

## **Head 114 - Ministry of Transport**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Ministry of Transport for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 containing my comments and observations on the financial statements of the Ministry of Transport was issued to the Chief Accounting Officer on 29 May 2020 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report of the Ministry was issued to the Chief Accounting Officer on 16 July 2020 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements prepared in accordance with the provisions of State Accounts Circular No. 271/2019 dated 03 December 2019 give a true and fair view of the Ministry of Transport as at 31 December 2019 and its financial performance and cash flow for the year then ended, in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

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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 on Financial Statements**

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Preparation of financial statements in a manner that reflects a true and reasonable position and determines the internal control required to enable financial statements to be prepared without inadequate false statements that may result from fraud and error in accordance with Generally Accepted Accounting Principles and the provisions of Section 38 of the National Audit Act, No. 19 of 2018 is the responsibility of the Chief Accounting Officer.

As per 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.

The Chief Accounting Officer shall ensure that an effective internal control system is maintained for the financial control of the Ministry in terms of Sub-section 38 (1) (c) of the National Audit Act and it should be periodically reviewed the effectiveness of the system and make any necessary changes to keep the system running efficiently.

#### **1.4 Auditor's Responsibility on Audit of Financial Statements**

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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 skepticism throughout the audit. I also furthermore;

- Appropriate audit procedures were designed and implemented to identify and assess the risk of possibility of quantitative misrepresentations occurred in financial statements due to fraud or errors in providing a basis for the expressed audit opinion. More than the impact of quantitative misrepresentations due to misrepresentation, the effect of fraud is strong because of malpractice, forgery, intentional evasion, misrepresentation, or evasion of internal controls can lead to fraud.
- Although it is not intended to express an opinion on the effectiveness of internal control of the Ministry, obtained an understanding of internal control in order to plan appropriate audit procedures occasionally.
- Evaluated the appropriateness of the accounting policies followed, fairness of accounting estimates and related disclosures made by Management.
- Evaluated whether the transactions and events underlying the structure and content of the financial statements are appropriately and fairly consisted in and presentation of financial statements including disclosures as a whole.

The Chief Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

#### **1.5 Report on Other Legal Requirements**

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I declare the following matters in terms of Section 6 (1) (d) and Section 38 of the National Audit Act No. 19 of 2018.

- (a) The financial statements are in consistent with those of the preceding year,
- (b) The recommendations made by me regarding the financial statements of the preceding year had been implemented.

**1.6 Comments on Financial Statements**

**1.6.1 Statement of Financial Position**

Following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
<p>(a) The following differences were observed according to the non-financial assets movement report and Treasury computer printing.</p> <p>(i) There was a difference of Rs.2,929,603,168 in the opening balance of work-in-progress and building construction and Rs.2,487,609,734 in the purchases.</p> <p>(ii) There was a difference between the opening balance of the lands amount of Rs.355,261,405 and their purchases of Rs.679,014,041.</p>	<p>When a difference is found in the department books and treasury books, the reasons for the variance should be examined and corrected.</p> <p style="text-align: center;">-Do-</p>	<p>This is the value of the direct expenses incurred under the expenditure Object 2104.</p> <p style="text-align: center;">-Do-</p>

## 1.6.2 Non-compliances with Laws, Rules and Regulations.

Instances of non-compliance with the provisions in the Rules, Regulations and Regulations observed during the audit test checks carried out are analyzed below

Reference to Laws, Rules, and Regulations	Audit Observation	Recommendation	Comments of the Chief Accounting Officer
<b><u>Financial Regulations of the Democratic Socialist Republic of Sri Lanka</u></b>			
(a) Financial Regulations No. 104 (3) and (4)	Damages and losses had not been determined in 02 accidents related to the year 2018 and 12 accidents related to the year 2019.	Steps should be taken to begin investigations as soon as damage and loss are reported.	Action will be taken in accordance with Financial Regulations 104 regarding car accidents in the future.
(b) Financial Regulations and 127	Although the responsibility of securing assets is the responsibility of the Chief Accounting Officer, an accidented vehicle amounted to Rs.3,500,000 has been parked unrepaired for a long time.	Necessary steps should be taken to provide security of assets.	Negotiations were underway with the insurance company to make repairs with the insurance cover.

**2. Financial Review**

**2.1 Expenditure Management**

Following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
(a) Although Rs.1,600,000 had been transferred through supplementary estimates for 04 recurrent expenditure objects, the entire provision was saved.	steps should be taken to ensure that the funds obtained are used for the specific purpose.	The expenditure was managed from the provisions obtained by Financial Regulation 66.
(b) Due to inaccurate forecasting of expenditure in the preparation of estimates, the net allocation for recurrent expenditure and capital expenditure had been saved at ranged from 72 per cent to 100 per cent.	The provisions obtained should be utilized with maximum efficiency and the remaining provisions should be utilized for effective work.	-Do-

**2.2 Entered into Commitments and Liabilities**

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
Liabilities amounting to Rs.10,156,579 for the year under review were not mentioned in the financial statements for the year under review.	Liabilities should not exceed the provision made for expenses.	This is due to the limitations of the CIGAS program.

### 3. Operating Review

#### 3.1 Delays in project execution

Delays in the implementation of the following projects carried out by the Ministry were observed.

##### (a) Construction of Habarana Railway Line via Kurunegala, Dambulla

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
<p>(i) Although the target for land acquisition by the end of 2019 for this project is 17.1 percent, According to progress reports, its progress was 10.4 percent. Accordingly, it was observed in audit, that the performance of this project was poor.</p>	<p>Action should be taken to accelerate the progress of the project.</p>	<p>Due to the change in the names of the Ministries and the Ministers, the files had to be redesigned and gazetted.</p>
<p>(ii) A private house had been rented for this project on the promise of paying Rs. 55,000 per month from July 2019 and another office for the project was also maintained in the old ministry building.</p>	<p>Considering the alternatives, action should be taken to minimize costs.</p>	<p>The rented house is used for discussions and engineering staff.</p>

##### (b) Matara-Kataragama New Railway Line Construction Project.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
<p>(i) It was observed that the Divisional Secretariats of Matara, Devinuwara, Dickwella, Beliatta and Tangalle should have taken over the lands on the assessment of the Government Assessor but they have not complied accordingly. It was reported that the relevant parties have been informed that if they do not agree to hand over the relevant lands to the project, the lands will be taken over without compensation. Accordingly, it was observed during the checking of</p>	<p>This should be investigated and formal action should be taken against those who have taken over the lands by providing inaccurate information.</p>	<p>Land officers and investigators of the Railway Department will be deployed to conduct an immediate investigation.</p>

relevant papers that the lands of the land owners were first taken over by the intermediaries at a lower value and then transferred to the General Manager of Railways as donations at a higher value.

- (ii)** In addition to the lands formally acquired by the Sri Lanka Railway Department under this project, a total of 4 acres 31.37 perches of land amounting to Rs.57,580,854 under 62 deed transferes had been acquired from intermediate buyers and used for project activities and they remained idle without being used for project work.
- The work that led to the land acquisition should be expedited by the contractor.
- Information about this is not available in the project office.
- (iii)** It was observed that three persons were illegally occupying several plots of land acquired for the project near the Beliatta railway station. As a result, the construction of 05 Buffer Lines according to the original plans for the construction of the railway line had to be reduced to 04 Buffer Lines, and the Railway Department had not taken action to recover the illegally occupied lands.
- Those lands should be taken back from the unauthorized occupants and the railway line should be developed and the relevant construction should be done.
- The Divisional Secretary has been informed to take action regarding the acquisition of unauthorized lands.
- (iv)** Under the terms of the loan agreement 1.3, the loan amount was to be obtained within 04 years from the date of signing the loan agreement. The loan agreement was signed in April 2013 and the total loan amount was due by the end of April 2017. However, due to construction delays, a foreign exchange loss of Rs. 2,207.6 million was incurred during the period from May 2017 to 31 December 2018.
- Relevant agreements should be reached before entering into an agreement so as to cover the exchange losses due to construction delays.
- The project duration has been changed from 2017 as the original plan did not include signals and electrical systems.

(c) **Colombo Suburban Railway Project**

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
<p>-----</p> <p>(i) A difference of Rs.38,189,184 was observed between the figures included in the financial statements and the figures submitted by the Project Office regarding the consultancy allowances paid by the Asian Development Bank Fund for the feasibility study and detailed design of the project.</p>	<p>-----</p> <p>The figures in the financial statements should be correct and if there are any differences, the reasons should be explained.</p>	<p>-----</p> <p>Inclusion of Mobilization advance recoveries.</p>
<p>(ii) According to Table 01 of Part I of the Circular dated 24 March 2016 (as amended on 18 March 2019) of the Department of Management Services, the project staff should have been paid salaries as applicable to projects with an initial investment of less than US \$ 15 million. However, based on the Cabinet decision dated 18 May 2018, a project of US \$ 135 million is expected to be implemented in the future, subject to the limitations set out in Table 01 of the Management Services Circular, i.e. US \$ 100 million was considered as the loan investment and the project staff was paid. Accordingly, it was observed that the overpaid salaries for 38 staff members during the year under review were Rs. 12.89 million. Further, no action had been taken regarding the salary overpayment of Rs. 449 million in the previous year.</p>	<p>Should take action to pay salaries in accordance with the circulars.</p>	<p>Although it was informed that this matter had been inquired into through the final account of 2018 and a lengthy discussion had been held with it and discussions would be held with the top officials of the audit, we have considered that our answers were accepted at the audit as it was not done so. Payments were made at the relevant salary level as per Management Services Circular.</p>



<p>(iii) According to Annexure D of the Consultancy Services Agreement, reports were to be submitted within the time frame specified by the consulting firm and payments were to be made accordingly. However, it was observed that the amount of Rs.390,220,493 paid to the consulting firm during the year under review had been made on a monthly basis. It was further observed that this was a violation of the terms of the payment contract agreement.</p>	<p>Payment should be made in accordance with the terms of the contract agreement.</p>	<p>The agreement is on a time basis. Payment will be made on condition 45.1. However, the percentage of consultancy service fees paid during the year has not been exceeded.</p>
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### 3.2 Assets Management

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Audit Observation	Recommendation	Comments of the Accounting Officer
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<p>Although it was recommended to dispose of 05 vehicles belonging to the Ministry, the Ministry had not taken steps to dispose of those vehicles. I would like to draw your attention to paragraph 12 of the Circular No. 02/2015 issued by the Secretary to the Ministry of Finance on 10 July 2015 on the disposal of dilapidated vehicles in government institutions.</p>	<p>In accordance with the circular, action must be taken.</p>	<p>04 vehicles have been given to the Transport Board on the basis of paying the assessment amount and action will be taken to dispose of the other vehicle.</p>

### 3.3 Damages and Losses

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Following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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<p>(a) Out of the 19 vehicle accidents that occurred during the year under review, the value of 07 accidents was estimated, but no action had been taken to conduct a preliminary investigation and issue reports in accordance with Financial Regulation 104.</p>	<p>Action should be taken in accordance with Financial Regulation 104.</p>	<p>In 12 accidents, investigations could not be completed due to deficiencies.</p>

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| (b) | The Land Crusher jeep bearing WP-KA 1279 was involved in an accident on 28 February 2019 on the Sarigama road in Kurunegala. Preliminary investigation had not been conducted by the end of the year under review and the final report had not been issued. | Action should be taken in accordance with Financial Regulation . | Although preliminary investigation have been carried out, the investigation could not be completed as the relevant vehicle has not been repaired. |
| (c) | The Sri Lanka Insurance Corporation had rejected the claim for the vehicle mentioned above (b) stating that the driver of the vehicle at the time of the accident had admitted that he had consumed alcohol.  | The loss incurred should be recovered from the relevant parties. | Compensation for the accident has been refused.   |

### 3.4 Management Inefficiencies

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Following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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(a) During the inspection of the Ministry Transport Corps as at 31 December 2019, it was observed that the Mitsubishi Jeep No. KE 8966 has been attached to an Additional Secretary to the Ministry of Water Supply and Drainage since 2012. Also, for the railway project from Kurunegala to Habarana under the Ministry, three vehicles were rented in the years 2018 and 2019 and paid for.	Action should be taken to utilize the resources of the Ministry for the needs of the Ministry before releasing them to external institutions.	Action is being taking to get back to the ministry.
(b) According to the report of the Board of Survey for the year under review, there were shortages of 1,039 items in 23 sub units under the Ministry.	The causes of the shortages should be investigated and necessary steps should be taken	Information is obtained from each section and barcode numbers are reissued.

#### 4. Sustainable Development Goals

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
Although it was essential to have an accurate database to measure the correct performance of a task, it was observed that the organization had not taken steps to create an accurate database to measure the achievement of the Sustainable Development Goals.	Action must be taken to create an accurate database.	Action will be taken to establish an accurate database in the future.

#### 5. Human Resource Management

Following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
<b>(a)</b> Although, there were vacancies in 07 senior level posts, no action had been taken to fill those vacancies or to abolish those posts if they were not needed.	Action must be taken to fill vacancies, or to eliminate them if they are deemed unnecessary.	Relevant requests have been made to fill the vacancies.
<b>(b)</b> While there were 34 vacancies at the secondary level and 16 vacancies at the primary level, no action had been taken to inform the Department of Management Services of those vacancies to take necessary steps.	-Do-	Requests have been made to fill vacancies from the Director of Combined Services.
<b>(c)</b> 35 officers of the Sri Lanka Transport Board and the Sri Lanka Railway Department under this Ministry were attached to the Ministry and employed.	-Do-	Vacancies attached on demand will be released upon completion.