

Head 117 - Report of the Auditor General on the Ministry of Higher Education and Highways – Year 2016

Head 117 - the audit of the Appropriation Account and the Reconciliation Statements including the financial records, books, registers and other records of the Ministry of Higher Education and Highways for the year ended 31 December 2016 was carried out in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Secretary to the Ministry on 12 December 2017. The audit observations, comments and findings on the Accounts and the Reconciliation Statements were based on a review of the Accounts and Reconciliation Statements presented to Audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

1.2 Responsibility of the Chief Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer is responsible for the maintenance, preparation and fair presentation of the Accounts and the Reconciliation Statements in accordance with the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions and the Public Finance and Administrative Regulations. The responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

2. Accounts

2.1 Appropriation Account

2.1.1 Total Provision and Expenditure

The total net provision made for the Ministry amounted to Rs.182,198.69 million and out of that, Rs.152,505.02 million had been utilized by the end of the year under review. Accordingly, the savings out of the total net provisions of the Ministry, amounted to Rs.29,693.67 million or 16.30 per cent of the net provision. Details appear below.

| Expenditure | As at 31 December 2016 | | | Savings as a Percentage of Net Provision |
|--------------|------------------------|-------------------|------------------|--|
| | Net Provision | Utilization | Savings | |
| | Rs.Million | Rs.Million | Rs.Million | |
| Recurrent | 4,464.69 | 3,417.95 | 1,046.74 | 23.44 |
| Capital | 177,734.00 | 149,087.07 | 28,646.93 | 16.12 |
| Total | 182,198.69 | 152,505.02 | 29,693.67 | 16.30 |

2.1.2 Utilization of funds given by other Ministries and Departments

The Provisions amounting to Rs.752.31 million had been given by other 3 Ministries to the Ministry and out of that a sum of Rs.98.93 million had been utilized up to end of the year under review. Accordingly, the savings out of the provisions given for the Ministry amounted to Rs.653.38 million or 86.85 per cent. Details appear below.

The Ministries Provisions were provided

As at 31 December 2016

| | Provisions | Utilization | Savings |
|--|---------------|--------------|---------------|
| | Rs.Million | Rs.Million | Rs.Million |
| Ministry of Western Development and Mega Police | 402.31 | 98.93 | 303.38 |
| Ministry of National Policies and Economic Affairs | 200.00 | - | 200.00 |
| Ministry of Prison Reforms, Rehabilitation, Resettlement and Hindu Religions Affairs | 150.00 | - | 150.00 |
| Total | 752.31 | 98.93 | 653.38 |

2.2 Advances to Public Officers Account

Limits Authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers Account Item No. 11701 of the Ministry, and the actual amounts are given below.

| Expenditure | | Receipts | | Debit Balance | |
|---------------|-------------|---------------|-------------|---------------|-------------|
| Maximum Limit | Actual | Minimum Limit | Actual | Maximum Limit | Actual |
| Rs. Million | Rs. Million | Rs. Million | Rs. Million | Rs. Million | Rs. Million |
| 18.00 | 16.66 | 8.00 | 9.29 | 70.00 | 37.83 |

2.3 Imprest Account

The balance of 02 Imprest Accounts under the Ministry as at 31 December 2016 totalled Rs.15.69 million. Details appear below.

| Imprest Account Number | Balance as at 31 December 2016 |
|-------------------------------|---------------------------------------|
| ----- | ----- |
| | Rs.Million |
| 7003/0000/00/0054/0016/000 | 15.67 |
| 7002/0000/00/0332/0016/000 | 0.02 |
| | ----- |
| Total | 15.69 |
| | ===== |

2.4 General Deposit Accounts

The balances of 06 General Deposits Accounts under the Ministry as at 31 December 2016 totalled Rs.624.20 million. Details appear below.

| General Deposit Account Number | Balance as at 31 December 2016 |
|---------------------------------------|---------------------------------------|
| ----- | ----- |
| | Rs.Million |
| 6000/0000/00/0002/0176/000 | 0.09 |
| 6000/0000/00/0013/0135/000 | 168.03 |
| 6000/0000/00/0016/0123/000 | 391.79 |
| 6000/0000/00/0017/0033/000 | 22.48 |
| 6000/0000/00/0018/0114/000 | 0.31 |
| 6000/0000/00/0020/0021/000 | 41.50 |
| | ----- |
| Total | 624.20 |
| | ===== |

2.5 Audit Observation

The Appropriation Account and the Reconciliation Statements of the Ministry of Higher Education and Highways for the year ended 31 December 2016 had been satisfactorily prepared subject to the Audit Observations appearing in the Management Audit Report referred to in paragraph 1.1 above. Significant and material Audit Observations out of the Audit Observations included in the Management Audit Report are given in paragraph 3.

3. Material and Important Audit Observations

3.1 Non-maintenance of Registers and Books

It was observed during the course of audit test checks that the following registers had not been maintained by the Ministry and another two registers had been maintained without being updated.

| Type of Registers ----- | Relevant Regulation ----- | Observation ----- |
|-----------------------------------|---|---|
| (a) Register of losses | Financial Regulation 110 | had not been maintained. |
| (b) Fixed Assets Register | Treasury Circular No.842 dated 19 December 1978 | The fixed assets register of the Higher Education sector had not been updated and maintained. |
| (c) Vote Ledger | Financial Regulation 447(5) | Vote Ledger of the Highways sector had not been updated. |

3.2 Audit Evidence not made Available -----

According to the Appropriation Account Prepared for the year 2016, out of the net allocations made for 45 Objects, after utilization from the net allocations, a sum of Rs.9,148 million had been saved. As per the reasons mentioned in the Appropriation Account, the reason for the savings was not releasing of adequate Imprest by the Treasury Operation Department. However, the Imprest Requirement Register had not been furnished to audit as per the Treasury operation circular No.08/2015 dated 14 December 2015. Hence, the accuracy of the reasons mentioned in the Appropriation Account could not be rectified.

3.3 Appropriation Account -----

Budgetary Variance -----

The following observations are made.

- (a) The Provisions made for 54 Objects related to the Higher Education Sector totalling Rs.88.15 million had not been utilized during the year under review. Hence, the entire provision had been saved.
- (b) The Provisions totalling Rs.305 million had been included to the Annual Budget Estimates under 3 Objects of the highways sector of the Ministry. But such an allocation had not been requested when preparing the Annual Budget Estimates. Therefore, the savings, subsequent to the utilization of funds, were ranging from 83 per cent to 100 per cent up to end of the year.
- (c) The supplementary provisions totalling Rs.704.4 million had been obtained by the higher education sector of the Ministry under 3 objects. However, those provisions had not been utilized for the activities of which the allocations obtained for.
- (d) Over Provisions had been made on 19 objects of the higher education sector of the Ministry. Hence, the savings ranging from 25 per cent to 99 per cent after utilization of those Provisions.
- (e) The Provisions amounting to Rs.2.991 million had been provided during the year under review for the road development projects and infrastructure development projects implemented in the Districts. However, due to the project management failures such as delays in awarding of contracts, delays in completion of activities by the contractors, delays in procuring of raw materials and change of consultants etc. over 50 per cent had been saved out of the net Provisions made,

3.4 Reconciliation Statement of the Advances to Public Officers Account

The following observations are made.

- (a) According to the Reconciliation Statement forwarded to Audit, the outstanding balances as at 31 December 2016 totalled Rs.1,035,571. Even though those outstanding balances existed over periods ranging from 01 year to 26 years, follow-up actions on recovering of outstanding loan balances had remained at a weak level.
- (b) The CC-10 Registers of the Road Sector had not been up-dated and as result the accuracy of the balances could not be confirmed.

3.5 Deposit Account

Action in terms of the Financial Regulation 571(2) had not been taken on the deposits existed over 2 years amounting Rs.54.7 million.

3.6 Good Governance and Accountability

3.6.1 Internal Audit

The internal audit plans had not been focused on compliance audits. It was observed that the topics which were not related to the scope of the internal audit had been included to the internal audit plan.

3.6.2 Audit and Management Committee

It was observed that a summary report relating to the matters discussed at the committee meetings had not been prepared in order to evaluate the Progress of the matters discussed at the Committee meetings and actions had not been taken to assign the responsible officers to carry out the duties to be perform.

3.6.3 Annual Performance Report

In terms of the Public Finance Circular No.402 dated 12 September 2002, the Performance Report should be tabled in parliament by the Ministry within 150 days since the lapse of the financial year. However, that report had not been tabled in parliament even by 15 December 2017.

3.7 Assets Management

The following deficiencies were observed during the course of audit test checks relating to the assets of the Ministry.

(a) Value of the assets shown in the Appropriation Account

In the opening balance of the non-current assets movement statement of the Appropriation Account, the machinery and equipment of the higher education sector

valued at Rs.15.14 million had been shown in twice. Hence, the value shown in the non-current assets movement statement had been overstated by that amount.

(b) Not handing over of motor vehicles given on reimbursement basis

The provisions had been given to purchase a motor vehicle to the State Minister of Highways on the basis of handing over of previously used motor vehicle to the Ministry of Finance. Although a Motor vehicle had been purchased for Rs.32.81 million during the year under review, the previously used motor vehicle had not been handed over to the Ministry of Mass media and Finance up to 12 December 2017.

(c) Conduct of Annual Board of Survey

The following observations are made.

Road Sector

According to the Public Finance Circular No.5/2016 of 31 March 2016 the Board of survey should be conducted and the reports thereon should have been forwarded to the Auditor General before 17 March 2017. Nevertheless, the Ministry had not forwarded those reports. Accordingly, the reconciliations had not been made with the net assets balance shown in the Note (i) of the Appropriation Account and figures in the Asset Register. Also, the physical existence of the assets had not been confirmed through the Annual Boards of Survey.

Higher Education Sector

Conduct of annual boards of survey and forward of reports thereon before 17 March 2017 had not been done according to the Public Finance Circular No.05/2016 dated 31 March 2016.

(d) Maintain of Asset Registers and acquisition of assets

Forty Five buildings which had been constructed under the Hostels Project in 19 Universities and Higher Education Institutions, incurring a sum of Rs.11,681.85 million had been transferred to the accounts of those university Institutions. However, those buildings had not been handed over to the respective universities in writing.

(e) Assets given to External Parties

Two motor vehicles belonging to the Higher Education sector of the Ministry had been released to other institutions, without being taken actions to handover them formally. The value of the Motor Vehicles had not been furnished to audit.

(f) Irregular use of Assets belonging to other Institutions

According to the information obtained from the Road Development Authority (RDA), 9 motor vehicles had been released to the Highways sector of the Ministry. However,

those motor vehicles had not been handed over again even up to 06 September 2017. According to the information provided by the Ministry, only one motor vehicle had been obtained from the Road Development Authority. Nevertheless, details relating to the handing over and taking over of motor vehicles had not been furnished to audit.

(g) Unsettled Liabilities

The unsettled liabilities of the Ministry as at 31 December 2016 amounted to Rs.25,268.26 million and age analysis thereon had not been furnished to audit. The following observations are made in this regard.

- (i) The Commitments had been incurred exceeding the savings, after utilizing the provisions made on 57 objects, by Rs.14,612.18 million contrary to Financial Regulation 94.
- (ii) The value of liabilities of the Higher Education Sector as at end of the year under review had been understated by Rs.29,534,769.
- (iii) The Commitments amounting to Rs.1,426 million that had been incurred on 06 objects of which allocations had not been made as per the Annual Budget Estimates of the year 2016, had not been entered in the Commitment Register.
- (iv) A difference of Rs.20,596 million had been observed between the liabilities disclosed in the financial statements of 11 Foreign Funded Projects conducting under the Ministry and the liabilities disclosed in the Appropriation Account relating to the above projects.
- (v) The value of the liabilities payable to 13 state and private institutions for the year under review and related objects had not been certainly identified amounted to Rs.1,986.14 million.

3.8 Non-compliance

(a) Non-compliance with Laws, Rules and Regulations

Instances of non-compliances with the provisions in laws, rules and regulations observed during the course of audit test checks are analyzed below.

| Reference to Laws, Rules and Regulations | Value | Non-compliance |
|---|-------------------|---|
| ----- | ----- | ----- |
| | Rs.million | |
| (i) Statutory Provisions ----- | | |
| The Circular of Commissioner General of Inland Revenue No.SEC/2015/05 dated 05 July 2015 related to the Inland Revenue Act No.10 of 2006. | 500,000 | Even though the PAYE Tax should be paid by the relevant Employee, the PAYE Tax of consultants' of the North Road Coordination project had been reimbursed by the Project. |
| (ii) Treasury Circular ----- | | |
| Circular No.IAI/2002/02 dated 28 November 2002. | | - The Geological Information System computer software procured for Rs.13.31 million by the I-Road Project had not been included to the computer and software register. |
| (iii) National Budget Circulars ----- | | |
| Paragraph 2 of the Circular No.7/2015 dated 29 December 2015. | | - Even though 15 per cent compulsory saving should be done from the object – 1202, the road sector of the Ministry had not been done so. |
| (iv) State Accounts Circular ----- | | |
| Paragraph 3.11 of the Circular No.251/2016 dated 17 October 2017. | 3,571,573,161 | A difference had been shown between the liabilities reported to the Treasury for the year 2016 and the liabilities shown in the Appropriation Account, according to the Circular. |
| (v) Management Services Circulars ----- | | |
| Circular No.1/2006 dated 24 March 2006. | | - Five Engineers had been recruited on apprentice basis for the I-Road Project by paying Rs.60,000 per month for each of the Engineer. |
| (b) Non- Compliance with Taxation requirement ----- | | |
| The value added tax amounting to Rs.7.92 million had been paid by the Road sector of the Ministry during the year under review. According to Section 5.4.12 of the Government Procurement Guideline, the particulars relating to those taxes had not been reported to the Commissioner General of Inland Revenue with a copy to the Auditor General before 15 of the following month. | | |

3.9 Foreign Aid Projects

The Ministry had implemented 51 Projects during the year under review under foreign financing. The estimated cost of the year under review totaled Rs.1,140 billion and a sum of Rs.105 billion had been utilized on those Projects. Further, although the payments had been made for 9 Projects from the Consolidated Fund up to December 2017, construction works not been commenced. The following observations are made in connection of those foreign projects.

(a) Performance of the Foreign Aid Projects

The following observations are made.

- (i) According to the initial action plan of the I-Road Project, 742 rehabilitation works in 3,135.5 kilometers of Provincial and rural roads in Southern, Sabaragamuwa, Central, North Central, North Western Provinces and the Kaluthara District in Western Province scheduled to be commenced. Out of 42 contract packages, 15 packages had not been reached to the expected performance targets up to 31 December 2016. Further, according to the site inspection conducted, rehabilitation works in 12.6 kilometers had only been completed, out of 92 kilometers of 14 provincial and rural roads under the package 2 in the Rathnapura District. Due to the shortage of physical and human resources belong to the contractor, the relevant contract activities had been delayed by 11 months.
- (ii) The physical progress of 5 construction activities, out of 9 constructions, carried out under the South East University Development Project as at 31 December 2016 was ranging from 18 per cent to 99 per cent compared with the targeted progress.
- (iii) The provisions amounting to Rs.80 million had been provided for the construction of the Quality Development and Leadership Centre Building in the Sri Lanka Higher Technological Education Institute in Dehiwala, under the Project of Education for 21st century. Construction activities of that building scheduled to be commenced in the year 2015 and scheduled to be completed up to May 2016. However, the physical progress of the construction works as at 30 June 2016, i.e. up to the completion date of the project, was only 60 per cent. Due to incompleteness of the project, the provisions made for the Projects amounting to Rs.19 million could not be utilized.
- (iv) The grants amounting to Rs.366,859,467 had been provided to 240 academic and non-academic staff of 13 universities and the Higher Technological Institutions to follow the Doctor of philosophy, post graduate degrees. However, 30 recipients of the grants had not completed the degrees even up to termination of the project.

(b) Abandonment of some works included in the foreign funded Projects

Eight bridges had been constructed on the outer circular road that had been constructed to connect Batticolo-Thirukkondi Aru-Trincomalee and Abbeypussa-Kurunegala-Trincomalee roads, out of the city of Trincomalee, under the United Kingdom Bridges Project in the years 2009 and 2010 by incurring a sum of Rs.3,495 million. Even though a period of 6 years had been lapsed up to 31 August 2017, the construction of link roads of bridges action had not been taken to completed.

(c) Utilization of Project Funds

According to the information obtained from the Department of External Resources, a sum of US\$ 240,815 equivalent to Rs.34.88 million had been charged as the commitment fee on the non-utilized loan balances as at 31 December 2016.

(d) Non-commencement of Project on due date

Any Civil and Consultancy Contracts of the Western Province Road Development Project had not been awarded as at end of the year 2016. Hence, compared with the relevant plans of the project, a considerable delay was observed in the Project's activities.

(e) Environmental Effects on the Project

The reports relating to the approved environmental recommendations for the Road Development Project of the Western Province had not been furnished to audit.

(f) Payment of Mobilization Advances Exceeding the Limits

The following observations are made in this connection.

- (i) The mobilization advances amounting to Rs.2,944.85 million had been paid during the year under review for the contractors engaged in road rehabilitation activities in the Provinces of Southern, Sabaragamuwa and Central. Due to the computing of mobilization advances including provision of funds for the Temporary activities and contingencies, a sum of Rs.508.15 million had been over paid contrary to Section 5.4.4(1) of the Government Procurement Guideline. Actions had not been taken to recover the overpaid advances up to 31 March 2017.
- (ii) After being taken actions to make the procurement of new office equipment, a sum of Rs.4.72 million had been paid to the contractor who had engaged in rural road development activities in the Rathnapura District under the I-Road Project. However, according to the report of the consultant, the reasons for the payment of the advance without obtaining the approval of Line Ministry and basis of computation of advances had not been explained to audit.

(g) Management Weaknesses

The following management weaknesses were observed during the course of audit test checks.

- (i) Even though preparation of an Action Plan indicating physical and financial targets is a responsibility of the management, such a plan had not been prepared for the I-Road project. Therefore, achievement of objectives of the project effective and efficient manner could not be evaluated. Further, due to not furnishing of relevant data to audit, the physical progress of the rehabilitated provincial roads under the each package could not be examined.
- (ii) In order to share the knowledge of Engineers and Technical officers work in the Provincial Road Development Authority and Provincial Councils of the Sabaragamuwa, Central and Western Provinces, it had been decided to assign them to contract activities in terms of Sub-section 20 of the consultancy contract package of the I-Road Project. However, the project had not so done.
- (iii) Even though action had been taken to implement the Projects to widening and rehabilitation activities in non-Road Development Authority's roads, action had not been taken to obtain the approval of the Board of the Road Development Authority for that purpose.
- (iv) The following deficiencies were observed at the audit test checks conducted relating to the construction of Maganeuma Maha Medura.
 - The contract for construction of the Secretariat at the Ministry of Highways had been awarded on 17 August 2010 for Rs.599.3 million. However, due to commencement of the contract without having proper financial and physical plans, the cost of the contract had been increased up to Rs.2,506.64 million.
 - Making amendments to the physical plans, the contracts had been awarded to the same contractor for a higher cost and agreed rates for the stage – III of the contract had been exallated ranging from 13 per cent to 68 per cent. As a result, variation orders amounting to Rs.495.39 million had been issued. An additional charge 35 per cent for over heads on those variation orders had been allowed to charge to the contractor.
 - In terms of section 14.10 of the contract agreement, the completion certificates had not been issued even up to 31 December 2016. However, the final bills for Rs.2,057 million had been furnished.
 - Even though a sum of Rs.21.03 million had been paid to the consulting Company up to 31 December 2015 for the planning activities of the internal

structure of the building, the necessary plans of the internal structure of the building and drawings had not been furnished according to the contract agreement.

- In order to purchase required furniture and fittings to the building for Rs.87.13 million, an agreement had been signed on 17 February 2015. However, due to not furnishing of plans of the internal structure, supplies could not be fulfilled according to the agreement up to 30 April 2016.
 - The variation certificates valued at Rs.26.73 million and Rs.39.63 million had been furnished relating to the supply of furniture and fixing of ceiling in 6th floor of the building respectively. The payment for the above variation orders had been made by the Project Director without obtaining the approval from the Chief Accounting Officer, in terms of Section 8.13.4 of the Government Procurement Guideline.
- (v) The construction works of the Haton-Nuwaraeliya Road Development Project had been completed on 25 November 2016. However, the project completion report had not been handed over to the Ministry up to end of June 2017.
- (vi) At the audit test check carried out relating to the Badulla-Chenkaladi Road Development Project, the following matters were observed.
- The land acquisition for development activities up to 14 June 2017 had been shown slow progress in ranges of 33 per cent to 50 per cent compared with the expected progress whilst overall progress of the project was in low level.
 - Even though a sum of Rs.689,053,711 had been paid as an advance for the changes made to the public utility services and constructions, an agreement had not been signed thereon.
 - In addition to funds received from the OPEC Development Fund and Soudi Development Fund, an advance amounting to Rs.2,538,312 had been obtained from the National Savings Bank as a loan. However, the details relating to the approval for the loan had not been furnished to audit.
- (vii) Eleven consultants and 3 public relation officers had been recruited by the Integrated Road Development Project without following the formal recruitment procedure and without obtaining the approval of the Management Services Department. A sum of Rs.4.50 million had been paid to those officers as the monthly allowance and motor vehicle hire charges during the year under review. However, particulars relating the assigning works, attendance and work done reports of the officers had not been furnished to audit.

- (viii) Thirteen motor vehicles valued at Rs.117.82 million, purchased under the Colombo-Katunayaka Expressway Project should have been handed over to the Road Development Authority after the completion of the Project. However, without being done so, those motor vehicles had been given to the contractor of Outer Circle Highway Project – III by the Project Director, (Kadawatha to Kerawalapitiya) (OCHP-III) without having any basis and without being recovered the charges.
- (ix) Two hundred and fourteen works items that had been included to the Primary Bills of Quantities of Matara-Godagama road construction works valued at Rs.161.33 million representing 29.09 per cent of the value had been cancelled and introduced new work items valued at Rs.116.57 million respecting 20.5 per cent of the total contract value. Further, 326 work items valued at Rs.737.64 million relating to the Aluthgama to the Southern Expressway contract had been cancelled.
- (x) A clear asset report (Ledger) had not been updated relating to the land acquired by the Ministry of Highways during the period from 2010 to 31 December 2016 by making payment in cash or issuing bounds. For example, out of 1,205 land plots acquired under the Outer Circle Highway Project – II by paying compensation, only 614 land plots had been acquired in terms of Section 44 of the Land Acquisition (Amendment) Act, No.28 of 1964. Further, the particulars relating to the lands that had been acquired by the Projects without interfering by the Ministry, had not been furnished to the Ministry. As well, particulars relating to the land acquired through issuing the bonds had not been furnished to audit.

(xi) Extension of Southern Expressway Project

The following observations are made in this connection.

- According to the technical audit conducted by the University of Moratuwa, it was emphasis that in order to project to be feasible, the Economic Internal Rate (EIRR) of the Project should be negative 11.1 per cent. A cost benefit analysis had not been conducted in that connection and the minutes of the meetings held for obtaining of loans had not been furnished to audit. Further, the confirmations relating to obtain the approval from the Central Bank of Sri Lanka for the Project, according to section 3.3 of the Government Procurement Guideline, had not been furnished to audit.
- As this contract is design and built contract, a detailed examination should have been done by evaluating the plans and Bills of Quantities presented by the contractor. However, the information to confirm the carrying out of such a examination had not been furnished to audit. Further, the final estimate had not been approved up to end of the year under review.
- The entire project had been divided into 04 phases and the contract had been awarded to 4 contractors. 4 significant variance was were observed between the contract awarded value and the Engineers estimates. Particularly, the

evaluation report of the Highways sector, the adjusted estimated cost of the phase 01 of the contract amounted to Rs.73,892.19 million and agreed value with the contractor amounted to Rs.103,280 million. Accordingly awarded contract rates had been increased by 40 per cent. As well, it was observed that compared with the applied rates in similar 3 highways, the rates of the phase 1 contracts were ranging from 14 per cent to 95 per cent indicating higher rates.

- According to the BOQs, the concrete mixing piles should be constructed. But, the contractor had decided to utilize spum piles instead of the concrete mixing piles without obtaining Employer's approval. It was observed that according to the abnormal rates shown between approved rates of the consultant and the average market prices, an additional cost of about Rs.1,354 million should have to be paid to the contractor.
- The works of the projects relating to the preparation of initial estimates, planning of roads, feasibility study etc, had to be significantly changed due to the failure of preliminary planning. Accordingly, it was further observed in audit that the duration and the cost of the project might be increased due to the above situation.
- The thermal control monitoring activities that should be applied to concrete works had been eliminated by the consultant without being mentioned the reasons to do so. However, this BOQ item had not been analysed and as a result, a sum of Rs.13,553 million had been paid to the contractor for 3,042,253 linear meters at a rate of Rs.445,500 per meter. The average for cost for this test per meter about Rs.30,000 as per the BOQs. Accordingly a sum of Rs.912 million had been overpaid without having a basis and uneconomical manner.
- When conducting the experiment to confirm the suitability of the Gravel compaction pile system for the construction works, it had been agreed to pay Rs.6,400 per linear meter, in the experiment was successful. However, a sum of Rs.266.61 million had been paid for 41,970.08 linear meters, though the experiment was unsuccessful. The information relating to the basis for the payment had not been furnish to audit.
- According to paragraph 4.2 of volume-2 of the contract agreement, the cost on performance bond should be beard by the contractors by themselves. However, contrary to above condition, a sum of Rs.128.42 million had been paid to the contractor to cover the cost on performance bond of first phase of the contract. As well, a sum of Rs.99.37 million had been included to the BOQs of the phase 3 of the contract as a Lumpsum payment.

- The approval had been given to import a stock of cement, categorized as negative list goods, valued at US\$ 2,448,000 equivalent to Rs.368.71 million for the phase 1 of the contract, under the tax concession basis. As well, the steel bars that included in the negative list had also been imported.
- According to Section 22(a) of the Custom Ordinance, the imported items on tax concession basis should be re-exported after completion of the project. In order to make confirmation for re-exporting, a corporate guarantee, a bank guarantee or Treasury Bills should be obtained by the Secretary to the Ministry at the time of release the goods. The evidence relating to so done had not been furnished to audit and a procedure to identify the such items had not been introduced by the Ministry.
- The contract agreement of phase-4, construction of the road from Matara to Hambantota via Andarawewa, had been signed on 19 November 2013. In order to commence the Project activities immediately, the land acquisition functions had been started on 21 May 2014. As well, according to the Cabinet decision made on 01 November 2013, the land acquisition period had been reduced from 72 weeks to 26 weeks and sums of Rs.30.56 million and Rs.19.01 million had been paid to the officers who engaged in land acquisition activities and 13 consultants recruited for that purpose respectively. However, due to quarried of a land for metals that acquired from the Mahaweli Authority for the phase-4 of the contract, a pit with the length of 40 meters and depth of 30 meters was created. A sum of Rs.386.66 million had been estimated and approved to fill that pit. However, actions had not been taken to identify the responsible persons as this was an additional cost to the Project.

(xii) Consultancy Services for the Southern Extension

 The following observations are made in this connection.

- The agreements for construction works of the project and supervision of plans had been signed between the Road Development Authority and the China Railway First Survey and Design Company on 03 December 2014. However, the consultancy company had been selected without following the requirements of the Government Procurement Guideline.
- At the beginning of the Project, supervision of construction works had been awarded to the Central Engineering Consultancy Bureau (CECB), According the agreement thereon, the activities of the Project had been started in September 2014 and scheduled to be completed by September 2015. Although a sum of Rs.24.84 million had been paid to the CECB for the above purpose, the files relating to the performed activities had not been furnished to audit.

- According to the invoices furnished by the Consultancy Company, a sum of Rs.1,083.97 million had been invoiced for the works done. Out of these invoices, the works valued at Rs.188.94 million had only been approved by the Project Director up to 31 December 2016. It was observed in audit that since it was not signed a loan agreement for financing the payments the Project, the interest on delayed payments might have to be paid.
- According to the general condition of the contract that stipulated in section 4.1, the consultancy service should be provided after recruiting the approved cadre. However, a difference was observed between the required cadre as per the agreement and the actual cadre. It had been agreed to pay sums of Rs.1,662.46 million and Rs.5,832.07 million for local and foreign employees respectively. However, sufficient information to prove the recruitment of high experienced and qualified officers in transport manner had not been furnished to audit. In order to examine the qualifications of the recruited officers for the posts, required certificates and other documents had not been furnished to audit.
- The consultancy company had paid lower salary rates to the officers than the quoted salary rates in the BOQs. For example, even though it had been estimated to pay a sum of US\$ 28,000 for a residential foreign Engineer, the actual payment made for the Engineer amounted to US\$ 12,500 only. It was observed in audit that this situation had adversely affected to reduce the motivation of the officers to the duties and quality of the supervision activities.
- The resident visa should be obtained by the foreign employees to work in a Sri Lankan Project. However, it was observed that the foreigners those who entry to the country on tourist visa had been employed in the project contrary to immigration and emigration law. Therefore, it was observed in audit that frequent departure and arrivals of the employees from to the country, had been badly affected to the activities of the Project.
- It was further observed that the foreigners those who visited to work in another institution had also been employed in this project.
- According to general conditions stipulated in Section 1.4 of the consultancy agreement, the official language of the project is English. However, according to the interviews conducted, it was revealed that without having language skills, higher rank officers had been recruited giving service from translators, without considering the engineering knowledge of the translators.
- It was observed in audit that the project activities could have been carried out through evaluating the plans and BOQs adequately without being delayed by way of allocating employees to identify the project activities and files correctly.

(xiii) Planning of pavements of the Extension of Southern Expressway

Even though the pavements of the entire expressway should have been planned as per the vehicle categorization class, the work had been planned without being complied with the specifications. Thus, it was observed in audit that the additional cost of the Project would ranging from Rs.1 billion to Rs.2 billion. Although experienced officers should have been recruited for the planning of pavements, the qualified officers had not been recruited.

(xiv) Planning of a programme in the highways sector budgetary functions and recruitment of a consultant for supervision

The following observations are made in this regard.

- The recruitment of a consultant had been done by the Secretary, based on 3 bio data received to Senior Project Director, without being followed recruitment procedure of the consultants and called applications for the recruitment. The date indicated in a bio data was a prior date than the date of the letter issued informing the requirement of the consultants and two bio data had been submitted without indicating the dates. Even though the recruitment of consultants should be done through an Interview Board, no evidence had been furnished to audit relating to the appointed of an Interview Board.
- The consultants had been recruited to the phase 3 of the Southern Expressway, on the basis of make the payments through the respective contract bills by including the consultancy fees to the bills. However, the approval of the Management Services Department had not been obtained for that payments.
- According to the Management Services Circular No.01/2016 dated 24 March 2016, a motor vehicle and a Driver can be allocated only for the Project Director. However, an allowance of Rs.15,000 per day and a motor vehicle and a Driver had been given to the above post by the Procurement Committee. But, the basis for payment of 15,000 per day had not been explained to audit. The allowances totalling Rs.3.53 million had been approved up to July 2017 and the PAYE tax on the above payments amounting to Rs.585,500 had been paid by the project without being made deductions from the payments.
- The consultancy post had been created for the purposes of planning of programmes, budgeting and Supervision activities of the Southern Extension Project. That consultant had not participated any project monitoring committees. However, it was observed in audit that the consultant had provided the services for other projects.

3.10 Projects Implemented under the Local Financing

Abandonment of Projects without implementing

The following observations are made.

- (a) Even though the provisions amounting to Rs.25 million had been allocated for the Traffic Management in Grater Colombo Area Project from the Annual Budget Estimate, that project had not been implemented. The provisions had been made in the preceding year too.
- (b) Even though the provisions amounting to Rs.24 million had been allocated through supplementary allocation to carry out feasibility study of the Expressway Elevated Highways Investment Project, the project had not been commenced even up to end of the year 2016.

3.11 Payments made for the non-supplied goods and services

Out of the savings of the Southern Expressway Project, a sum of Rs.1,570 million had been paid as advances to a company which was not connected with the Project, to carry out the rural roads construction works which were not come under scope of the Southern Expressway Project. The advance bond guarantee that had been given on those advances was expired as at 31 December 2016 and out of those advances, a sum of Rs.70 million had not been recovered even up to 30 November 2017.

3.12 Matters in Contentions Nature

The payments had been made on behalf of two Pakistani students under the Sri Lanka presidential scholarship programme to follow the SAIMT Medical Degree programme.

The following observations are made in this regard.

- (a) Two Pakistan students had registered in the Faculty of Agriculture of the University of Peradeniya to follow the degree programmes of Bsc. Animal Science and Agricultural Technology Management, under the Sri Lanka presidential scholarship programme. Subsequently, action had been taken to register those students in non-government degree Providing Institute, the South Asian Institute of Technology and Medicine (Pvt) Ltd (SAITM), by the Ministry of Higher Education in the year 2013. The Monthly scholarship installments had been paid by the Ministry of Higher Education and Highways to the SAIMT Education institute on behalf of those two students up to June 2017. However, the formal approval on this regard had not been furnished to audit.
- (b) According to some instances revealed relating to the last 4 years, some of the students who had registered in Sri Lanka Universities to follow the degree programmes, had been terminated their study and departed from the country without completing their degree programmes. Accordingly, during the last four academic years from 2012/2013

to 2015/2016, 26,16,26 and 04 per cents of students respectively had departed from the country. Accordingly, 04 students had gave up their study during the academic year of 2012/2013 and a sum of Rs.1,735,000 had been incurred by the Ministry on behalf of them. Action had not been taken to recover that expenditure. Also, action had not been taken to return the payments amounting to Rs.330,000 made on behalf of the students to the universities.

3.13 Irregular Transactions

Sums of Rs.1,868 million and Rs.1,795 million had incurred in the year 2016 and up to August 2017 respectively for widening and improvement of non-Road Development Authorities roads. However, to recover those projects expenditure, the provisions had not been approved from the Treasury. The provisions giving to widening and improvement of the roads belonging the Road Development Authority had been utilized for that purpose.

3.14 Performance

According to the Budget Estimate for the year 2016 and Action Plan, the observation relating to the progress of the Ministry as follows.

Activities not performed adequately

The main activities of the Ministry had not been adequately performed and some of the instances observed are shown below.

- (a) According to the decision of the cabinet of Ministers dated 26 October 2005, a sum of Rs.1 per litre of petrol and 50 cents per litre of diesel out of the revenue received by the Government from the sale of petrol and diesel, should have been allocated by the Government to the Road Development Trust Fund. However, that proposal had not been implemented even up to 31 December 2016. The CESS Fund that should have been credited to the Road Development Fund during the year under review amounted to Rs.2,413.86 million. When indicating the activities of the Ministry, the Ministry had not taken action to create “a fund for road development activities”.
- (b) According to the Action Plan of the Ministry for the year 2016, it had been planned to develop 193.9 Killometters of rural roads by utilizing the provisions amounting to Rs.1,000 million, under the Maganeguma Road Development Project. According to the progress report of the Maganeguma Road Development Project, a sum of Rs.364.3 million had been received up to end of the year 2016. But, only a sum of Rs.293.8 million had been utilized, out of the received funds. Whilist, 33.33 Killometers of roads had been developed laying concrete. Accordingly, although 36 per cent of the expected provision was received, the physical progress of that was only 20 per cent.
- (c) Preparation programmes and projects, coordination and direction of those programmes relating to the roads come under the preview of the Provinces and Local Authorities were among the functions and Activities of the Ministry. However, it was revealed that the Ministry had not taken any action in this regard.

3.15 Human Resources Management

Approved Cadre and the Actual Cadre

(a) Highways Sector

The position of the Cadre of the Highway sector as at 31 December 2016 as follows.

| Category of Employees | Approved Cadre | Actual Cadre | Number of Vacancies |
|-------------------------------------|----------------|--------------|---------------------|
| (i) Senior Level | 28 | 22 | 06 |
| (ii) Tertiary Level | 03 | 02 | 01 |
| (iii) Secondary Level | 370 | 269 | 101 |
| (iv) Primary Level | 38 | 28 | 10 |
| (v) Others (Casual/ Contract Basis) | 04 | 01 | 03 |
| Total | 443 | 322 | 121 |

(b) Higher Education Sector

Details relating to the cadre as at 31 December 2016 are as follows.

| Category of Employees | Approved Cadre | Actual Cadre | Number of Vacancies |
|-----------------------|----------------|--------------|---------------------|
| (i) Senior Level | 24 | 20 | 04 |
| (ii) Tertiary Level | 04 | 02 | 02 |
| (iii) Secondary Level | 132 | 84 | 48 |
| (iv) Primary Level | 45 | 25 | 20 |
| Total | 205 | 131 | 74 |

(c) Irregular Receive of Human Resources

Two hundred and sixty and forty eight staff members of the Road Development Authority had been released to the Ministry during the years 2015 and 2016 respectively. An aggregate amount of Rs.40.59 million had been paid by Road

Development Authority as salaries for the those staff members. Without obtaining the approval of the Cabinet of Ministers, the staff of the Road Development Authority had been obtained by the Ministry and action had not been taken by the Ministry to reimburse the salaries paid by the Authority.

(d) Irregular releasment of Human Resources to other parties

The particulars relating to the irregularly released human resources to the other parties during the year under review by the Ministry are as follows.

| Category of Employees | Number | Other parties | Released Period |
|------------------------------|---------------|--|---|
| ----- | ----- | ----- | ----- |
| Development Assistant | 01 | Sri Lanka Higher Technological Institute – Kegalla | From 02 February 2015 to 12 December 2017 |
| Development Officer | 159 | Road Development Authority | From the year 2013 to 12 December 2017 |