

## **Head 306 - Department of Sri Lanka Railways**

---

### **1. Financial Statements**

---

#### **1.1 Qualified Opinion**

---

The audit of the financial statement of the Department of Sri Lanka Railways for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020, 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. In terms of Sub-section 11(1) of the National Audit Act, No. 19 of 2018, the summary report including my comments and observations on the financial statements of the Department of Sri Lanka Railways was issued to the Accounting Officer on 17 June 2021, In terms of Section 11(2) of the National Audit Act, the Annual Detailed Management Audit Report relating to the Department was issued on 04 August 2021 to the Accounting Officer. This report which should be read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka is submitted to Parliament in terms of Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Department of Sri Lanka Railways as at 31 December 2020, and of its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

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

---

My opinion is qualified based on the matters described in Paragraph 1.6 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 opinion.

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

---

The 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 Department 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 Accounting Officer shall ensure that effective internal control system for the financial control exists in Department 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 observation 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:

- 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 Department'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 Accounting Officer regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 1.5 Report on Other Legal Requirements

-----

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

- (a) The financial statements are in consistent with the previous year
- (b) The recommendations in my report on the financial statements for the preceding year regarding the observations in Paragraph 1.6.1 of this report had not been implements.

## 1.6 Comments on Financial Statements

-----

### 1.6.1 Non-compliance with Generally Accepted Accounting Principles

-----

#### Audit Observation

-----

#### Comment of the Accounting Officer

-----

#### Recommendation

-----

Although the closing stock should be computed and shown in the accounts based on the physical stock as at the end of the year, stock value had been computed as Rs. 7,658,718,321 based on the book balance.

This is due to the difficulties in reaching correct sources due to the shortage of staff.

The value of the closing stock of the year should be computed based on the physical balance.

### 1.6.2 Cash Flow Statement

-----

**The audit observations made in this connection are as follows.**

#### Audit Observation

-----

#### Comment of the Accounting Officer

-----

#### Recommendation

-----

Differences of Rs. 46,654 and Rs. 393,996,074 were observed between the balances of stores advance receipts and payments shown in the cash flow statement and the receipts and payments in cash as per the monthly accounts summary.

Not replied.

If the figures in the account do not tally with the monthly account summary, the reason behind that should be ascertained and reported.

### 1.6.3 Property, Plant and Equipment

The following deficiencies were observed in accounting for the Property, Plant and Equipment.

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
(a) Although the value of the lands owned by the Department of Sri Lanka Railways had not been shown in the statement of non-financial assets, a sum of Rs. 409,739,091,732 had been stated as debits and Rs. 77,072,687,967 as credits for lands under Code No. 9153 in the monthly accounts summary.	This is due to the fact that the CIGAS asset accounting programme could be implemented only in the Head Office and 03 Sub Departments during the year 2020.	Assets should be brought to account correctly.
(b) Although assets worth Rs. 30,563,559,457 had been purchased in the year 2020 as per the financial statements, no purchases whatsoever had been shown in the Treasury computer printouts (SA 82).	This is due to the failure of the Department to maintain the list of assets through the CIGAS Programme in the year 2020.	Purchases of assets should be reported to the Treasury.
(c) Considerable differences were observed between the amounts shown in the financial statements and the amounts shown in the Treasury printouts in relating to the non-financial assets. Accordingly, differences of Rs. 417,717,025,337 Rs. 234,911,103,947 and Rs. 152,213,895,645 were observed between opening balances, closing balances and the disposal value respectively.	-Do-	Action should be taken to ascertain the reasons for the relevant differences and make corrections.
(d) The lands owned by the Department of Sri Lanka Railways had not been identified and not included their value in the statement of non-financial assets by substantiating the ownership of those properties.	Not replied.	Action should be taken to account for all the assets.

#### 1.6.4 Stores Advance Account

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) Although opening balance and closing balance of the Stores Advance Account should be equal according to the departmental books and Treasury printouts, by deducting Rs. 403,366,221, balances had been tallied with the balances of the Treasury books. Adequate information was not furnished to audit on the fact that for which items these overestimations had occurred and it was observed in the audit that the above balance was an uncertain balance applied to balance the account.	It is emphasized that settling these balances is found extremely difficult as they are being old balances continued to exist over a long period of time.	Action should be taken to settle the balances that have been shown as overestimations in the account.
(b) The interest of Rs. 12,584,035 charged by the bank for the delay in submitting documents in making payments for the imported goods had been added to the stock value. Further, late fees totaled Rs. 5,933,683 including Rs. 3,520,605 paid to the Shipping Corporation, Rs. 1,412,528 to the Ports Authority and Rs. 1,000,550 to a private institute relating to foreign purchases had also been added to the stock value. As a result, the value of annual stock receipts had been overstated by Rs. 18,517,718.	As the interest of Rs. 12,584,035 charged by the bank for the delay in submitting documents in making payments for the imported goods is an expenditure incurred on the import of goods, it has been adjusted to the stock.	Action should be taken to include only the expenditure includable to the stock value.
(c) No action had so far been taken to adjust to the stock the expenditure of Rs. 94,559,163 incurred as Customs duty in the import of goods from the year 1993.	Action will be taken to include these balances in the stock by obtaining the Goods Received Notes expeditiously in the future.	Action should be taken to adjust the direct expenses such as Customs duty to the stock.

### 1.6.5 Advances to Public Officers “B” Account

-----

The audit observations made in this regards are as follows.

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
-----	-----	-----
(a) A difference of Rs. 4,177,805 was observed between the departmental books and Treasury printouts relating to the Advances to Public Officers Control Account at the beginning of the year 2020 and it had been in existence since the year 2004.	The officers were instructed to settle the difference in consultation with the General Treasury.	Action should be taken to find out the reasons for the difference and to settle it.
(b) There observed a difference of Rs. 1,110,101 between the balance of the Advances to Public Officers Control Account and the total in the individual balances classification summary.	This was due to not receiving adequate information from the Director-General of Pensions and the Divisional Secretariats to write off the balances.	-Do-
(c) When comparing the receipts and payments of the Advances to Public Officers “B” Account with the cash flow statement, differences of Rs. 118,301,258 and Rs. 192,649 were observed relating to the loan payments and loan recovery respectively as per the monthly accounts summary of the year under review.	The relevant divisions have been instructed to prepare the cash flow statement taking that matter as well into accounts.	-Do-

### 1.6.6 Non-maintenance of Registers and Books

---

It was observed during the course of audit test checks that the Department of Sri Lanka Railways had not maintained following certain documents while some other registers had not been maintained in an updated manner.

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
-----	-----	-----
<b>(a)</b> A Personal Emoluments Register had not been maintained in accordance with Financial Regulation 453.	The number of officers to be employed in the office service is minimal and the vacancies of those posts remain high. As a result, there is a difficulty in preparing and updating a Personal Emolument Register for all the divisions amidst the salary preparation process of the staff of nearly 1400 in this Department.	A Personal Emoluments Register should be maintained in accordance with Financial Regulation 453.
<b>(b)</b> The Inventory Book had not been updated in terms of Financial Regulation 454 (1)	Instructions have been given to maintain Inventory Book at each division level for the sub-departments.	The Inventory Book should be maintained in an updated manner in terms of provisions in the Financial Regulation 454 (1)
<b>(c)</b> Record of Liabilities relating to 09 sub-departments had not been maintained as required by Financial Regulation 214.	Instructions have been given to maintain the Record of Liabilities for the sub-departments.	In terms of Financial Regulation 2014, the liabilities should be recorded in a Records of Liabilities so that liabilities can be regularly examined.

<p><b>(d)</b> The loan registers (CC 10) had not been balanced quarterly in terms of Paragraph 05 of the State Accounts Circular No. 256/2017 of 05 July 2017.</p>	<p>Instructions have been given to quarterly balance and update the register.</p>	<p>In terms of Paragraph 05 of the State Accounts Circular No. 256/2017 of 05 July 2017, loan and advance registers should be maintained in an updated manner based on Form CC 10 and Form A.</p>
--	---	---

**1.6.7 Assurance to be given by the Accounting Officer**  
 -----

**Audit Observation**  
 -----

**Comment of the Accounting Officer**  
 -----

**Recommendation**  
 -----

In terms of provisions in Section 38 of the National Audit Act No.19 of 2018, the Accounting Officer should ensure that an effective internal control system for the financial control is prepared and maintained in the Department 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. The review to be carried out by the Accounting Officer shall be in writing and copies of the same should be made available to the Auditor General. Nevertheless, the statement indicating that such a review had been carried out was not made available to audit.

Not replied

An internal control system should be introduced and periodic reviews thereon should be carried out.

## 2. Financial Review

### 2.1 Revenue Management

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) According to the financial statements presented to Audit, the arrears of railway warrants income for the year under review amounted to Rs. 848,334,880 and a balance of Rs. 769,194 that continued to exist for more than a period of 23 years under the Railway Warrant 01 remained irrecoverable. Fifty-five per cent of Rs. 847,565,686 due under the arrears of Railway Warrant 02 was the outstanding balances over 05 years.	There is no detailed schedule relating to the outstanding income of Warrant 01 and out of the outstanding amount of Rs. 847,565,686 as at 31.12.2020 of the Warrant 02 Account, a sum of Rs. 119,333,490 has been recovered by March 2021.	Measures should be taken to expeditiously recover the old outstanding balances.
(b) A sum of Rs. 118,934,728 remained outstanding from 31 institutions in respect of freight transportation by trains and arrears of Rs. 20,307,403 due from 16 institutes was the balances older than 20 years.	These institutions have not been in operation for freight transportation under the trade bills system for a number of years. Further, the letters posted to those institutions informing to settle the outstanding to the Department of Sri Lanka Railways have been returned stating the fact of non-existence of such institutions. Accordingly, the relevant arrears cannot be recovered.	Expeditious action should be taken to recover the revenue in outstanding.

- |     |   |   |  |
|-----|---|---|--|
| (c) | The total arrears due from railway stations by the end of the year under review amounted to Rs. 16,792,829 including arrears of passenger revenue of Rs. 10,879,857 parcels and freight transport revenue of Rs. 4,992,485 and arrears of miscellaneous revenue of Rs. 920,487. When taking in to consideration the period of outstanding, no action had been taken to settle the passenger revenue as well as to prevent the occurrence of arrears in parcels. | As the repayment value of sold tickets had not been brought to account and adjusted, this arrear in revenue has occurred. | Action should be taken to find out the reasons for not settling the revenue in arrears and to recover the arrears expeditiously. |
| (d) | The arrears of other revenue for the year under review was Rs. 556,205,725 and no proper control system had been put in place to minimize that revenue in arrears. The revenue in outstanding relating to warehouse income, stationed canteen, advertisements, promotion, and small trade shops amounted to Rs. 506,507,273 and it represented 90 per cent of the other outstanding revenue.  | Not replied.  | A proper control system should be put in place to minimize the arrears of revenue.   |

## 2.2 Incurring Commitments and Liabilities

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
(a) The liabilities of Rs. 75,936,998 stated in the Consolidated Liability Record, SA 92 by the Treasury had not been shown in the Record of Liabilities submitted together with the financial statements.	It is stated that action will be taken to correct this error in the presentation of financial statements for the ensuing year.	The liabilities stated in the Consolidated Liability Record of the Treasury should be stated in the Record of Liabilities of the financial statements.

- |     |   |  |  |
|-----|---|--|--|
| (b) | A balance of telephone bills of Rs. 589,250 settled in the year 2020 had been stated as liabilities.  | This error has occurred by mistake and action will be taken to correct it in the ensuing year.   | These shortcomings can be minimized by maintaining a separate register relating to the payment of telephone bills. |
| (c) | Although commitments shall not be incurred (for non-supplies and services) exceeding the limit of provisions as per the Financial Regulation 94 (1), it was revealed at the audit test check conducted during the year under review that commitments of Rs. 1,733,663,663 had been incurred in excess of the limit of provisions for 12 Objects in 12 instances.  | As this is an essential department closely dealing with the people, essential goods have to be purchased on certain occasions to ensure the maintenance of smooth public services. In these instances, steps have to be taken without delay as emergencies arise in incurring liabilities and commitments. Therefore, it is unavoidable to occurrence these incidents. | Action should be taken in accordance with Financial Regulation 94 (1)  |
| (d) | According to Paragraph 3.4 of the Public Finance Circular No.2/2020 dated 09 October 2020, the statement of commitments and liabilities under Note (iii) should be tallied with the statement of commitments and liabilities issued by the Treasury in respect of each head of expenditure and any commitment or liability not so reported should not be settled in the year 2021 as an expenditure for the preceding year. Nevertheless, commitments of Rs. 810,810,778 had been stated in the Consolidated Liability Report, SA 92 of the Treasury. | As a limited number of staff reported for the duty due to Covid-19 pandemic, those works could not be properly completed.  | Action should be taken in accordance with the Public Finance Circular.   |

(e) As a sum of Rs. 40,960 payable to the Multi-Purpose Cooperative Society Ltd. (Moratuwa) for fuel had been stated as Rs. 91,200,184 in the statement of liabilities and commitments, liabilities of Rs. 91,159,224 had been overstated.	Not replied.	Duty assignment should be done so that the duties of one officer can be subjected to the supervision of another.
--	--------------	--

### 2.3 Utilization of provisions made by other Ministries and Departments

---

<b>Audit Observation</b> -----	<b>Comment of the Accounting Officer</b> -----	<b>Recommendation</b> -----
(a) Of the provisions amounting to Rs. 7,812,182 given by the expenditure head of the Ministry of Tourism (Head 159) for the development of railway stations for the year 2020, only Rs. 19,206 had been utilized.	As the administration in the country became standstill and only a limited number of staff was called for services due to the Covid 19 pandemic prevailed from the beginning of the year 2020, staff could not be employed for the relevant purpose.	Action should be taken to expeditiously use the provisions made by other Ministries and Departments.
(b) Although the Ministry of Tourism Development, Wildlife & Christian Religious Affairs had made provision of Rs. 18,930,500 in the year 2019 to construct restrooms for the tourists in Anuradhapura, constructions had not been carried out even by 21 September 2020.	-Do-	-Do-

## 2.4 Operating Bank Accounts

-----

### Audit Observation

-----

In accordance with Financial Regulation 395(c), the bank reconciliation statement on the position of transactions at the end of each month should be prepared before 15 of the following month. Nevertheless, the bank reconciliation statements for the year 2020 had not been prepared for the bank accounts Nos. 004100209027317 and No. 7042682 which are involved in the foreign purchases related to the Stores Advance Account and Chief Accountant of Railways (Supplies) Division which is involved in a large number of transactions.

### Comment of the Accounting Officer

-----

Instructions have been given to prepare the bank reconciliation statements for the 02 bank accounts relevant to the Chief Accountant of Railways (Supplies) Division.

### Recommendation

-----

Bank reconciliations should be prepared in terms of Financial Regulations.

## 2.5 Advance Balances

-----

### Audit Observation

-----

The unsettled advance balance up to 31 December 2020 was Rs. 7,957,438.

### Comment of the Accounting Officer

-----

The value of advances paid to the suppliers for the purchase of goods during the period of 39 years from 1980 to 2020 has been made up of old balances. Therefore, action will be taken to settle these balances after receiving the correct sources in the future.

### Recommendation

-----

Action should be taken to obtain the relevant goods for which advances have been paid at present.

**2.6 Exceeding the Limits**

Audit Observation	Comment of the Accounting Officer	Recommendation
In order to alter the limits of the Advance Accounts as per the Financial Regulation 503, a Cabinet Memorandum should be submitted for approval before 31 December of the financial year. Nevertheless, the minimum receipt limit and the maximum debit limit of the Stores Advance Account had exceeded by 31 December 2020, but the relevant Cabinet approval had not been obtained even up to 31 March 2021.	The Cabinet Memorandum seeking approval for this exceeding of prescribed limits has been submitted to the Secretary to the Cabinet.	Action should be taken to obtain approval for the revision of limits.

**2.7 Non-compliance with rules, regulations and regulations**

The instances of non-compliance with the provisions of Laws , Rules, and Regulations observed during the audit test checks are analyzed below.

Observation	Reference to laws, rules and regulations	Non-compliance	Comment of the Accounting Officer	Recommendation
(a)	Pensions Circular No.3/2015 dated 24 April 2015.			
(i)	Section V of Paragraph 03	Although a database relating to the officers who have exceeded 54 years of age should be maintained in an updated manner, such database was not in operation in any sub-departments of the Department of Sri Lanka Railways.	Pensions are currently paid as per the circulars issued on the pension files and necessary instructions have been given to prepare a proper procedure in this regard.	A database on the officers to be retired should be prepared and maintained in an updated manner as per the provisions in the Circular.

(ii) Paragraph 04	<p>The personal files of every public officer should be maintained in an updated manner and the files updated after 54 years and 06 months of the age of an officer should be annually updated until the officer is retired. Nevertheless, it was observed in analyzing information of 313 personal pension files that 279 files had not been updated to enable the payment of pensions even the lapse of 01 to 06 years from the date of retirement.</p>	<p>It is difficult to maintain the files in an updated manner due to the shortage of staff.</p>	<p>Personal files should be maintained in an updated manner as per the provisions in the Circular.</p>
(b) Pensions Circular No.03/2015 dated 09 January 2019 (Amendment III)	<p>Although the pension applications that have not been decentralized too should be applied online, no action had been taken to maintain and update a database relating to updating the information of the officers who were retired on disciplinary grounds.</p>	<p>Not replied.</p>	<p>Necessary steps should be taken to maintain and update a database relating to officers who are retired on disciplinary grounds.</p>
(c) Circular No.NP/SP/SDG/17 dated 14 August 2017 of the Ministry of National Policy and Economic Affairs and the Circular No.MSDW/08/65 dated 27 April 2018 of the Ministry of Sustainable Development and Wildlife.	<p>Answers to the questionnaire on sustainable development had not been given.</p>	<p>Not replied.</p>	<p>Action should be taken in accordance with the circular.</p>

**(d)** Public  
Administration  
Circulars

- |  |  |             |   |
|--|--|-------------|---|
| <p><b>(i)</b> Circular<br/>No.02/2018 dated<br/>24 January 2018.</p>                 | <p>A Human Resource Plan had not been prepared, and a senior officer had not been appointed assigning the responsibility to prepare a human resource development plan, and conduct of capacity development/ skills development programmes in terms of Paragraph 6.5 of the Circular.</p> | <p>-Do-</p> | <p>In terms of provisions of the Circular, a senior officer should be appointed assigning the responsibility to prepare a human resource development plan and to conduct of capacity development/ skills development programmes</p> |
| <p><b>(ii)</b> Paragraph 8.1 of the Circular No.30/2016 dated 29 September 2016.</p> | <p>The fuel consumption of the vehicles owned by the Department had not been tested.</p>   | <p>-Do-</p> | <p>Fuel consumption of the vehicles should be tested in accordance with provisions of the circular.</p>   |
| <p><b>(iii)</b> Circular No.05/2008 dated 06 February 2018.</p>                      | <p>The Citizen/Cliental Charter had not been prepared and implemented as per the Citizen/Cliental Charter and the Department had not put in place a methodology to monitor and evaluate the implementation of the Citizen/Cliental Charter as per Paragraph 2.3 of the Circular.</p>     | <p>-Do-</p> | <p>The methodologies should be prepared relating to the preparation and implementation of the Citizen/Cliental Charter as per the circular provisions.</p>  |

(e) General Rules of the Sri Lanka Railways Service

- |      |   |  |      |  |
|------|---|--|------|--|
| (i)  | Paragraph 3. b  | Although a Requisition Sheet in Form AB 26 should be prepared on slow-moving tickets and sent to the Chief Accountant's Office, it had not been so done in respect of 49,975 tickets valued at Rs. 28,628,630.   | -Do- | Action should be taken in accordance with the relevant paragraph of the General Rules of the Sri Lanka Railways Service. |
| (ii) | Sub Section 3.7 of Paragraph 03 and Section 5.5 of Paragraph 54 | All the parcels the identity of which is not confirmed should be transferred to a separate register (OUTSTANDING) at the end of each month and future steps should be taken thereafter, no such steps had been taken on the parcels in the Matara railway station. | -Do- | -Do-   |

**3. Operating Review**

**3.1 Performance**

**3.1.1 Planning**

Audit Observation	Comment of the Accounting Officer	Recommendation
-----	-----	-----
(a) According to the annual estimates for the year 2020, the net provision for foreign debts allocated for the capital expenditure was Rs. 29,338,097,000 and the amount spent for capital expenditure as foreign debts amounted to	Although advance of Rs. 843 million has been paid relating to the project for the procurement of two air-conditioned power sets to operate on the Northern railway track, the power	Steps should be taken to use 100 per cent of the foreign debts

Rs.25,450,531,877 as at 31December 2020. Accordingly, the unspent provisions were Rs. 3,887,565,123 or 13.25 per cent. The other relevant observation observations in this regard are as follows.

- (i) A necessary procurement plan had not been prepared for supplies and services as required by provisions. Further, although proper assumptions should be made by properly identifying the requirements in preparing estimates, obtaining treasury imprest, and transferring money between the Objects, there were instances of not following that requirement. A sum of Rs. 3,607,100,000 relevant to the improvement of the train fleet that should have been included in the annual estimate,2020, had been obtained from the gross supplementary estimate.

sets could not be imported to the country during the year 2020.

This additional provision of Rs. 3,607,100,000 was obtained to account for foreign debts relating to the power sets imported to operate on the Upcountry railway line. Action should be taken to obtain financial provisions so as to achieve the objectives in the Action Plan.

Even though the provision of Rs. 10,896,671,000 was requested in the preparation of estimates for the year 2020 to incur expenses of this Object, adequate provisions were not received as provisions were made by the Vote on Account from time to time. Therefore, this supplementary estimate provision was obtained under No.113 with the objective of completing the project by accounting for the expenditure of Rs. 6,067,235,669.71, which is the final expenditure certificate received relating to this project.

- |   |   |   |
|---|---|---|
| <p>(ii) Although an action plan had been prepared only for the first 04 months of the year under review, the Key Performance Indicators (KPI) so as to clearly identify the output and outcome of the functions to be discharged by the Department had not been included in that action plan.</p> | <p>The relevant divisions have been informed to include the Key Performance Indicators (KPI) in the action plan, and on the timeline to implement the progress thereof.</p> | <p>The Action Plan should be prepared before commencing the year and action should be taken to achieve the objectives of the Department by discharging the functions in accordance therewith.</p> |
| <p>(iii) The Organizational Structure presented in the Annual Action Plan had not been updated and the structures of the sub-departments functioning under the General Manager of Railways and the flow of the delegation of powers had not been clearly indicated.</p>                           | <p>-Do-</p>   | <p>Organizational Structure should be properly arranged in a manner properly delegate the powers and responsibilities.</p>  |

**3.2 Failure to Achieve the Expected Outcome**

-----

**Audit Observation**

-----

**Comment of the Accounting Officer**

-----

**Recommendation**

-----

Due to the delay in the installation of water filters under the project for the Installation of water filters at the railway stations in the year 2017, a sum of Rs. 1,636,640 should have been recovered from the supplier. Nevertheless, it had not been so done. Further, 17 water filters installed at 17 railway stations in Anuradhapura Division had become defunct and the value thereof was Rs. 10,211,000.

This delay was occurred due to not providing water supply and electricity supply by the relevant railway stations.

Action should be taken to achieve the expected outcome of the project.

### 3.3 Abandonment of Project Without Completion

-----

Audit Observation	Comment of the Accounting Officer	Recommendation
-----	-----	-----
<p>(a) Although 18 railway development projects to be implemented in the year 2020 and already being implemented have been identified, according to the annual budget estimate, provisions had not been made for 05 main projects of the above 18 projects.</p>	Not replied.	Correct estimates should be prepared as per the Financial Regulation 50 and a pre-study and a necessary assessment should be carried out on the development projects.
<p>(b) <b><u>Freight Transportation.</u></b></p>		
<p>(i) For the purpose of transport of the flour, the main production of the Prima Company, that company had purchased 15 container flatbeds and 30 containers with a container handling machine on a credit basis on behalf of the Department of Railways. An agreement had been entered into to offset the cost thereof against the transport charges. According to the said agreement, the Department of Railways should have operated 20-22 train trips from Trincomalee to the Seeduwa warehouse within a month. Nevertheless, the number of train trips operated from 06 January to 15 February 2021 was 05 and the income earned therefrom was Rs. 2,654,750.</p>	Not replied.	Attention should be focused on increasing income of the Department by operating freight trains as agreed with that company.

- |  |                     |  |
|--|---------------------|--|
| <p><b>(ii)</b> The Prima Company transports 18,100 metric tons of flour to the warehouses located in each district per month and if that quantity is transported by trains, the Department could have earned a monthly income of Rs. 19,349,687. Accordingly, an annual income of Rs. 232,196,244 could have been earned from the transport of flour alone, whereas the Department had not focused thereon and taken steps to increase the flour transport income.</p>   | <p>-Do-</p>         | <p>Action should be taken to provide facilities to transport flour by trains and thereby, increase the income of the Department.</p> |
| <p><b>(iii)</b> The income earned by the Department of Sri Lanka Railways through the transport of cement was around Rs.8 million in the year 2020 and it shows a significant shortfall as compared with the preceding year. It was observed according to the data presented by the Tokyo Cement Company that if the island-wide distribution network of their production is carried out by trains, a monthly income of Rs. 2,024,492 could have been earned therefrom. Accordingly, the annual income that could have been earned from the transport of cement of that company alone was Rs. 24 million. Nevertheless, the Department had not put in place a proper strategy to increase this income.</p> | <p>-Do-</p>         | <p>Action should be taken to increase the cement transport income as mentioned above.</p>  |
| <p><b>(iv)</b> According to the agreement signed by the Department of Sri Lanka Railways with the Holcim Company relating to the transport of coal from Trnicomalee Port to Puttalam, a railway yard had been built adjacent to the Mahawa railway station and an access road had also been constructed to facilitate the coal transportation. Although an annual</p>  | <p>Not replied.</p> | <p>Action should be taken to increase the income of the Company by providing freight trains and railway wagons in time.</p>          |

income of Rs.28 million could have been earned from the coal transportation, the Holcim Company had withdrawn from the agreement due to the failure of the Department to supply an adequate number of trains and rail wagons in time. As a result, the Department had lost an income of Rs.28 million that could have been annually earned by the Department and the newly constructed railway yard and the access road had become idle assets. Since the Holcim Company had transported coal unloaded to the Trincomalee Port to Puttalam by main roads, causing damages to the road system, causing road traffic and environmental issues, the Department had lost the opportunity to fulfill its social responsibility.

**3.4 Annual Performance Report**  
-----

**Audit Observation**  
-----

**Comment of the Accounting Officer**  
-----

**Recommendation**  
-----

The Annual Performance Report had not been prepared even as at 31 May 2021 in accordance with the Format in Guidelines No.14 issued by the Department of Public Finance in accordance with paragraph 12.1 of the Public Finance Circular No. 2/2020 dated 28 August 2020. The Performance Report for the year 2019 had also not been presented to Parliament.

Not replied

The report should be prepared in time and presented to Parliament in accordance with provisions in the Circular.

### 3.5 Procurements

-----  
The following observations are made in this connection.

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
----- (a) Under the Indian loan assistance, 10 M11 locomotives had been purchased at a cost of about Rs. 850 million. Although the procurement should have been done through open bidding in India, it had been carried out as a single-source procurement. Similarly, there observed 20 instances where the specifications of the bidder did not match the specifications submitted by the Department. Of the 46 conditions contained in the Technical Specification, 17 or 37 percent did not comply with the Technical Specification, and as such, it should have been canceled in accordance with Guideline 2.4 of the Procurement Guidelines. Nevertheless, it had not been so done. Further, in terms of Condition No. 3.2 of the Indian Engine Purchase Agreement, after considering the technical deficiencies in respect of running conditions and rectifying the issues within three months, the other shipments had to be made. But shipments had been made without being complied with it. In taking into consideration the condition of the railway lines in Sri Lanka, these engines could have caused running problems due to their length and 3 out of 10 locomotives were not in operation due to various faults by the end of April 2021. Further, due to the purchase of Indian engines despite the confirmation of the Department of External Affairs that American engines are more economically viable than Indian engines, the loss incurred by the Government over the entire transaction is estimated at US \$. 10.5 million or Rs. 1,905.23 million.	----- Not replied	----- Action should be taken in accordance with provisions in the Procurement Guidelines.

- (b) Although the procurement activities envisaged at least for a period of three years shall be listed in the Master Procurement Plan in terms of Guideline 4.2.1(b) of the Government Procurement Guidelines, despite not inclusion the purchase of CNC Vertical Turret Lathe machine in the relevant annual procurement plan of the Department for the years 2016, 2017, 2018 and 2019, it had been purchased on 07 January 2019 at a value of Rs. 47,072,562. The Procurement Time Schedule describing in chronological order, steps of each individual procurement action, from the point of commencement until its completion had not been prepared in accordance with Guideline 4.2.2 a, of the Procurement Guidelines. Further, there were also issues with respect to the pre-eligibility test, the contracting process, and specially in scrutinizing the relevant agreement by the Legal Division of the Department. A mechanical engineer had been appointed as a member of the Procurement Committee involved in this transaction and although he had been paid Rs. 708,142 for the work, no action had been taken to obtain his services until his retirement.
- Not replied.
- All purchases should be made in accordance with a procurement plan and provisions in the Procurement Guidelines should be followed.
- (c) The installation of a closed circuit television system (CCTV) between Fort and Maradana had been completed on 17 November 2013 at a cost of Rs. 35,579,668 and after a lightning strike on 12 June 2014, 31 cameras of the Colombo Fort Railway Station and 17 cameras of the Maradana Railway Station became defunct. before the warranty period expired. Although the warranty period is two years as per the terms of the technical agreement, it had not been repaired by the
- Not replied.
- Procurements should be more formally carried out according to the relevant provisions.

supplier till the date of this report. It was not observed that the possible damages from the lightning had been considered in advance and the contractor had falsely stated that the institution was affiliated to the University of Moratuwa and had carried out this contract. It had failed to detect this fraud at the initial stage and had failed to institute legal action against the institute even up to date.

- |     |   |  |   |
|-----|---|--|---|
| (d) | Three types of spare parts valued at Rs. 18,895,341 remained idle although there was only one-month period to expire the period of warranty as at 21 April 2021.  | Not replied.   | Provisions in the Procurement Guidelines should be followed.                |
| (e) | A sum of Rs. 96,931,488 had been spent for installation of Event Recorder and Vigilance systems for 6 M class trains and w-3 class locomotives and no specific proposals had been made for this project, no study had been conducted on it, and no pre-identification had been made as to which engines they would be fitted with. The types of engines used to install those devices had been changed from time to time and due to delays occurred owing to irregularities in the project, an additional amount of Rs. 1,916,909 had to be paid as at 05 March 2020 on the effect of exchange rate change. | Locomotives could not be released on time due to Covid 19 pandemic.                                    | A pre-study should be conducted before carrying out procurement activities. |
| (f) | Without being published an advertisement stating that sand could be transported by train, one private institute had been given the opportunity to transport sand by train. An agreement had not been entered into for this purpose and as measures had not been properly taken in determining the charges, the revenue due to the Department of Railways had been lost.   | Measures have been taken on the advice of the Minister and the Secretary to the Ministry of Transport. | Procurement process should be followed.                                     |

- |     |  |              |  |
|-----|--|--------------|--|
| (g) | A contract worth Rs. 1,323,800 had been awarded for the purchase of 200 ballast cubes required to the Department of Railways. In this connection, a performance security had not been obtained and a formal agreement had not been entered into as per the Guidelines 5.4.10 and 8.9.1 of the Procurement Guidelines. Although 15 months had elapsed as of 15 February 2021 since the award of the contract, relevant task had not been carried out. Due to this, the removal of speed limit on the line has been delayed since June 2019. | Not replied. | Provisions in the Procurement Guidelines should be followed. |
|-----|--|--------------|--|

### 3.6 **Assets Management**

-----

The following observations are made.

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
-----	-----	-----
(a) Although the Railway Security Service had informed the Legal Division through 51 files from RSS / MTL / 01/2019 to RSS / MTL / 51/2019 regarding unauthorized constructions and unauthorized activities in the railway reserve during the year 2019, those had not been acquired.	Legal officers have been instructed to take necessary measures.	Action should be taken to expedite the legal actions against the unauthorized constructions and activities.
(b) <b><u>Annual Board of Survey</u></b>		
(i) The Board of Survey Reports relevant to 17 out of 917 offices of the Department of Railways for the years 2019 and 2021 had not been furnished to the Auditor General even by 23 March 2021.	Not replied	Instructions in the circulars should be followed.

(ii) In terms of Paragraph 07 of Asset Management Circular No. 01/2017 dated 28 June 2017, information on the purchase and disposal of assets in 2018 had not been submitted to the Comptroller General's Office.

Not replied

-Do-

(c) **Leasing of Land**

- (i) There was no database on the leasing of lands of the Railways. There observed instances where not properly assessing the lands, not reaching formal agreements thereon and not properly levying relevant tax revenue and eventually, arising issues regarding their ownership.
- Do-
- Action should be taken to establish database expeditiously.
- (ii) The lease agreement for 24.80 perches of land leased under the plan DL 2630 (12 December 1999) for grazing had not been renewed after 30 September 2019. It was observed during the audit test check that the administration had not taken action to recover the possession of this government owned reserve land up to date.
- The lessee has been allowed to use the land after charging the land usage fee.
- Steps should be taken to renew the lease agreement on time and to prevent misuse of the land.

(d) **Idle Assets**

- (i) It was observed that the Wheel Press machine which can be used to remove 500 tons of wheels installed at the No. 22 factory at Ratmalana had not been in operation for about 2 years.
- Not replied.
- Steps should be taken to ensure the maximum use of high value machinery.

<p><b>(ii)</b> Seventy-five (75) Gutters worth 195,000 purchased as an urgent purchase in the year 2016 for the Anuradhapura Building Inspector's Office had not been used for the relevant purpose and were still in the warehouse on the date of the audit 22 September 2020.</p>	<p>Not replied.</p>	<p>Action should be taken to use the purchased items for the relevant purpose.</p>
<p><b>(iii)</b> Out of the official quarters belonging to the Office of the Inspector of Permanent Way in Trincomalee, Matara, Polgahawela and Anuradhapura, 313 quarters remained idle including, 172 quarters of repairable level and 141 quarters that can be used for residing</p>	<p>-Do-</p>	<p>The quarters to be repaired should be repaired as expeditiously as possible and measures should be taken on the idle quarters so that an income can be earned.</p>
<p><b>(iv)</b> No formal internal control system or inspection system had been introduced for handing over of the removed timber sleepers to the relevant locations with the approval of a responsible officer.</p>	<p>Not replied.</p>	<p>A formal internal control system should be put in place.</p>
<p><b>(v)</b> Although a period of 04 years had elapsed from causing accident to the Cab bearing No. 50 – 8777 by 02 February 2021, the date of audit, it remained decaying due to no taking steps to repair the vehicle.</p>	<p>It has been informed that according to the letter dated 09 February 2021, action has been taken to recover 1/5 of the loss and repairs should be made.</p>	<p>Steps should be taken on the damages in accordance with Financial Regulations and repairs or disposals should be done expeditiously.</p>

(vi) Although it had been more than a year since handing over of the Double cab No. 57-8179 for repairs as at the date of audit on 02 February 2021, the vehicle remained idle without being repaired.	It has been informed that repairs are in progress, and painting has been delayed due to the Corona pandemic.	-Do-
--	--	------

**3.7 Losses and Damages**

-----  
 The following observations are made.

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
-----	-----	-----
(a) An extensive investigation into the fire that broke out at the Anuradhapura Railway Carpentry Factory had not been carried out. Further, the damage to the building and its items had not been assessed and action had not been taken to identify the responsible parties and to take relevant measures.	Not replied.	Financial Regulations should be followed in connection with losses and damages.
(b) Due to high speed running of trains at fixed speed limits at the curves on the railway tracks, a derailment had occurred on 08 March 2020 and the department had to bear a cost of Rs. 216,950 to restore the track. The damage caused to the locomotive and compartments from the accident had not been assessed and the parties responsible had also not been identified.	Not replied.	Financial Regulations should be followed in connection with losses and damages.
(c) As the attention of the administration had not been focused to auction or sale by tenders the steel such as DOGSPIKES, Bearing Plates and Fish plates, the Railway Department lost an income of Rs. 27,645,400 that could have been obtained by the Department.	-Do-	Action should be taken for selling.

- |     |   |      |   |
|-----|---|------|---|
| (d) | It was observed that 500 base plates (instead of Bearing Plates) had been obtained on 18 November 2014 to replace the wooden beams on the Malwathu Oya bridge, whereas those spare parts had not been used for the relevant purpose up to date. | -Do- | Items purchased should be used for the relevant purposes to receive benefits therefrom. |
|-----|---|------|---|

### 3.8 Failure to answer the audit queries

-----

Audit Observation	Comment of the Accounting Officer	Recommendation
-----	-----	-----
Answers for 12 audit queries issued to the Department had not been sent even by 10 October 2021.	The number of audit queries received by this Department from 25.02.2020 to 07.05.2021 is 46. Of which answers have been given only for 12 queries at present.	Action should be taken in accordance with Provisions in Section 38 of the National Audit Act No.19 of 2018.

### 3.9 Management Weaknesses

-----

The following observations are made in this connection.

Audit Observation	Comment of the Accounting Officer	Recommendation
-----	-----	-----
(a) The locomotive No. 984 of M 11 type brought to transport the fuel tanks had been parked at the Galle track from 16 October 2020. The engine had been so parked due to insufficient length of points and crossovers at the Galle railway station.	Not replied.	In purchasing new locomotives, attention should be drawn to utilize the available resources.

- |     |   |              |  |
|-----|---|--------------|--|
| (b) | The arrears of Rates payable for 180 railway properties belonging to the Colombo Municipal Council up to 31 December 2019 was Rs.40,627,132. The Department had not taken steps to correctly identify the usage of properties related to this arrears and make the relevant payments.   | Not replied. | Action should be taken to identify the ownership of the properties as fines have to be paid in case of failure to pay Rates on the due date. |
| (c) | Although notifications were made on 05 occasions to pay the value of Letter of Credits relating to CNC Vertical Turret Lathe received by the Port on 07 January 2019, money had been banked on 18 February. Due to the delay in banking money, the bank had charged a bank interest of Rs. 86,547 and owing to the said delay, Rs. 2,816,576 and Rs. 2,933,031 had to be paid to the Ports Authority and the Shipping Company respectively as demurrages. | -Do-         | Action should be taken to control these unnecessary expenses by discharging functions efficiently.   |
| (d) | Under the Japanese Non-project Grant Aid, 40 Track Gauges, Hand Tie Tamper Sets and Trolley Tracks had been received for track maintenance activities and 02 of them had been issued to the Permanent Way Inspector's Office, Anuradhapura on 05 January 2020. These machines had not been used due to lack of adequate ballast.  | -Do-         | The maximum utility should be gained from these machines.  |
| (e) | Although payment should be made for stores supplies after certification by the Certifying Officer to the effect that the goods have been received in the proper standard and in the correct quantities, payments had been made to the supplier without such certification and as such Rs.80,189,340 had been paid for unsupplied goods.   | Not replied. | Payment procedure should be streamlined.   |

- |     |   |              |  |
|-----|---|--------------|--|
| (f) | <p>Payments for unsupplied goods had been made each year from 1980 to 2020 and 42 per cent or Rs.33,681,581 of the total payment was the payments made prior to 2010 and the remaining 58 per cent was the payments after the year 2010, of which 40 per cent or Rs. 31,900,907 was the payments made during the period of 05 years from 2016 to 2020.</p>  | -Do-         | <p>Action should be taken to get the unsupplied goods.</p>   |
| (g) | <p>The value of unsettled letters of credit as at the end of the year under review was Rs.594,378,058 of which 35 per cent or Rs.207,564,302 was the old balances continued to exist from 03 to 22 years. Although a period of more than 03 years had elapsed since the payment of money, the reasons for not settling these balances through GRN were not furnished to the Audit and it was questionable during the audit whether these payments of over Rs. 207 million were paid to suppliers for non-supplied goods.</p>  | Not replied. | <p>Action should be taken to conduct a formal investigation in this connection and settle these letters of credit.</p>                 |
| (h) | <p>Although bids had been called for the purchase of 663 spare parts under 09 categories for spare parts required for S 10 - Class Power Coaches, 540 spare parts of 04 types were removed from the evaluation stating that they were not required at present. It was also observed that the 4 types of spare parts were purchased despite the availability of the stocks in sufficient quantities. Accordingly, it was observed that the need to purchase spare parts for the Department had not been determined in a proper manner according to a proper study and Rs.19,515,262 had been spent for the collection of unnecessary stocks.</p> | Not replied. | <p>As this will lead to an unnecessary block of the funds of the Department and therefore, care should be exercised to prevent it.</p> |

- |     |   |  |   |
|-----|---|--|---|
| (i) | The stock of railway spare parts in the warehouse remained in a range between Rs. 1,905 million and Rs. 6,392 million during the last 16 years, and it was observed that issuance of spare parts in 14 of those 16 years had been less than the quantity of purchase. Similarly, the stock in hand had increased threefold during the period of 16 years.   | The observation made by the Audit to the effect that the average stock is relatively high is accepted as a correct observation.                            | Action should be taken to maintain the standard stock level.                  |
| (j) | Although stock purchases for the stock advance account should be made after identifying the stock requirements, due to the purchase of stocks without identifying the requirement, a large value from the final stock balance had become unused stock items. Out of the stock balance as at the end of the year under review, stock items worth Rs. 298,187,731 had not been utilized for any purpose during the last 05 years. | It is expected to conduct a proper study of the existing stocks and subsequently take appropriate measures on the stock balances pointed out by the Audit. | Attention should be focused on not retaining the limited funds unnecessarily. |

### 3.10 Irregular Transactions

-----  
The following observations are made.

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
For the tipper bearing No. 68-5441 obtained on lease basis from the Kurunegala Machinery Authority, expenses are also incurred for diesel in addition to the monthly rent and a sum of Rs. 845,539 had been paid for operating the tipper for 16,579 km from January to August 2020 (excluding April and May). From 08 June 2020 to 22 September 2020, 1,180 liters of diesel valued at Rs. 112,100 had been provided and no Running Charts had been maintained in that regard.	Not replied.	Relevant Running Charts should be maintained for the expenditure incurred on fuel.

### 3.11 Financial Irregularities

-----

Audit Observation	Comment of the Accounting Officer	Recommendation
-----	-----	-----
(a) Although the Deputy Railway Protection Superintendent (Coverage) who had not reported for duty from 15 August to 15 October 2019 had not been approved leave for that period, a sum of Rs. 160,924 had been overpaid as salary from 15 August to 15 October 2019.	Relevant divisions have been informed to take necessary steps to recover that amount from the pension of the respective officer.	A sound coordination should be maintained between different divisions of the Department.
(b) In terms of letter 01 of the Director (Administration) dated 14 August 2020, the officer mentioned in (a) above had been overpaid Rs. 855,235 as salaries from January to 31 October 2020 although he had been retired from 09 January 2020.	-Do-	-Do-

### 4. Achievement of Sustainable Development Goals

-----

The audit observations made in this connection are given below.

Audit Observation	Comment of the Accounting Officer	Recommendation
-----	-----	-----
It was observed that necessary measures had not been taken to identify the criteria required to identify, implement and achieve the Sustainable Development Goals to be achieved by the year 2030 and to develop an accurate database relating to them.	Not replied.	Measures should be taken to develop an accurate database to identify the targets required to achieve the expected objectives.

**5. Good Governance**  
-----

**5.1 Rendering Services to the Public**  
-----

The observation made in this connection is given below.

<b>Audit Observation</b> -----	<b>Comment of the Accounting Officer</b> -----	<b>Recommendation</b> -----
The Department of Railways' website had not provided facilities to report on public needs, and make complaints or commendations about the institution.	Not replied.	The website should provide facilities to report public needs, and make complaints or commendations about the institution

**6. Human Resource Management**  
-----

The observations made in this connection are given below.

<b>Audit Observation</b> -----	<b>Comment of the Accounting Officer</b> -----	<b>Recommendation</b> -----
(a) According to the staff data submitted for audit by the Railway Department, the number of vacancies in the entire approved cadre as at 31 December of the year under review was 7,335 which was 37 per cent of the total approved cadre. Without being taken action to fill those vacancies, the Department had recruited staff of 355 on casual and contract basis without formal approval.	Not replied.	Action should be taken to fill vacancies taking into account the service requirements.
(b) Without being taken action to fill the staff vacancies of the Department, 234 retired officers of the Department had been reinstated.	Not replied.	Action should be taken to make new recruitments for the vacant posts in exigencies of the service.