

## **Head - 435 State Ministry of Rural Roads and Other Infrastructure**

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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 State Ministry of Rural Roads and Other Infrastructure for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 State Ministry of Rural Roads and Other Infrastructure was issued to the Accounting Officer on 23 May 2022 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 Accounting Officer on 28 June 2022 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 give a true and fair view of the financial position of the State Ministry of Rural Roads and Other Infrastructure as at 31 December 2021 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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My opinion is qualified based on the matters appear 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 the Chief Accounting Officer and 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 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 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 and obtained an understanding of internal control in order to plan appropriate audit procedures occasionally.
- Evaluate that the underlying transactions and events are appropriately and fairly included in the financial statements for the structure and content of the financial statements that include disclosures.
- 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 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) 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

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### 1.6.1 Imprest Reconciliation Statement

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#### Audit Observation

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Although the expenditure incurred for other Expenditure Heads under Financial Regulation 208 was Rs.227,865,951, the expenditure had been stated as Rs. 227,891,242 in the imprest reconciliation statement.

#### Comments of the Accounting Officer

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Audit observation is accepted. It is observed that an error has occurred when entering the total. The final account is being prepared again and as soon as the difference of Rs.25,291 is found, it will be corrected.

#### Recommendation

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Expenditure incurred under Financial Regulation 208 and the balance in the imprest reconciliation statement should be the equal.

### 1.6.2 Property Plant and Equipment

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#### Audit Observation

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The non-financial assets purchased by the Ministry in the preceding year amounting to Rs. 2,454,659 had not been entered in the CIGAS Programme and as a result of that the balance of property, plant and equipment and the reserve of property, plant and equipment had been understated at that value as at 31 December of the year under review.

#### Comments of the Accounting Officer

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Audit observation is accepted. The items purchased in the year 2020 had not been included in the CIGAS Fixed Assets Register and So far, it has been entered in the CIGAS Programme for the year 2022 as an opening balance.

#### Recommendation

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The purchase of property, plant and equipment should be entered in the CIGAS Fixed Assets Register at the correct value and accounted for.

### 1.6.3 Maintenance of Records and Registers

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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) The Cash Book was not signed by the Supervising Officer in terms of 446 (2) of the Financial Regulations. Further, the cheque number, expenditure object and payment details had also not entered properly.	Audit observations are accepted.	Cash book should be updated and maintained as per the provisions.
(b) The vote ledger had not been updated in accordance with 420 (b) and 245(3) of the Currency Regulations.	Audit observations are accepted.	Cash book should be updated and maintained as per the provisions.

## 2. Financial Review

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### 2.1 Expenditure Management

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) The total recurrent and capital provision made available for the Ministry was Rs. 30,276 Million and only a sum of Rs.1,946 Million had been utilized by the end of the year under review. Accordingly, the net savings of the Ministry was Rs.28,330 Million that is 94 per cent of the total net provision. Similarly, it was observed that 99 per cent of the above net savings that is Rs. 28,325 Million were capital provision savings and in that,	Recurrent expenses have saved due to the situation of Corona epidemic.	Arrangements should be made to utilize the provisions efficiently.

a provision of Rs. 5,200 Million that had allocated under supplementary estimates had also been saved without entirely being spent.

- (b) As a result of the revised estimate of expenditure as per Format ACA-2 (III) to be submitted with the Financial Statements has not been correctly stated, the difference in between the primary expenditure and the revised expenditure had not been presented correctly as a percentage

Answers have not been given.

The ACA Format should be accurately specified.

## 2.2 Imprest Management

----- <b>Audit Observation</b> -----	<b>Comments of the Accounting Officer</b> -----	<b>Recommendation</b> -----
<p>The imprests applied by the Ministry and the provision made to the District Secretariat under Financial Regulation 208 were Rs. 522 Million and Rs. 6,921 Million respectively. However, only a sum of Rs. 392 Million that is 75 per cent of the imprests requested by the Ministry had been received and out of the allocation made to the District Secretariats the amount that had been utilized was Rs. 197 Million that is 3 per cent only.</p>	<p>Although a sum of Rs. 30,276 Million had been made available by the Budget, applying of imprests have to be made only for the bills in hand at the time of applying imprests . Similarly, the Ministry does not provide advances to Divisional Secretariats and the copies of the letter of making allocations are forwarded to the Department of Treasury Operations .</p>	<p>Allocated funds should be utilized efficiently.</p>

## 2.3 Non-compliance with Laws, Rules, Regulations

Reference to Non-compliance with Laws, Rules, Regulations etc.	Non-compliance	Comments of the Accounting Officer	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation 66 and 66 (2)	Although the funds allocated under the capital expenditure of any programme cannot be transferred out of it in terms of F.R.66(2) , the overtime expenses of Programme 01 were Rs.785,398 had been incurred from the capital expenses of Programme 02 according to the audit test check carried out..	As the administrative expenses are separable as per the provisions of the internal circular titled Implementation of Rural Road Development Programme dated 20.03.2021, the accounts such as fuel, overtime, stationery etc. under that, have been paid under the above capital expenditure head.	It should comply with Financial Regulations.
(ii) Financial Regulation 396	Actions had not been taken in terms of Financial Regulation in respect of the issued cheques that had lapsed the validity period of 06 months as at 31 December 2021 but not presented for payment totalling to Rs.792,608 .	The remaining amount has been settled except for the cheques related to the Employees' Provident Fund by now, Necessary arrangements have also been made to clear those cheques and it is informed that it will be settled in the next month.	-do-

(iii) Financial Regulation 571 The general deposit balance as at 31 December of the year under review was Rs.72,494,340 and the necessary actions had not been taken in respect of the balance of Rs. 32,085,651 exceeded out of which, in terms of Financial Regulations 571 .

(b) Letter No. EST-4/03/MSF/0406 dated 15 March 2019 from the Director General Establishments (Acting) of the Ministry of Public Administration and Disaster Management Even though overtime may be approved by exceeding 20 hours per week, the overtime allowances totalling to Rs.411,779 had been paid to 12 officers exceeding that limit. Since a very large number of duties in the Ministry had to be performed by a very small number of workers, the overtime had to be paid to them for their duties. It should comply with laws, rules and regulations.

**3. Operating Review**

**3.1 Performance**

**3.1.1 Failure to Perform Tasks**

Audit Observation	Comments of the Accounting Officer	Recommendation
A sum Rs. 9,500 Million for the Gramiya Bridge Project, and a provision of Rs.15,497 Million had been made available for the Rural Road Improvement Project in the year 2021. Additional provision of Rs.20,000 Million under 100,000km rural roads had been made available by the Ministry of Highways for the Rural Road Improvement Project.	Agreed. Although the expected distance to be developed in the year 2021 was 2839km. , the distance completed as at 31.12.2021 was 465.25km. Due to the effects of the construction site was not being practical, the price of raw	Arrangements should be made to complete the projects promptly within the planned period.

Nevertheless, out of the allocations made available for the Bridge Project a sum of Rs. 8,381 Million or 88 per cent had not been spent in the year under review and out of the total allocation made for the above Rural Road Projects amounting to Rs.35,497 only the projects worth Rs. 7,018 Million had been completed as at 03 February 2022. It was only 19.6 per cent of the total provision . Further, the work of only 536km had been completed out of the road distance of 2839km that was planned to be developed and it was only 18.87 per cent of the expected target.

materials including cement increasing from time to time, the employees engaged in development activities being infected with Covid-19 etc., it was impossible to achieve the expected results.

**3.1.2 Delays in Execution of Projects**

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 The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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<p>(a) The contracts had been awarded to the State Development and Construction Corporation (SD&amp;CC) and the Road Development Authority for the construction of 1,000 low cost bridges and 438 less cost bridges in two phases during the year under review under Bridges Project. Even though advances of Rs. 438 Million had ben paid to State Development and Construction Corporation (SD&amp;CC) for 149 bridges under Phase I, only 33</p>	<p>It had to face the challenges such as temporary closure of work sites due to covid epidemic situation, majority of construction works are located in difficult areas, transportation difficulties, shortage of raw materials, increase in raw material prices, rainy season.</p>	<p>The attention should be drawn on utilizing resources as planned and achieving desired performance.</p>



bridges had been built by 31 December 2021 and there were 71 bridges with less than 50 per cent physical progress. Contracts were awarded to the above organization for the construction of 158 bridges in the months of November and December 2021 under Phase II and although most of them should have been completed within a period of 06 months, the construction of any bridge had not started by 28 February 2022 .

- (b) Out of 121 bridges given to Road Development Authority under Phase II, Progress on 68 bridges was at below 10 per .cent

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### 3.2 Losses and Damages

----- <b>Audit Observation</b> -----	<b>Comments of the Accounting Officer</b> -----	<b>Recommendation</b> -----
Even though the Ministry had repaired the car bearing number CAU 0786 which had experienced in an accident while driving, at only 75,129 km in running distance, in January and March 2021 at a total cost of Rs. 6,145,452, a loss from that amount had occurred to the government due to the failure to recover the cost from the insurance company. However, actions had not been taken in respect of that loss in accordance with Section 104 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	The driver of the Mercedes-Benz car number CAU 0786 has not informed this Ministry about the accident. Therefore, it is kindly informed that no information related to this car accident has also been disclosed to this Ministry.	Actions should be taken to recover the losses in accordance with the Financial Regulations.

### 3.3 Uneconomic Transactions

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 The following observations are made.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
<p>(a) A tree planting programme on both sides of the road was identified as one of the main objectives of the Ministry and the net net expenditure made on planting one tree was Rs.41. However, in contrary to this purpose, a net expenditure totalled to Rs. 763,500 or an amount of Rs. 925 per plant had been incurred in the year under review for planting and distributing plants which were not recommended to be planted on both sides of the road.</p>	<p>Economic crops and fruit plants were distributed in the planting programme implemented on the proposal of the Honorable Minister for the year 2021 Sinhala year under Maga Depasa Thuru Sevana programme.</p>	<p>In acting to fulfill the objectives of the Ministry, it should consider the economically advantageous conditions .</p>
<p>(b) A sum of Rs. 31.62 Million had been given to two institutions to identify on a priority basis through a scientific methodology received from the Ministry for the construction of rural bridges. Accordingly, although those institutions had identified 6,432 bridges that need to be constructed in 6 Districts and submitted a report on that, the money that had been paid for the above two institutions had become an uneconomical expenditure because only 13 bridges out of that had been selected for the construction by 31 December 2021 .</p>	<p>It was impossible to implement some of the leading proposals which were selected by the universities in the year 2021. Nevertheless, it is expected to implement proposals with priority in future in the manner of receiving financial allocations.</p>	<p>-do-</p>

#### 4. Achieving Sustainable Development Goals

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
Even though 2 Sustainable Development Goals had been identified by the Ministries adhering to the United Nations Sustainable Development Programme, targets and performance indicators related to accomplishing those objectives had not been identified. However, the targets and performance indicators only in relation to the rural road sector had been identified and the overall road and bridge construction progress was less than 49 percent in examining the progress of those performance indicators. The financial constraints, shortage of raw materials and price fluctuations have directly affected the progress as per the progress report of the Ministry.	Answers have not been given.	Arrangements should be made to achieve the identified sustainable development goals.

#### 5. Human Resources Management

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
There were 64 approved posts in the Ministry as at 31 December 2021 and out of that there were the vacancies in 08 senior level posts, one tertiary level post and 22 secondary level posts respectively.	Agree.	Recruitment should be done in accordance with the the requirement of the Ministry.