review. Further, although investigations are to be started to ascertain the amount of loss, reasons for the loss and to identify those responsible parties as per the Financial Regulations, action had not been taken accordingly.	A case had been filed in the High Court through the police regarding the two vehicles that were completely damaged due to the rioting incident that took place on 09 May 2022 and it was obtained the approval of the Board of Directors to claim as condemned vehicles.	The responsible officers should be determined according to the Financial Regulations.
(ii)	Financial Regulation 135(4)	Although the financial delegation schedule should be revised from time to time, the Authority had not updated that document after 2020.	It is currently being updated and it is expected to be completed by July 2023.	The delegation of financial authority should be done annually as per the Financial Regulations.
(b)	Section 10 of Chapter VIII of the Establishment Code	Although matters not covered by the Establishment Code regarding the holiday payments	Agree with this audit paragraph.	Allowances should be paid only for the provisions of the

		for working on a public holiday should be consulted with the Director General Establishment, apart from that, also the officers assigned to office works had calculated the total number of hours worked after office hours and paid holiday payments by considering a period of 08 hours as one holiday. Accordingly, holiday payments of Rs.6.84 million for the period January to December 2022 were paid to the staff officers attached to the Expressways Operations, Maintenance and Management Division against the existing rules.		Establishment Code.
(c)	Section 20 of the Gratuity Payment Act No. 12 of 1983.	Other than the cost of living allowance, the Gratuity provision for the year under review was overstated by Rs.1,232.83 million due to calculating the Gratuity allowance by considering 12 allowances including road development authority allowance, additional work allowance, adjustment allowance and engineering allowance which are paid with different objectives and unique to the Authority. Further, an over payment of Rs.40.92 million had been made during the year under review due to payment of Gratuity including unauthorized allowances.	The Road Development Authority had considered 04 allowances in addition to the cost of living allowance to calculate the contributions for the Employees' Provident Fund in the payment of Gratuities upon the approval of the Board of Directors.	Payment of Gratuity should be made in accordance with the provisions of the Act.

(d)	Public Administration Circular No. 02/2018 dated 24 January 2018.			
	Section 1	The Authority had not introduced a human resource development plan and arrangements were not made to sign annual performance agreements for staff or to introduce a performance appraisal methodology.	The Scheme of Recruitment had been submitted to the Department of Management Services.	The performance agreements should be signed in accordance with the Public Administration Circular, and an evaluation system should be used.
	Section 5	A human resource development plan had not been prepared.	There were practical problems in gathering workers and inviting the resource persons.	A human development plan should be prepared according to the Public Administration Circular.
(e)	Management Services Circulars			
(i)	Paragraph No. 04 of Annexure II in Circular No. 30 dated 22 September 2006	The Authority had recruited 259 officers for 14 posts without implementing the staff restructuring recommendations submitted by the Department of Management Services subject to scheme of recruitment and promotion prepared according to the terms and guidelines of the Department. A sum of Rs.56.78 million had been over paid during the year under review due to payment of salary base on upper scales without using basic salary of the salary scales which were approved by the Department of Management Services on behalf of these officers.	The salary codes and payment structures for the senior management category are given based on the approvals of the Director General and the Board of Directors.	A scheme of recruitment and promotion procedure should be prepared according to Management Service Circulars and the salary scales should not be paid higher than the salary scales approved for the posts.

(ii)	Management Services Circular No. 28 (II) dated 01 August 2006	A sum of Rs.23.6 million had been paid during the year under review by recruiting 51 officers for 12 posts that were not approved by the Department of Management Services.	The Management Services Department had approved the posts and cadre related to 06 posts and only salary codes were not approved. The posts, salary codes and cadre related to the other 06 posts had not been approved.	Recruitment should not be made for posts not approved as per Management Service Circulars.
(f)	Guidelines on Corporate Governance and Operational Manual for State Owned Enterprises dated 16 th November 2021			
(i)	Section 3.2	Although the approval of the Board of Directors and the recommendation of the Line Ministry should be obtained for the Scheme of Recruitment, the relevant approval had not been obtained for the recruitment and promotion procedure of the Authority. Also, this situation continued from the year 2005.	Although the new Scheme of Recruitment for the Road Development Authority had been submitted for the approval of the Management Services Department, it had not yet been approved.	Action should be taken as per Operational Manual for State Owned Enterprises.
(ii)	Section 3.3	Although the staff requirements of each division of the Authority should be stated as a Human Resource Plan in the Strategic Plan prepared by the Authority, divisional employee requirements as such were not identified.	Approving the Statement of Recruitments will be done in the future along with the restructuring of the organizational structure of the Authority.	Action should be taken as per Operational Manual for State Owned Enterprises.

2. Financial Review

2.1 Financial Result

The entire operations for the year under review resulted in a surplus of Rs. 5,488 million as compared with the corresponding surplus of Rs.78,864 million of the preceding year, thus observing a decline of Rs.73,376 million in the financial result. The decrease of Rs.64,079 million in capital grants received relating to capitalization of assets of projects after completion of project works as compared with the preceding year and increase in finance cost by Rs.37,983 million had mainly attributed to this decline. However, the grants received through line Ministry for recurrent expenditure had increased by Rs.24,978 million as compared with the preceding year.

The total outstanding loan balance of the Authority was Rs.356,058 million as at 31 December of the year under review and it consisted of bank loans of Rs.264,893 million and debentures of Rs.91,166 million. These loans were taken for the 100,000 km Road Programme, construction of Central Expressway, expansion and improvement of highways and working capital requirements of the Authority and the interest for loans was fixed by adding a maximum of 2 to 2.8 per cent to the weighted primary loan rate. The Treasury bonds had been issued to obtain all these loans.

2.2 Trend Analysis of Major Income and Expenditure Items

Item	Percentage change compared to corresponding year	Changing trend compared to previous year
Recurrent Grants	30	Increase
Capital Grants	78	Decrease
Net Expressway Revenue	81	Decrease
Development and Maintenance Expenditure	43	Decrease

The following observations are made.

i. The increase in receivable grants by Rs.34,844 million to cover interest on local bank loans relating to the year under review led to a 30 per cent increase in recurring grants.

ii. The capital grants received by capitalizing the assets of completed projects after the completion of those project activities decreased by Rs.64,079 million compared to the previous year resulting in a decrease of capital grants by 78 per cent.

iii. The limitation of usage of expressways due to an increase in surcharge tax and finance costs for the year under review and fuel restrictions had led to a decline in net highway revenue by 81 per cent.

iv. The reduction of grants received through line and state Ministries for maintenance and improvements compared to the previous year by Rs.13,591 million had led to a reduction in development and maintenance expenses by 43 per cent.

2.3 Ratio Analysis

Ratio	As at 31 December 2022	As at 31 December 2021	Whether favourable or unfavourable as compared with the preceding year
Current Ratio	1.1	1.39	Unfavourable decrease
Quick Ratio	1.09	1.37	Unfavourable decrease
Net Profit Ratio	4	45	Unfavourable decrease
Debt Equity Ratio	0.45	0.46	Favourable decrease
Total debt- Total Assets Ratio (per cent)	28.67	30.28	Unfavourable increase

The following observations are made.

i. The Current ratio and Quick ratio were at the accepted minimum level as at 31 December of the year under review and those ratios reflected a decrease compared with the previous year. The payable loan interest expenses increased by Rs.25,785 million was the main reason for this increase.

ii. The net profit ratio of the year under review represented a decrease of 41 per cent as compared to the previous year and this was mainly affected by the decreased capital grants by Rs.64,079 million, the increased loan interest expenses by Rs.34,695 and increased expressway expenses by Rs.2,796 million.

iii. The decrease in long-term debts by 2.3 per cent as at 31 December for the year under review while the increase in equity of the Authority by only 3.1 percent on that date resulted in a favorable debt equity ratio compared to the previous year.

3. Operating Review

3.1 Identified Losses

	Audit Observation	Comments of the Management	Recommendation
(a)	The interest income amounting to Rs.410.69 million was lost to the Authority due to given a sum of Rs.1226.43 million invested in short term fixed deposits by the Authority as at 31 December 2022 on the request of the Line Ministry. Also, granting money to Line Ministry votes without the approval of the Treasury was problematic in the audit.	The Line Ministry did not receive money due to the crisis situation in the country. These loans had to be given due to protests by the public as to non-receipt of compensation for the lands given for road development.	The approval of the Treasury should be obtained for the transfer of funds accordingly between the Authority and the Ministry.

(b)	The Road Development Authority had obtained a loan amount of Rs.4,312 million from the Bank of Ceylon on 18 November 2019 for the development of Central Expressway. Although a fixed deposit of Rs.1,500 million had been kept as security to provide the said loan amount, the instructions were not given to the bank to credit the interest income to another bank account at the time of opening of the fixed deposit. Accordingly, interest couldn't be obtained until the loan was settled.	Although the correspondence had been exchanged with the bank to obtain interest in 2021, it was unsuccessful. Action will be taken to recover the interest amount again in November 2023.	It should be entered into an agreement with the bank to obtain the interest.

3.2 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	The Authority had re-stated the financial statements for each year from 2019 to 2021 and the income tax payable was reduced by Rs.209.5 million due to this reason. Accordingly, although overpaid income tax should be recovered, action had not been taken to set-off the over payment against the income tax payable during the year.	According to the Section 151(1) of Inland Revenue amended Act No. 04 of 2023, it is allowed to be settled only 60% of that value. Accordingly, these amounts will be set off in the future.	The payable income tax should be calculated correctly and arrangements should be made to obtain the tax credit.
(b)	Although the agreed period entered with the Road Development Authority and Bank of Ceylon on 18 December 2014 for the collection of electronic tolls on the Colombo Katunayake Expressway had expired for more than 02 years from 08 June 2020, arrangements had not been taken to enter into a new agreement. A total sum of Rs.19.7 million had been paid to the Bank of Ceylon as transaction costs for 03 years from 2020 to 2022 without a valid agreement.	The Director General of the Authority was appointed an evaluation committee to formulate a new agreement and discussions are conducting between the said committee and the Bank of Ceylon and there was no agreement between the two parties but it was agreed to reduce the transaction fee to Rs.4.	The Authority should act towards entering into an effective new agreement regarding electronic tolling on the expressway.
(c)	According to a decision of the Board of Directors of the Authority, it was decided to give a 10 per cent discount on the prescribed toll to the users of the road during the first 06 months of switching to the electronic toll payment system in order to encourage the	A 10 per cent discount was given to ETC customers for a period of 06 months as per the approval of the Board of Directors. After the approval of the Board of Directors, the 10	The necessary action should be taken after the evaluation to achieve the objective of providing discounts to ETC customers.

	users of the electronic toll payment system on the Colombo Katunayake Expressway. However, the Authority had lost a total of Rs.89 million for the 03 years from 2020 to 2022 including Rs.33 million related to the year 2022 due to the implementation of the discount system even after that period without approval.	per cent discount had also been approved to increase to 20 per cent in order to increase ETC customer attraction. However, the 10 per cent discount was maintained continuously to minimize potential losses.	
(d)	According to the Annual Transfer Policy of the Road Development Authority, although it was stated that having worked for 05 years in a popular workplace or more than 03 years in an unpopular workplace is eligible for transfer request and those who have completed 05 years or more in a popular work place and have not previously worked in a non-popular work place for 03 years or more are subject to transfer even if they do not apply for transfer, 34 officers with more than 05 years of service had worked in the Tangalle Executive Engineer Office.	The necessary activities to call applications for the annual transfer in the future are already being carried out in relation to the year 2024. Priority will be given to those who have requested transfers.	The transfer policy of the Authority should be done in a manner that is formal and fair and in a manner that can provide effective and efficient service.
(e)	According to the financial statements as at 31 December of the year under review, although the cost incurred for the acquisition of land for the construction of expressways was Rs.33,815.28 million, the Land Division of the Authority did not maintain a land register related to it.	The land information regarding the payments made by the Line Ministry is not accurately recorded in the data record of the Authority.	The land acquired for the construction of expressways should be recorded in a land register of the Authority.
(f)	The financial statement of the Expressway Transport Company (Private) Ltd. belonging to the Authority had not submitted its financial statements for audit since 2016. Also, the audit opinion related to the financial statements of Maga Neguma Construction and Equipment Company presented from the year 2017 to the year 2019 has been disclaimed and an adverse audit opinion had been given for the year 2020.	The Expressway Transport Company (Private) Ltd. had prepared financial statements for 2016 to 2018. The Maga Neguma Construction and Equipment Company was furnished the financial statements for the period 2018 to 2021.	The parent company should ensure that the financial statements of the subsidiary companies are submitted for audit on time.
(g)	According to Section 133 of the Companies Act No. 07 of 2007, although a company is required to conduct an annual general meeting of shareholders once every year, 04	Some of the subsidiary companies decided not to conduct annual general meetings due to legal issues	The arrangements should be made to conduct Annual General Meetings in accordance

	subsidiary companies belonging to the Authority had not acted accordingly.	regarding the ownership of shares during the formation of the companies.	with the Companies Act.
(h)	The going concern of the respective companies was in an uncertain situation due to the decision taken on Cabinet Paper No. CP/23/0394/608/033 dated 20 March 2023 to close the 04 subsidiary companies owned by the Authority.	The liquidation of companies is handled by the special committee consisting of board members of the Road Development Authority.	The companies should be formally liquidated and action should be taken to repossess the resources of the Authority.

3.3 **Operating Inefficiencies**

	Audit Observation	Comments of the Management	Recommendation
(a)	The Authority had given 19 vehicles amounting to Rs.228.6 million to the Ministry of Highways and the Prime Minister's Office, and 11 vehicles amounting to Rs.83.5 million to the Road Construction Equipment Company and vehicles were obtained from external agencies on a rent basis at a cost of Rs.281.35 million for the official requirements of expressways during the year under review.	The operation and maintenance of the expressway system are carried out 24 hours a day and these vehicles were obtained on a rent basis to continue the operation and maintenance of it.	Action should be taken to reduce the cost through the effective use of unused vehicles of the Authority.
(b)	According to the details furnished by the Project Offices as at 31 December 2022, the total number of land plots acquired by 14 projects was 48,427 and the number of plots that had been taken over by the Authority under Section 44 of the Land Acquisition Act at the end of the year under review was 4,543 or only 09 per cent of it.	Answers were not submitted.	Action should be taken by the Authority to complete the land acquisition activities by transferring ownership, and recording it in the accounts.
(c)	According to the details furnished to the audit, the outstanding amount of loans obtained from local banks was Rs.356,059.32 million as at 31 December 2022 and the amount of interest that had to be paid to the local commercial banks during the period of 05 years due to obtaining the loans was Rs.108,970.36 million. Further, the interest to be paid was Rs.37,668.7 million and the loan instalments to be paid was Rs.2,502.3 million as at 31 December of the year under review.	The loan interest in the year 2022 had increased abnormally due to the increase in the interest rate as a result of the economic crisis in the island since April 2022. This situation is a result of an increase in AWPLR and this cost may reduce substantially after the recovery of the country.	The loan proceeds should be invested effectively.

(d)	The Authority had obtained Rs.408,541.01 million in 34 instances from 07 local commercial banks on the basis of repayment within a period of 10 to 18 years based on a grace period of 2 ½ to 4 ½ years. The loan amounting to Rs.356,059.31 million further outstanding on 31 December 2022 had been restructured by submitting Cabinet Memorandum No. MFE/ERD/14/CM/2020/065 dated 13 March 2020 extending the repayment period. A consultancy fee of Rs.10.80 million had been paid to People's Bank for getting advice related to restructuring and The Authority had to pay an excess interest amount of Rs.400.74 million on the annual increased interest rate due to debt restructuring.	Any fee had not been paid to the Bank of Ceylon who was appointed as a consultant for joint transactions of People's Bank and the Bank of Ceylon and the People's Bank had furnished a bill amounting to Rs.20.0 million. The payment of loan installments was delayed 10-15 years as the Treasury did not have the money to pay these loan instalments. Although the loan interest (base interest) to be paid during that period had been approved at 0.75%, it was reduced to 0.5% interest rate by credit management. The fact that an additional interest amount of Rs.400.74 million was paid on the increased interest rate annually had been estimated as a direct cost.	Action should be taken to minimize the overhead costs incurred from obtaining the loans by considering the ability to repay.
(e)	According to the Cabinet decisions No. CP/19/2547/119/068-1 dated 25 September 2019 and No. CP/19/1983/119/068 dated 07 August 2019, the Cabinet had given approval to take loans from local banks for the development of the second part of the Central Expressway project from Mirigama to Kurunegala, payment of outstanding bills and payment of compensation for the land acquisition in sections I, II and III of that road. A sum totalling Rs.8,000 million had been obtained as Rs.3,688 million from the People's Bank on 04 October 2019 and Rs.4,312 million from the Bank of Ceylon on 18 November 2019 on the basis of payment of loan instalments and loan interest by using the money collected from the expressway on the basis of repayment. The outstanding loan balances as at 31 December 2022 were Rs.2,084 million and Rs.1,720.68 million respectively. Accordingly, the loan instalment	Arrangements had been made to obtain domestic bank loans for the Central Expressway-II project on Treasury bonds. When obtaining the domestic loan amounting to Rs.8 billion, it was implemented the proposal on obtaining the local bank loan by using the collected income of the expressways as much as possible by the Road Development Authority due to the inability of the Treasury to issue bonds and the reasons that all foreign loans were borne by the Treasury.	The loan payments should be made from the project revenue by completing the expressway projects efficiently.

	Audit Observation	Comments of the Management	Recommendation
	paid from the revenue of the expressway was Rs.4,195 million and the amount of interest paid on these loans were approximately Rs.3,000 million. Further, the construction work of expressways developed using loan proceeds had been suspended.		
(f)	Treasury Bonds valued at Rs.36,671.62 million had been issued under an interest rate of 22.5 per cent due to the inability of the Treasury to grant provisions for the settlement of the outstanding amount of loan interest and instalments as at 31December 2022 for the loan obtained from the local banks. Further, in addition to obtained loans from local banks, Treasury bills had been issued under an interest rate of 22.5 per cent by 31 December 2022 also for the payment outstanding amounting to Rs.32,217.89 million for 36 contractors on constructions relating to the 100,000 km programme. Accordingly, the government had to incur an additional cost due to issuing of Treasury bonds and that annual expenditure were approximately Rs. 15,155.69 million.	There were about Rs.80.0 billion in unpaid bills due to the crisis situation in the country and the imprest for that was not received by the Authority through the Treasury. The proposal to provide these Treasury Bonds was presented as an alternative solution to that. If it was not done, the construction sector would have collapsed completely, so obtaining Treasury Bonds was an effective decision taken with a future vision. This resulted in the circulation of money in the country and it was resulted a revival for small-scale construction contractors in their work.	Construction projects should not be started without funds and the borrowing should be obtained under minimum cost conditions taking into consideration market changes.

3.4 Weakness in Contract Administration

	Audit Observation	Comments of the Management	Recommendation
(a)	According to Section 21(1) of the Pradeshiya Sabha Act No. 15 of 1987, the rights of thoroughfares and roads within the local council's administrative area belong to those local government bodies. Accordingly, even though the authority should have capitalized on the costs incurred for the renovation and improvement of those roads for those institutions, write-off as expenditure without capitalizing accordingly was problematic in the audit. A sum of Rs.9,218 million incurred for non-RDA roads accordingly had been written off as expenses in the year under review.	The amount incurred on non-RDA roads on 31.12.2022 under 100,000 km project (after deducting all Mobilization Advances) has been written off under the development expenses without being capitalized. For that, a sum of Rs.9,706.84 million related to the value of 225 non-RDA roads was written off as expenses in 2022.	A method of providing the necessary information should be prepared so that the costs incurred for the roads under the area of the local government can be accounted by the relevant local government authorities.

(b)	The value of work in progress as at 31 December of the year under review under the weak bridge rehabilitation programme was Rs.692.48 million. It was included the contract of the rehabilitation of Demodara Spring Valley bridge No.13/6 valued at Rs.50.29 million belonging to Uva province had been started on 05 June 2019 and scheduled to be completed by 31 March 2020. However, the relevant works of the contractor had not been completed due to a delay in the payment of mobilization advances to the contractor between 29 May 2020 and 07 September 2020 and the physical progress of it was 90 per cent by the end of the year under review.	The Demodara Spring Valley Bridge contract was extended until 13 June 2022 and the balance work completion certificate was issued by the Chief Engineer at the time of completing the 90 per cent of physical progress stating that the balance works should be completed by the contractor. Although the balance work was completed so far, the completion certificate had not been issued up to now.	The contract work should be completed immediately and actions should be taken as per the contractual agreement relating to the delayed projects.
(c)	The value shown in work in progress as cost incurred under non-RDA roads within the period of 2020-2022 under the 100,000 km road development programme as at 31 December 2022 was Rs.125,586.76 million. However, a contract register including information about the names of the contractors, contract period, value and extension of the contract period related to this work in progress was not submitted to the audit.	It takes enough time to analyse the data to file the information mentioned in the audit as one report since there is a large amount of this data in the nine provinces.	Relevant information should be maintained either through a soft copy and furnish to the audit when requested.
(d)	The amount of retention as at 31 December 2022 in relation to the contracts executed by the Authority excluding the 100,000 km road project was Rs.1,089.73 million and the value exceeding 03 years in that balance was Rs.503.66 million. The retention money couldn't be released on time due to contract work not being completed and defects not being rectified by the contractors.	The contract work was not completed on time due to various reasons, the retentions were not requested even though they were completed etc. had affected to non-release of money.	All necessary steps should be taken to complete the contract work within the stipulated time and the retention should be released later.
(e)	The retention amounting to Rs.175.60 million payable as at 31 December 2022 was retained due to requests were not made by the contractors and out of that, a sum of Rs.12.42 million out of the Rs.22.88 million retained	The reasons for the proposal to write off the amount of Rs.12.42 million had been presented.	The retention money should be released in time.

	under the Deyata Kirula project had been proposed to be written off due to reasons such as exceeding the defect liability period and the work not being completed. Further, although the defect liability period of 45 contract projects carried out by the Southern Provincial Regional Office had expired in the years 2017-2021, the retention payable amounting to Rs.5.72 million was retained due to the failure to issue the completion certificate and the retention amounting to Rs.8.51 million related to 08 contracts was not settled due to non-availability of funds for payments.		
(f)	The client deposit balance for the achievement of the contract was Rs 2,959.35 million at the end of the year under review. Although 05 years were exceeded out of it, 150 contracts were not fulfilled and the balance related to it was Rs. 614.94 million. Further, the number of unfulfilled contracts between 3-5 years was 449 and the balance related to it was Rs. 1,015.75 million. It was observed that the delay in the exchange of information related to the contracts with the provincial offices and the weaknesses in the follow-up activities had also led to the non-settlement of these cash deposits. Further, Although a sum of Rs.42.96 million overpaid by the Sri Lanka Mahaweli Authority included in this client deposit balance was demanded on 16 November 2022, The Authority had not been settled that value even as at audited date of 10 June 2023 by confirming the accuracy of it.	The balances outstanding over 5 years are deposits related to the Kandy Wastewater Management Project and Visal Matale Water Project. The deposits had been retained at present as these projects had not been completed up to now. However, instructions had been given to inform all the Provincial Directors to credit any remaining balances if any from the completed projects to the revenue and complete the unfinished works as soon as possible.	Action should be taken to complete the contract immediately and settle the remaining client deposits.
(g)	The value of the advances given to contractors for 10 construction projects by the Authority was Rs.45,811.79 million and among those values, advances of Rs.15.53 million relating to 05 projects were given before the year 2015 and the respective balances were not settled even at the end of the year under review. Further, a total sum of Rs.39,976.2 million had been paid in advance for Central Expressway Project Phase I, Central	The Central Expressway Project Phase I and Central Expressway Project Phase III projects are being commenced and the respective advances will be settled during the settlement of future bills. Action will be taken to recover the advances from the ongoing constructions. Further, the advances on the projects for which court cases are pending will be	The arrangements should be made to complete the contract work immediately and collect the advances.

	Expressway Project Phase III and Ruwanpura Expressway Project and the work on 03 related projects had been abandoned. Accordingly, the mobilization advance amounting to Rs.45,811.79 million had not been settled.	recovered after the completion of the related court proceedings.	
(h)	As per the agreement entered on 06 April 2017 with the Government of Sri Lanka and Korea Import Export Bank, it was agreed to grant a loan amounting to USD 199.27 million for the Kandy Tunnel Construction Project and the work was to be completed within a period of 05 years from the date of receiving the loan amount. Before entering into a written agreement regarding obtaining the relevant loan amount, it had been decided to obtain the Environmental Impact Assessment Report (EIA) and get the approval of the Central Environment Authority for it and prepare a Resettlement Action Plan. Accordingly, the contract for the preparation of the Environmental Impact Assessment Report with an estimated value of Rs.95.75 million was handed over to University of Peradeniya on 25 March 2021 and although a sum of Rs.59.86 million had been paid to the contractor at the end of the year under review for it, the preparation of the relevant report had not been completed by 31 May 2023. Further, the contract for preparation of Resettlement Action Plans had been awarded to a private company on 04 October 2022 for a sum of Rs.8.47 million and although the work should be completed within 04 months according to the contract agreement, the relevant work was not completed even as at 30 May 2023. Due to this, the selection of a contractor for the construction of the project could not be started even up to 31 August 2023.	The preparation of the project environmental study report is in its final stage and the formulation of Resettlement Action Plan is in final stage and the construction of the tunnel was delayed due to the heavy protests by the residents of the proposed areas and failure to provide the necessary information.	The preparation of the Environmental Study Report and the Resettlement Action Plan should be completed immediately and the project started as planned.
(i)	The Authority had paid a sum of Rs.60 million to the National Housing Development Authority for the construction of holiday bungalows in 2005. Although the work of	The remaining balance will be informed and related activities will be done to settle it.	The relevant activities should be completed or the remaining amount

	Rs.44.18 million had been achieved out of that amount, the Authority had not taken action to perform the work related to the remaining value Rs.15.82 million or to recover the related advance at the end of the year under review.		should be recovered.
(j)	The Secretary of the Line Ministry had given instructions to the Director General of the Authority to revise and correct the overvalued engineering estimates prepared under the 100,000 km Alternative Road Rehabilitation Programme on 03 October 2022. Further, the Secretary of the Ministry had informed the audit on several occasions that the final bills would be paid after revising the overestimated contract estimate values. However, later, it was instructed the Secretary to the Ministry from his letter No.MOR&H/SEC/GEN/2022/71 dated 03 October 2022 to the Director General of the Authority to pay the agreed value for contracts signed before 27 April 2021 and pay the actual work done for the contracts signed after that. Accordingly, the payment of Rs.115,435 million made by the Authority to the contractors as at 31 December 2022 based on overestimates was problematic in the audit.	According to the agreements reached in the discussion held on 29.03.2021 under the chairmanship of the Secretary of the Ministry of Highways with the participation of ministry officials and government audit officials In this regard, the relevant provincial directors had been informed to revise the estimates. However, the construction companies expressed their objection in writing stating that they would not agree to the revisions in the contract amount as they had obtained the project by giving a competitive discount for the engineering estimate. There was no overestimation or loss to the government due to the award of the contract as a discount on the engineer's estimate.	As agreed in the discussion, action should be taken to correct the overestimates and act against the officials who contributed to the preparation of overestimates according to the Financial Regulations.
(k)	The total road distance awarded to contractors under the 100,000 km Alternative Road Rehabilitation Programme at national, regional and rural levels was 17,847 km as at 31 December of the year under review and out of it the completed length was 6,298 km. The on-going length was 11,549 km. A sum of Rs.142,821 million had been paid for these works by the end of the year under review and the value of outstanding bills on that date was Rs.16,810 million. To cover these expenses, a sum of Rs.43,205 million from local banks, a sum of Rs.68,263 million under the Ministry Head and Rs.35,940 million by issuing Treasury Bills on two occasions as Rs.31,353	A sum of Rs.142,821 million had been paid for these works as at 31 December 2022 and the value of outstanding bills in hand was Rs.16,810 million. To cover these expenses, it was obtained a sum of Rs.43,205 million from local banks, a sum of Rs.68,263 million from the Ministry Head and a sum of Rs.31,353 million and Rs.4,587 million on two occasions by issuing Treasury Bills to settle these expenses.	The public funds should be efficiently utilized by deploying them in effective and well-planned projects.

	million on 27 December 2022 and Rs.4,587 million on 13 March 2023 had been obtained.		
(l)	The contract cost was overstated by Rs.220.91 million in the preparation of estimates relating to 119 roads in 42 road construction projects implemented under the 100,000 km Road programme in Kurunegala, Polonnaruwa and Nuwara Eliya Districts due to over-estimation of price rates of major votes in the preparation of estimates, material transport distance is greater than actual distance, high rates shown in project monitoring costs and administrative costs and the entry of abnormal values for raw material waste.	Not agreed with the audit para. These road contract packages are designed by including several roads. Therefore, the material transportation distance had been taken into consideration not for one road but for all the roads under the contract. There is a considerable wastage in re-transportation due to the raw material being piled up or having to find suitable safe places for storage quite far from the work sites. 10 per cent of material waste had been used at the time of preparation with the lowest value taking into consideration the measures related to material waste followed in other rural road projects.	Action should be taken to correct the overestimation of estimates and paid the actual work value.
(m)	According to the Section 21 (1) of the Pradeshiya Sabhas Act No. 15 of 1987, although it had been stated that the Pradeshiya Sabha had the general authority regarding thoroughfares and roads within the administrative limits of the Pradeshyai Sabha, the Road Development Authority had entered into agreements to develop the roads under this 100,000 km Roads Development Programm and it was revealed during the sample audit conducted on the construction of these roads in Kurunegala District that written permission had not been obtained from the respective Pradeshiya Sabhas. Although the Authority had sent letters to the Pradeshiya Sabhas to return the completed, abandoned and contracted but not started roads, the respective Pradeshiya Sbhas had refused to taking over the roads due to the defects in the road development activities.	Agree with revisions to audit para	All local government roads should be formally handed over to the respective Pradeshiya Sbhas.
(n)	The 2481 Work Orders valued at Rs.193,518 million had been given to Maga Neguma Construction Equipment Company as of 31 December 2022 for the construction of 6426 km of roads under the Hundred Thousand	The contract work orders had been given to Maga Neguma Institute according to a Cabinet decision under the 100,000 km Road Development Programme. According to this, 2416	Action should be taken against the officials who gave subcontracts without proper

	Roads Development Project and the work of 4732.8 km of roads valued at Rs. 131,650 million had been started out of it. The company had undertaken to directly carry out only 71 Work Orders valued at Rs. 5,920 million related to 306.97 km of roads among them. It was as low as 03 per cent of the total Work Order value and the remaining 97 per cent of the work for 4,425.87 km of roads under 1,753 work orders at a cost of Rs. 125,730 million had been awarded to subcontractors identified as the service providers of the company. Further, the awarding of subcontracts was contrary to Board Paper No.2008/1109 of the Road Development Authority and according to the decision of the Cabinet of Ministers No. CP/20/0731/221/005-1 dated 07 May 2020, the objectives of awarding the contracts to a government company were also not fulfilled and almost Rs. 20,955 million of government funds were remitted to private contractors as profits of the subcontractors. Further, the 351 Work Orders amounting to Rs. 32,736 million out of total work orders had been cancelled by the end of the year under review and The construction works of 306 Work Orders amounting to Rs. 29,130 million had not been commenced.	work orders amounting to Rs. 190,800 million had been given by the Provincial Directors to Maga Neguma Institute for 7,377.37 km of roads. Further, the awarding of subcontracts of this project had not informed to the Road Development Authority by the Maga Neguma Institute.	approval as per the financial Regulations and take action to complete the assigned work orders on time.
(o)	The validity period of 26 mobilization advance bonds amounting to Rs. 590.28 million received from the contractors in providing mobilization advances to the contractors in Matara District had expired at the end of the year under review. However, the actions had not been taken by the responsible officers of the Road Development Authority to extend the validity period of the Mobilization Advance Bond or transfer contracts to the Road Development Authority relating to abandon or uncompleted roads. The Mobilization Advance amounting to Rs. 398.92 million paid to the contractors could not be recovered due to this as at the audited	The full advance amount could not be recovered as sufficient bills were not submitted at the time of terminate this project. The remaining amount to be recovered is Rs. 389.26 million.	Arrangements should be made to extend the period of the mobilization advance bonds.

date of 15 March 2023.

(p)	The work had not started on 74 construction contracts with a cost of Rs.1,735.62 million assigned to the Maga Neguma Construction Company in the Kegalle District as revealed during the sample audits and the work on 124 roads in Puttalam District had not been started. Further, although a sum of Rs.5,291 million was incurred on the development of 20 roads in Puttalam District and a sum of Rs.377.26 million was incurred on the development of 10 roads in Polonnaruwa District, the constructions of those and also the development activities of 208 roads in Puttalam District had been suspended. The road users were became inconvenienced due to this and the raw materials brought in for development activities remained unsafe.	The roads mentioned here couldn't be completed due to reasons such as the rapid spread of the COVID pandemic all over the island, difficulties in supplying raw materials, shortage of fuel, high prices of materials and services and late payment of bills to the contracting company. Further, the development works on these roads were stopped as per the instructions given to control public expenditure according to the Ministry of Finance circular No.03/2022 dated 2022-04-26.	The contract should be awarded after considering the capacity of the contractor and the action should be taken according to the contract agreements in respect of contracts that had not been completed and work had not started.
(q)	The 10 road development projects valued at Rs.62.74 million developed by laying ABC under 02 contract packages in Matara District, it was observed that the ABC layer had totally removed and became the same as before the renovation and unusable condition for traffic regarding. Accordingly, the amount of Rs.17.15 million paid to the contractors had become an idle expenditure.	The ABC surface had damaged and traffic had become difficult due to vehicles driving on the ABC road surface and exposure to rainy weather. Payments for these roads had been made for the basic construction work carried out as per the standard.	Construction supervision should be done on time an the work should be completed according to the contract agreement.

3.6 Human Resource Management

	Audit Observation	Comments of the Management	Recommendation
(a)	Although the number of Management Assistant cadre allocated by the Administration Division for the staff of Expressway Operations, Maintenance and Management Divisions as at 31 December 2022 is 81, the actual number of employees employed in those divisions was 136 on that date. Accordingly, it was observed that 55 employees are working in the respective divisions in excess of the approved number	It is accepted that there are management assistants working in excess of the number allocated by the Administrative Division for employment in the Bandaragama Head Office and interchange offices belonging to the Expressway Operations, Maintenance and Management Division. It is also agreed that	The staff should be limited to the approved cadre and the approval of the Department of Management Services should be obtained before recruiting the excess employees.

	of posts. Further, 24 employees who were appointed by the Director General of the Authority as cashiers and security petrolours in the Expressway Operations, Maintenance and Management Division who were working temporarily in management assistant positions were not assigned to the respective permanent positions.	the duties of the posts of Management Assistant are performed by the officers holding the posts other than Management Assistant.	
(b)	Although an internal circular issued by the Director General of the Authority had instructed that the employees recruited under direct labour should not deployed for office work, 106 and 181 direct labourers recruited on a permanent and casual basis respectively for provincial offices were used for office work without being deployed for road maintenance work.	Although employees recruited on direct labour basis are advised not to engage in office work, it is agreed the fact that the minimum number of permanent and casual labourers were employed for office work	Action should be taken according to the internal circular

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Observation	Comments of the Management	Recommendation
The cadre of the Road Development Authority was 10,801 as at 31 December 2022 and a sum of Rs.61,778.97 million had been incurred as total recurrent expenditure during the year under review representing a sum of Rs.8,315.03 million for salaries and wages for those staff in the year 2022, administrative expenses amounting to Rs.842.4 million and a sum of Rs.52,621.53 million for local bank loan interest and loan instalments. Accordingly, the average annual salary and wages expenditure per capita was Rs.0.77 million. Further, although a provision of Rs.140,294.27 million had been allocated to the Road Development Authority for the capital expenditure of 2022, the amount of allocation received was Rs.96,008.46 million as a sum of Rs.21,231.7 million had been used to settle the commitments made in the year 2021out of that amount and the capital expenditure incurred in the year 2022 was Rs.98,225.92 million and the value of outstanding expenses was Rs.23,449.15 million at the end of the year under review. The fulfilment of the goals and the role of the Road Development Authority was at a low level due to having to incurred 39 per cent of the total expenditure of Rs.160,004.89 million on	Special attention will be paid to the matters mentioned in the Auditor General's report in the preparation of the future Corporate Plan and Action Plan.	The future Corporate Plan should be prepared by considering current economic and environmental factors.

recurring expenses and special attention should have been paid to the preparation of an effective Corporate Plan and Action Plan related to this after a lengthy study.

4.2 Sustainable Development Goals

Audit Observation	Comments of the Management	Recommendation
The Annual Action Plan prepared by the Authority for the year 2022 did not show a work plan that would achieve the sustainable development goals and criteria such as what projects are planned to be carried out under the sustainable development goals identified by the Authority, the related Sustainable Development Indicators and the expected performance of those indicators during the year were not included in the Annual Action Plan. Also, the sustainable goals expected to be achieved up to the year 2030 were not specifically identified.	The future action plan will be prepared to include the planned projects and related sustainable development indicators and their expected annual performance by identifying the desired objectives up to the year 2030 under the sustainable development goals identified in relation to the Road Development Authority.	Sustainable development goals should be reflected in the Annual Action Plan and sustainable goals to be achieved up to the year 2030 should be identified