

Head 114–Ministry of Transport and Civil Aviation

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statement of the **Ministry of Transport and Civil Aviation** for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance and cash flow statement for the year then ended, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018. The summary report including my comments and observations on the financial statements of the Ministry of Transport and Civil Aviation was issued to the Chief Accounting Officer on 31 May 2019 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 and the Detailed Annual Management Audit Report relating to the Ministry of Transport and Civil Aviation in terms of Section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Chief Accounting Officer on 30 May 2019. This report will be tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Ministry of Transport and Civil Aviation as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

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 opinion.

1.3 Responsibilities of Chief Accounting Officer and Accounting Officer for the Financial Statements

Chief Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 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.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the **Ministry** 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.

As per Sub-section 38 (1) (c) of the National Audit Act, the Chief Accounting Officer shall ensure that effective internal control system for the financial control of the **Ministry** exists, and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 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 judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement 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 Ministry's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- 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.

I communicate with the Chief Accounting Officer regarding, significant audit findings, any significant deficiencies in internal control and other matters that I identify during my audit.

1.5. Report on Other Legal and Regulatory Requirements

I express the following matters in accordance with Section 6 (d) and Section 38 of the National Audit Act, No. 19 of 2018.

- (a) Since there was no need for the preparation of financial statements for the preceding year, it could not be stated that the financial statements presented for the year under review were consistent with the preceding year.
- (b) Since there was no requirement for the **Ministry of Transport and Civil Aviation** to prepare financial statements for the preceding year, recommendations on the financial statements had not been made.

1.6 Comments on Financial Statements

1.6.1 Non-compliances with Laws, Rules, and Regulations

Instances of non-compliances with the provisions of Laws, Rules, and Regulations observed in the audit test checks, are detailed out below.

Reference to Laws, Rules, and Regulations	Observation ----- Non-compliance	Recommendation	Comment of the Chief Accounting Officer
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a) Paragraph 3.4 of State Accounts Circular, No. 267/2018, dated 28 November 2018.	None of the liabilities reported to the Treasury, should not be settled in the year 2019. However, liabilities valued at Rs. 6,455,487 that had not been reported to the Treasury in that manner in the year under review, were settled in the year 2019.	Instructions of the Circulars should be followed.	Due to failure in making provision prior to 31 December 2018, all the liabilities could not be entered into the Cigas.
b) Circular, No. 01/2016 of the Department of Management Services, dated 24 March 2016.			
I. Paragraph 2.1.2 of the Circular.	The value of the Colombo Suburban Project had been increased following approval of the Cabinet, but action had not been taken to revise the evaluation report of the	The project report or the evaluation report should be adhered to.	Cabinet approval has been granted to increase the value of the project.

project accordingly.

II.	Paragraph 3.2.1 of the Circular.	Contrary to provisions of the Circular, an overpayment of Rs. 4,497,673 had been made as salaries to the project staff whilst a sum of Rs. 915,006 had been paid as salaries and allowances without proper approval to the employees recruited as trainees or on casual basis	Circulars should be followed.	There is no necessity to obtain approval of the Department of Management Services in that connection.
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2. Financial Review

2.1 Management of Expenditure

The following observations are made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
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| (a) | Net provision amounting to Rs. 301 million made for 04 capital Objects, had been saved in full. The net provision made for 02 of those 04 Objects in the preceding year had also been saved in full. | Provisions set out in Financial Regulation 50 should be followed in preparing estimates. | Provision was saved in that manner since expenses had not arisen as expected. |
| (b) | Savings in 04 capital Objects totalled Rs. 5.84 million ranging from 56 per cent to 95 per cent. Furthermore, savings in recurrent Objects amounted to Rs. 423.611 million ranging from 25 per cent to 81 per cent. | - Do - | - Do - |

2.2 Incurring Liabilities and Commitments

The following observation in made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
Liabilities totalling Rs. 463.40 million had not been shown in the financial statements of the year under review. The reason therefor was that provision sufficient for setting those liabilities, had not been saved in the annual estimate for the year 2018.	Liabilities should be incurred without exceeding the provision made for expenses.	Only the bills sufficient for the provision received prior to 05 February 2019, have been included in the account as liabilities.

3. Operating Review

3.1 Delays in the Implementation of Projects

The following observation is made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
According to the Action Plan, a sum of Rs. 1,000 million had been allocated to implement the Colombo Suburban Railway Project. However, a sum of Rs. 700 million had been transferred therefrom to a project for constructing houses. This project commenced in January 2018 , should be completed in the year 2022 though, only 30 per cent of detailed planning had been completed by the end of the year under review.	A specific work should be planned, and once provision is approved therefor, such provision should be utilized by completing that work within the specified timeframe thereby providing the general public with the expected benefits.	Detailed planning had been completed up to 30 per cent by the end of the year 2018.

3.2 Foreign Funded Projects

The following observations are made.

Audit Observation -----	Recommendation -----	Comment of the Chief Accounting Officer -----
a) The Matara - Kataragama railway project with an estimated cost of Rs. 36,166 million had been commenced on 01 August 2013, and scheduled to be completed by 31 July 2016. Due to failure of the contractor to properly implement the project, the date of completion had been extended up to 31 December 2018, and by that date, a sum of Rs. 33,730 or 93 per cent of the contract value had been paid. The following observations are made in that connection.	Documentary verification should be provided.	In case of any changes in scope, the amount allocated would not be revised. Action will be taken to obtain a certificate from the Consultancy Firm regarding the total length of construction before taking over the project.
(i.) According to the contract agreement, a sum of Rs. 4,306.98 million had been allocated for the construction of railway line in the length of 32 Km. However, by the end of the project, the Consultancy Firm did not possess evidence on the total length of construction. The Audit did not have documentary verification to the effect that, in the case of varying length of the railway lines in constructions, the cost estimates should have been		

revised accordingly, and approval should have been given thereon.

- (ii.) According to Condition 7.4 of the contract, the contractor should verify the quality of railway tracks and sleepers, and the Engineer should provide a quality assurance certificate in that connection. However, no quality assurance certificates had been furnished on the railway tracks and sleepers purchased on 31 March 2018 at a cost of Rs. 725.22 million. Furthermore, the Project Division had failed to test the tracks locally and provide a report.
- Quality of sleepers and railway tracks should be verified through the quality assurance tests.
- In order to inspect the quality of railway tracks and sleepers, the engineers of the project and the Consultancy Firm take part in the production process for testing. Action will be taken in the future to furnish the copies of the reports of tests conducted in that connection.
- (iii.) The quantity of railway tracks and sleepers to be purchased for the construction of 32 Km railway line should have been decided. The Consultancy Firm of the Ministry had failed to furnish a report containing information such as, the number of railway tracks to be purchased, stocks used, and the remaining stock. It was thus observed that no stock control had taken place over the railway tracks purchased.
- The intended service should be properly obtained when a Consultancy Firm is available.
- The Consultancy Firm of the project has been informed to prepare and furnish reports in regard to the number of railway tracks purchased, amount used, and the remaining stock
- (iv.) For improvement activities in marshy areas by removing soft soil, DCM Piling had been
- Action should be taken in accordance with the conditions of the
- It is a methodology approved for soft ground treatment. As for engineering fundamentals, that

recommended through the SOP, (Schedule of Payment). However, this method had become unsuccessful, the technique, Rock Piling had been used. Payment, totalling Rs. 3,068.78 million, comprising an expenditure of Rs. 2,732.17 million and a sum of Rs. 336.61 million on additional works, had been recommended. However, a sum of Rs. 3,898.02 million had been paid in that connection through the Bill, No. 51, thus observing an overpayment of Rs. 829.24 million. Action had not been taken to obtain the benefit eligible for the client when using an alternative methodology in terms of General Condition, No. 13.2 of the contract agreement.

contract. Prior approval of the Consultancy Firm should be obtained on deviations.

methodology is not substandard. As such, payments had been made opportunely by taking into account the physical progress of the contract as well.

(v.) For securing the slopes, a sum of Rs. 74.49 million had been paid through the Bill, No. 51 under B.5A Item of Work for the implementation of Hydro Seeding Geomat. However, the said technique had not been used; instead, turves had been laid. When laying turves according to the "method statement of turfing", refuse of coir and buffalo grass should have been used, but it was observed in audit that the said method was inconsistent with

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Considering the nature of soil and slopes of that area, the turfing method had been approved and implemented for that project. Under no circumstance should this be considered inferior , and cost comparison is unnecessary.

the bill and the schedule of payment. It was allowed to use a low cost methodology instead of the proposed one, but action was not taken to obtain the price benefit for the Government.

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| (vi.) | According to Condition 1.3 of the Loan Agreement, the loan should be obtained within 04 years from the date of signing the Agreement. As the Agreement had been signed in April, 2013, the loan should have been obtained in full by April, 2017. However, due to delays in constructions, a loss of foreign exchange amounting to Rs. 5.35 million had been incurred on the payments made during May 2017 - 31 December 2018 | A consensus should be achieved before entering into agreement in regard to the ways in the recovery of loss of foreign exchange due to delays in constructions. | As the project period had been extended, penalties for delay can not be charged in terms of the Contract Agreement. |
| (vii.) | Lands should be acquired after identifying the requirements for the construction of railway lines. However, instances were observed in the physical inspection in which lands had been acquired for constructions without identifying the requirements in such a manner. As such, lands at the locations of DK 10 + 400, 9+800, and 17+750, had been taken over unnecessarily. | Lands should be acquired only after a proper physical inspection. | When the Lands had been acquired, requirements had been identified by establishing land committees before purchasing without being unfavorable to the owners. |

b) The following matters were observed during the physical inspection carried out on the construction of railway line from Matara to Beliatta.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
<p>i. Seven bridges had been constructed on pillars along the railway line from Matara to Beliatta. It was observed in the physical inspection that the soil removed during the construction of those bridges, had been dumped close to the bridges without being disposed of at a suitable place. As the soil so removed, had remained under the bridges, draining of water could be hindered during rainy days, thus observing the likelihood of a disaster.</p>	<p>Environmental impact should be taken into consideration.</p>	<p>Having identified the suitable locations, the soil removed during the construction of pillars is being disposed of at present, and the project will not be completed and taken over until all such works are completed. The public complaints received are fully heeded whilst action will be taken on certain complaints after completion of the project. However, all the complaints received will be heeded, and action will be taken to provide solutions with the contractor.</p>
<p>Furthermore, 712 public complaints had</p>		

been received by the project office through the Consultancy Firm, but no action whatsoever had been taken on 181 complaints therefrom even up to 31 October 2018. However, despite the failure to remove the soil as mentioned above and provide solutions for the public complaints, the amount allocated thereon amounting to Rs. 40.066 million had been paid in full.

- ii. The canal on either sides of the siphon culvert built at the location of 9+423 spending a sum of Rs. 13.46 million, had not been developed allowing the
- The canal should be developed.
- The contractor has been instructed to develop the canal allowing the water to flow. Those works will be completed accordingly.

water to flow. Thus, it was observed that the expenditure incurred thereon had become futile. A sum of Rs. 11.47 million had been paid in that connection by 15 January 2019.

- iii. According to Condition 05 of the Agreement, it had been agreed that this project should be implemented in a manner that a maximum value be added to the local economy. However, it was observed that a large quantity of raw materials used in the project, had been imported. Materials such as, tiles, aluminum accessories, ceiling
- Action should be taken as always as possible to provide maximum benefits to the local economy.
- When obtaining raw materials required for the project, no restrictions had been imposed as to what material should be purchased locally. Hence, the contractor can not be blamed.

accessories that would have been purchased locally, had also been imported.

3.3 Management Inefficiencies

The following observation is made.

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
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The total of the loan balances that remained due from 11 officers who had not been in service of the Ministry, amounted to Rs. 1.25 million as at 31 December 2018. Of those loan balances, a balance of Rs. 826,722 continued to exist over 05 years and that amount represented 66 per cent. The value of outstanding balances older than 03 years, amounted to Rs. 285,738 indicating 23 per cent. The Ministry failed to recover those outstanding loan balances.	According to the provisions set out in Paragraph 01 of the National Budget Circular, No. 118, dated 11 October 2004, the loan balances should be settled within a period of 03 months after the transfer of the officer. Those provisions should be adhered to, and action should be taken on the retired officers in terms of Paragraph 4 of Chapter XXIV of the Establishments Code	Action is taken to recover.

4. Sustainable Development Goals

The following observation is made.

Audit Observation -----	Recommendation -----	Comment of the Chief Accounting Officer ----- -----
Existence of an accurate database is essential to measure the performance of a task. However, it was observed that the Institute had not taken action to establish a database to measure the Institute's achievement of sustainable development targets.	Action should be taken to establish an accurate database.	Not replied.

5. Human Resource Management

The following observation is made.

Audit Observation -----	Recommendation -----	Comment of the Chief Accounting Officer ----- -----
(a) The number of employees approved as at 31 December 2018 was 248 whereas the actual cadre was 186, thus observing 62 vacancies as at that date. Of that, 05 vacancies existed in the senior level posts. It was observed that the increase in the shortage of senior level posts pivotal in the	Action should be taken to fill vacancies in the essential posts.	Action is taken to minimize the vacancies.

achievement of vision and mission of the Institute, in the year under review as compared with the preceding years, would cause an impact on the performance of the Ministry.

- (b) The Ministry had released 03 Development Officers on temporary basis to the Department of Motor Traffic to be employed in the post of Development Assistant throughout the period from 15 February 2017 to 31 December 2018. A cost of Rs. 1,625,236 had been incurred by the Ministry on them as salaries and allowances.
- Action should be taken to reimburse salaries and allowances.
- As the post of Development Assistant is not in the approved cadre of the Department of Motor Traffic, the said officers can not be attached permanently to that Department.
- (c) The Ministry had obtained the services of 39 officers comprising 31 employees from the Department of Railway, and 08 employees from the Sri Lanka Transport Board. As the Ministry had obtained services of the employees from those institutions despite the existence of vacancies in that institutions functioning under purview of the Ministry, it was observed that the smooth functioning of such institutions would be obstructed.
- Recruitments should promptly be made to the vacant posts and the relevant employees should be released to the respective institutions.
- Once recruitments are made to the vacant posts, action should be taken to release them.