

Head 117- Ministry of Highways, Road Development and Petroleum Resources Development

1. Financial Statements

1.1 Qualified Audit Opinion

Audit of financial statements of the Ministry of Highways, Road Development and Petroleum Resources Development as at 31 December 2019, comprising statement of financial position as at 31 December 2019, financial performance statement and cash flow statement for the year ended 31 December 2019 was carried out under my directions in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with National Audit Act No 19 of 2018. A summary report containing my comments and observations on the financial statements of the Ministry of Highways, Road Development and Petroleum Resources Development was issued to the Chief Accounting Officer on 30 June 2020 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. Annual Detailed Management Audit Report relevant to the Ministry in terms of Section 11 (2) of the Audit Act was issued to the Chief Accounting Officer on 20 August 2020. 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 the Section 1.6 of this report, accompanying financial statements prepared in terms of the Public Accounts Circular No.271/2019 dated 03 December 2019 give a true and fair view of the financial position of the Ministry of Highways, Road Development and Petroleum Resources Development as at 31 December 2019 and its financial performance and cash flow for the year ended 31 December 2019 then ended in accordance with Generally Accepted Accounting principles.

1.2 Basis for Qualified Audit Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibility of the Chief Accounting Officer on the Financial Statements

Chief Accounting officer is responsible for the preparation and fair presentation of these financial statement in accordance with Sri Lanka generally accepted accounting principles and provisions of the Section 38 of National Audit Act No. 19 of 2018 and for such internal control as determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In terms of Section 16 (1) of the National Audit Act No. 19 of 2018, the Ministry shall maintain proper books and records of its income, expenses, assets and liabilities in order to prepare annual and periodic financial statements.

In terms of Sub section 38 (1) (c) of the National Audit Act, the Chief Accounting Officer shall ensure that an effective internal control system is developed and maintained for the financial control of the Ministry and shall periodically review the effectiveness of the system and make any necessary changes to keep the system running effectively.

1.4 Auditor's Responsibility in Audit of Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor General summary 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 internal control of the Ministry
- 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 those charged with governance 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 declare the followings, in terms of Section 6 (1)(d) and Section 38 of the National Audit Act No 19 of 2018.

- (a) Even though financial statements had been submitted under the Ministry of Higher Education and Highways in the previous year, financial statements for the year under

review were submitted under the Ministry of Highways, Road Development and Petroleum Resources Development. Accordingly, it cannot be stated that the financial statements are consistent with the previous year.

- (b) The recommendations made regarding the financial statements of the previous year relevant to the Highways Division had been implemented in the financial statements of the year under review.

1.6 Comments on Financial Statements

1.6.1 Statement of Financial Performance

Audit Observation -----	Recommendation -----	Comments of the Chief Accounting Officer -----
(a) Charges income aggregating Rs.123,418,859 in treasury books relevant to the Petroleum Resources Development division of the Ministry had not been stated separately in the statement of financial performance in accordance with the Paragraph 3.1 of the Public Accounts Circular No.271/2019 dated 03 December 2019.	The total income should be accounted as per the circular instructions.	Measures will be taken to present under the accurate source in the future statement of financial performance as per your instructions.
(b) Even though according to the detailed consolidated trial balance of the Ministry treasury imprest received was amounted to Rs.67,600,247,550, it had been stated as Rs.67,887,468,424 in the statement of financial performance.	Treasury imprest received value should be stated appropriately.	The revenue collected in respect of other departments had been included in the treasury imprests under non-revenue receipts in the statement of financial performance considering those as imprest received from the treasury.
(c) Even though as per treasury books deposit receipts was amounted to Rs.1,373,147,081, it had been stated as Rs.1,351,879,462 in the statement of financial performance.	Relevant corrections should be made reconciling with treasury books through monthly accounts summaries.	Deposit receipts under the Head No.117 of the Highway Section and deposit receipts under the Head No.166 of the Higher Education Section were included in the value of Rs.1,373,147,081 and stated as deposit receipts according to the treasury books as

indicated in audit observations. Since it was incorrect including this total value in the statement of financial performance, and only the deposit receipts of Rs,1,351,879,462 under the Head No.117 had been stated in the statement of financial performance.

- (d) Even though according to treasury books advance receipts was amounted to Rs.42,287,268, it had been stated as Rs.13,220,824 in the statement of financial performance. Accordingly, advance receipts had been understated by Rs.29,066,444 in the statement of financial performance.
- Total advance receipts should be accounted in terms of circular instructions.
- It is kindly informed that necessary action will be taken to include total receipts as receipts of advance 'B' account in the statement of financial performance in the next year as specified by audit.
- (e) Even though any receipt had not been stated under other receipts in the statement of financial performance, a sum of Rs.163,802,015 had been collected by the Ministry in respect of other Revenue Accounting Officers. Out of that, a sum of Rs.12,616,139 had been repaid from the revenue. As per the Public Accounts Circular No.271/2019 dated 03 December 2019, a sum of Rs.151,185,876 had not been stated as other receipts in the statement of financial performance and a sum of Rs.12,616,139 had been stated as repayment from revenue that was not included in the format.
- Other receipts should be stated separately in the statement of financial performance in terms of circular instructions.
- The value of Rs.151,185,876 was made up as follows;
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| Other revenue receipts | Rs. 163,802,015 |
| (-)Revenue repaid | Rs. 12,616,139 |
| Net revenue receipts | <u>Rs. 151,185,876</u> |
- Since other revenue receipts of Rs.163,802,015 had been included in the value of Rs.67,887,468,424 stated as imprest received from the treasury in the statement of financial performance, it is kindly informed that the sum of Rs.151,185,876 specified by the audit had been included accurately in the statement of financial performance.

- (f) According to treasury books, deposit payments had been stated as Rs.1,617,026,030. However, as per the statement of financial performance that value had been stated as Rs.1,661,942,323. Action should be taken to reconcile with treasury books through monthly accounts summaries and to correct the balances by the year end. Deposit payments under the Head No.117 of the Highway Division and deposit payments under the Head No.166 of the Higher Education Section were included in the value of Rs.1,617,026,030 stated as deposit payments in treasury books. Since it was incorrect to include this total value in the statement of financial performance and only the deposit payment of Rs.1,661,942,323 under the Head No.117, had been shown accurately in the statement of financial performance.
- (g) Even though as per treasury books advance payments were amounted to Rs.39,228,348, it had been stated as Rs.23,674,180 in the statement of financial performance. All the advance payments should be accounted accurately. Action will be taken to depict accurately in accounts in future.

1.6.2 Cash Flow Statement

The following observations are made.

Audit observation	Recommendation	Comments of the Chief Accounting Officer
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(a) Even though according to the detailed consolidated trial balance of the Ministry imprest received was amounted to Rs.67,600,247,550, it had been stated as Rs.67,887,468,424 in the cash flow statement.	Imprest received should be stated properly in terms of the circular.	Other revenue receipts amounting to Rs.287,365,856 had been considered as imprest received from the treasury and included to the value of Rs.67,887,468,424 stated as imprest received in the cash flow statement, as per the instructions of 7(ii) of the Public Accounts Circular No.271/2019 dated 03 December 2019 .

- (b) Even though according to the detailed consolidated trial balance of the Ministry expenditure incurred for other expense heads was amounted to Rs.29,418,965, it had been stated as Rs.28,781,939 in the cash flow statement. Expenditure incurred for other expense heads should be stated separately in terms of the circular. Action will be taken to include all advance receipts and payments in the statement of financial performance in the future.
- (c) Charges income amounting to Rs.123,418,859 that had been collected relevant to the Petroleum Resources Development Division, had not been stated under charges received in the cash flow statement. Charges income should be stated separately in the cash flow statement in terms of the circular. Even though charges received amounting to Rs.123,418,859 relevant to the Petroleum Resources Development Division had not been stated under charges received, it is kindly informed that it was included in the value of Rs.67,887,468,424 stated under imprest received in the cash flow statement.
- (d) A sum of Rs.151,185,875 collected as non-revenue receipts as per the detailed consolidated trial balance of the Ministry, had not been stated in the cash flow statement. Non-revenue receipts should be stated separately in the cash flow statement in terms of the circular. It is kindly informed that the sum of Rs.151,185,875 collected as non-revenue receipts was included in the value of Rs.67,887,468,424 stated under imprest received in the cash flow statement.
- (e) Even though salaries and operating expenses should be stated as Rs.333,596,037 in the cash flow statement, it had been understated by Rs.11,990,241. The value of salaries and operating expenses should be stated in the cash flow statement according to the detailed consolidated trial balance. Action will be taken to depict accurately in accounts in future.
- (f) Even though according to the detailed consolidated trial balance of the Ministry advance recoveries were amounted to Rs.31,108,736, it had Value of advance recoveries should be stated properly in the cash flow statement in terms of the circular. Advance received in cash to the cashier had been stated as advance received in the cash flow statement. Salary advances received by cross entries amounting to

been stated as Rs.1,230,582 in the cash flow statement. Accordingly, cash flow generated from the investing activities had been understated by Rs.29,878,154.

Rs.11,990,241 had been adjusted to the salaries and operating expenses amounting to Rs.321,605,796 stated in the cash flow statement.

- (g) Even though according to the detailed consolidated trial balance of the Ministry advance payments were amounted to Rs.40,925,066, it had been stated as Rs.23,674,180 being understated by Rs.17,250,886. Advance payment value should be stated properly in the cash flow statement as per the detailed consolidated trial balance in terms of the circular. Action will be taken to depict accurately in accounts in future.
- (h) Even though according to the detailed consolidated trial balance of the Ministry deposit receipts and payments were amounted to Rs.1,351,646,095 and Rs.1,371,636,310 respectively, those values had been stated as Rs.1,351,879,462 and Rs.1,384,485,816 respectively as per the cash flow statement. Deposit receipts and payment values according to the detailed consolidated trial balance, should be stated properly under cash flow generated from financing activities in the cash flow statement in terms of the circular. Since repayments from revenue were not stated separately in the cash flow statement, repayment from revenue had been stated under deposit payments.

1.6.3 Imprest Balance

Audit observation	Recommendation	Comments of the Chief Accounting Officer
<p>Even though in the statement of financial performance adverse imprest balance as at 31 December 2019 should be Rs.89,209,564,017, it had been stated as an adverse balance of Rs.89,289,260,205.</p>	<p>Statement of financial performance should be prepared in terms of the circular.</p>	<p>Action will be taken to depict accurately in accounts in future</p>

1.6.4 Imprest Adjustment Account

The following observations are made.

Audit observation	Recommendation	Comments of the Chief Accounting Officer
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(a) The difference of Rs.12,875,249 between the value of advance receipts and payments as per treasury books and detailed consolidated trial balance of the Ministry had not been taken to the imprest adjustment account.	The difference between the total advance receipts and payments should be accounted to the imprest adjustment account.	Action will be taken to include total receipts and payments in the advance account in the statement of financial performance in the future.
(b) According to the detailed consolidated trial balance of the Ministry, deposit receipts and payments were amounted to Rs.1,351,646,095 and Rs.1,371,636,310 respectively. However, according to treasury books, those values were Rs.1,373,147,081 and Rs.1,617,026,030 respectively. Accordingly, that difference in the imprest adjustment account should have been adjusted by crediting Rs.21,500,986 and debiting Rs.245,389,720. Nevertheless, it had been adjusted as Rs.290,306,013 and Rs.233,366 respectively.	Deposit receipts and payments should be reconciled with monthly account summaries and corrected and the relevant values should be stated according to the detailed consolidated trial balance of the Ministry.	Even though the difference of deposit receipts and payments between treasury books and Ministry books amounted to Rs.223,888,734, it is correct to state as Rs.290,072,647 in the imprest adjustment account.

1.6.5 Statement of Reconciliation of Advance Account to Public Officers

Audit observation	Recommendation	Comments of the Chief Accounting Officer
The aggregated value of loan balances unrecovered over 25 years as at 31 December 2019 from the officers of the Highway Section who were transferred, vacated their posts and retired, was amounted to Rs.267,841.	Action should be taken in terms of the National Budget Circular No.118 dated 11 October 2004.	It's difficult to find the correct information regarding 03 unsettled loan balances pertaining to transferred employees. Actions are being taken either to recover those loan amounts or to rectify through cross entries.

1.6.6 Deposits

Even though as per the Financial Regulation 571(3), money held in suspense in a deposit account pending receipts of particulars, should not be left in deposit to be treated as lapsed deposits, and should be credited to the proper account or to revenue, under the circumstances, or refunded as soon as possible, action had not been taken accordingly in the following instances.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) Inventories issued to a former Minister of the Petroleum Resources Development Division had not been handed back. Thus, the government employees' provident fund grant amounting to Rs.233,366 belonged to the Private Secretary of the Minister, had been retained in the general deposits account since 17 December 2015.	Action should be taken to settle without delay as per the Financial Regulation 571(3).	Even though actions were taken in this regard, a final decision could not be reached.
(b) A sum of Rs.88.23 million received for the construction of a bridge in the Trincomalee-Pulmude road relevant to the Highway Section and which was an affected area due to Tsunami, had been retained in	Action should be taken to settle without delay as per the Financial Regulation 571(3).	It is informed that prompt action will be taken to settle this money and report to the audit.

the general deposits account since 31 March 2016 without performing the relevant work.

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| (c) A deposit of Rs.5.7 million kept for rehabilitation of affected roads had been retained in the general deposit account since 01 April 2011 without being performing the relevant work. | Action should be taken to settle without delay as per the Financial Regulation 571(3). | It is informed that prompt action will be taken to settle this money and report to the audit. |
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1.6.7 Not Maintaining Documents and Books

Audit observation	Recommendation	Comments of the Chief Accounting Officer
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As per the Financial Regulation 891(1), a security register containing the information of all officers required to keep security, had not been maintained.	A security register containing the information stated in the Financial Regulation 891(1) relevant to the officers required to keep security, should be maintained.	Instructions had been given to maintain a security register relevant to the Petroleum Resources Development Division in future.

1.6.8 Non-compliance with laws, rules and regulations

The following instances of non-compliance with the provisions of the laws, rules and regulations were observed.

References to Laws, Rules and Regulations	Observation	Recommendation	Comments of the Chief Accounting Officer
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-----	Non-compliance	-----	-----
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Time period ranging 09 days to 04 months had been taken to submit preliminary reports of all vehicle accidents occurred during the year under review relevant to the	Should comply with Financial Regulations.	Most of the vehicles of which preliminary reports were delayed to submit within the specified period as per F.R.104(3) due to the reasons that they were
(i) Financial Regulation No.104(3)			

Highways Division of the Ministry and even preliminary reports were not submitted in respect of 03 vehicle accidents. Further, preliminary reports had not been submitted to the Auditor General even as at 31 December 2019, although a period of nearly a year had elapsed following the occurrence of 04 out of 08 vehicle accidents during the year 2019 relevant to the Petroleum Resources Development Division.

assigned to the staff of the Honorable Minister and running out of the Colombo area and difficulties of bringing those vehicles for inspection activities. However, all preliminary reports pertaining to the vehicle accidents relevant to the Ministry of Roads and Highways during the year 2019 except one preliminary report, had been submitted prior to the end of the year 2019. The preliminary report for the other accident is being prepared by now. Instructions had been given to the officers of the Petroleum Resources Development Division to send a preliminary report to the Auditor General if a delay of more than 07 days is envisaged for making a full report after occurring an accident.

(ii) No.104(4)

Even though a full report should be submitted within 03 months from the date of accident, the full reports relevant to 11 accidents occurred in Highways Division and 04 accidents occurred in Petroleum Resources Development Division during the year, had not been submitted to the Auditor General even as at 31 December 2019.

Should comply with Financial Regulations.

Instructions had been given to the officers to obtain the required reports as soon as possible and submit to the Auditor General.

- (b) Circular No. EC/EDR/01/2019 dated 20 August 2019 of the Chairman of the Election Commission and Financial Regulation 128(1) (I)
- Even though promotions through printed or electronic media regarding various projects and other development activities by utilizing public funds in large scale, should not be conducted during the period of election and close to the publication of the poll notice, contravening this, an expense amounting to Rs.5,553,154 had been incurred by the Petroleum Resources Development Secretariat to publish paper notices.
- Should comply with the circular No. EC/EDR/01/2019 dated 20 August 2019 of the Chairman of the Election Commission and Financial Regulation 128(1)(I).
- The public was made aware through paper notices as it is a significant occasion in the Petroleum industry in Sri Lanka to commence the Air Borne Gravity and Magnetic Data Collection Project related to the coastal and land areas of the Mannar and Cauvery basins for the purpose of exploring petroleum and natural gas in Sri Lanka. The officers were explained regarding the importance of considering the situation of the country when engaging these types of works.
- (c) Public Administration Circular No. 05/2008 dated 06 February 2008
- A Citizens'/ Clients' Charter had not been introduced and a system had not been developed to supervise and monitor the preparation and implementation activities of the charter.
- Should comply with circular instructions.
- The preparation of the Citizens'/ Clients' Charter relevant to the Highways Division had been commenced by the Administration Division and proposals had been called from all divisions for that. The preparation of plans for human resources development for the Petroleum Resources Development Division is being done by now.
- (d) Paragraph 03(c) of the Public Finance Circular No.01/2014 dated 17 February 2014
- “Imprest Requirement Plan for the annual activities” had not been prepared in the annual action plan of the Petroleum Resources Development Division.
- Should comply with circular instructions.
- It is agreed that the imprest requirement plan had not been included when preparing the action plan for the year 2019 as indicated by you and those matters were included when preparing

the action plan for the year 2020.

- (e) Paragraph 03 of the Annual board of survey Should comply with It is kindly informed that
Public Finance Circular relevant to the year 2018 circular instructions. the board of survey will
No.05/2016 dated 31 had not been done within be conducted on due
March 2016 the specified time periods. date and submit the
reports to the audit in
future.

2. Financial review

2.1 Revenue Management

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) Approval had been granted to the Petroleum Resources Development Division to increase the present annual permit charge from 1000 U.S. Dollars to 5000 U.S. Dollars from the year 2019 onwards from shipping oil businessmen, by the letter dated 25 October 2018 of the Director General of Public Finance Department. If any revision is required according to the Financial Regulation 85(2)(b) and Paragraph 03 of the Fiscal Policy Circular No.01/2015 dated 20 July 2015, such revisions including the reasons should be reported to the Director General of the Fiscal Policy Department. However, action had not been taken to report accordingly. Further, revised revenue estimate had not been prepared by the Petroleum Resources Development Division in terms of the circular instructions.	Revised revenue estimates should be prepared in terms of the circular instructions.	Revised revenue estimate had not been prepared for the year 2019 by mistake.

Thus, a difference of Rs.31,418,859 was observed between the revenue estimate and collected revenue. When comparing this difference with the initial revenue estimate of Rs.92,000,000, it was 34 per cent.

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| <p>(b) Irrecoverable revenue amounting to Rs.2,000,000 had been waived during the year 2018 by the Petroleum Resources Development Division. But the authorization of the Secretary to the Treasury in terms of the Financial Regulation 113(3)(b) and (c) had not been obtained for that.</p> | <p>Approval should be obtained as per Financial Regulation 113 (3) (b) and (d) to waive irrecoverable revenue.</p> | <p>A letter had been sent to the Secretary to the Treasury on 03 December 2019 to obtain the approval to waive the irrecoverable revenue amounting to Rs.2,000,000 during the year 2018. Since a reply was not received, a letter had been sent again to the Public Finance Department.</p> |
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2.2 Expenditure Management

Audit observations revealed with regard to the preparation of annual budget estimates, transferring provisions, obtaining provisions through supplementary budget estimates and utilization, utilization of provisions and savings, were stated below.

Audit observation	Recommendation	Comments of the Chief Accounting Officer
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<p>(a) When preparing annual estimates of expenditure, it is a responsibility to ensure that the estimates have been prepared as completely and accurately as possible as per the Financial Regulation 50(ii). However, the entire net provisional value of Rs.10.5 million allocated for 07 objects of the Ministry had been saved without utilizing any amount from total allocation due to the preparation of estimates without a proper evaluation and planning and transferring of provisions.</p>	<p>Action should be taken to prepare estimates reliably with proper evaluation and systematic study.</p>	<p>The total net provision granted to objects through estimates and transferring under F.R.66 could not be utilized and saved due to not implementing expected repairs of vehicles and machinery and not purchasing equipment.</p>

- (b) Even though provisions should be obtained through supplementary estimates only in the circumstances of inadequacy of provisions allocated to an object, supplementary estimates had been prepared without a proper evaluation and as a result, aggregated provisional value amounting to Rs.15,696 million being approved through supplementary provisions relevant to 03 objects, had been saved entirely. Supplementary provisions between 70 per cent to 90 per cent relevant to 06 objects had been saved without utilizing. Further, supplementary provisions amounting to Rs.225 million relevant to 01 object had been totally transferred to another object.
- Supplementary estimates should be prepared only after a proper evaluation being made as to the budgetary provision is not adequate.
- Provisions being approved through supplementary had been reported entire and 70 per cent to 90 per cent savings due to the reasons including already paid IPC not taking into accounts, limitation of the issuance of blasting material due to unfavorable weather conditions, not arising expenditure as expected and not receiving imprest sufficiently for the bills in hand.
- (c) Provisions amounting to Rs.9,166.7 million allocated for 11 objects for which budgetary provisions made by the Ministry, had been transferred entirely to other objects through F.R. 66/69 without incurring any expense for the relevant objects.
- Budgetary estimates should be prepared only for the accurately identified expense requirements.
- Transfers to other objects via F.R.66/69 had been made due to the reasons including not performing emergency repairing activities, not arising expected expenses during the year, limiting the foreign tours, not obtaining official residence by the State Minister and not signing loan agreements.
- (d) Estimates had been prepared without a proper forecast relevant to 72 objects for which net provisions totaling Rs.168,567.2 million being provided and as a result, net provisions with a total value of Rs.100,347.3 million ranging from 25 per cent to 99 per cent had been saved.
- Estimates of expenditure should be prepared with a proper forecast.
- Savings of 25 per cent to 99 per cent relevant to 72 objects were arisen due to various reasons including not incurring expenses as expected, controlling of expenses, not incurring repairing cost, vacancies in the staff, limited payments of overtime, shortage of officers, limited local tours, limiting attendance for foreign training programmes, limitation

of the number of officers qualified for uniform allowance, limitation of the vehicle maintenance cost, decrease in the employees recruited on contract basis, not purchasing furniture and office equipment, non-submission of the performance report of the Ministry, not arising expenses for the CCTV system and automated payment system as expected, limitation of the issuance of blasting material and not receiving imprest sufficiently.

- (e) The variance between the initial estimates of expenditure and revised estimates of expenditure was in a range of 25 per cent to 900 per cent due to deficiencies in preparing estimates for the ensuing year by the Ministry. The estimates of expenditure for the year should be prepared with a proper forecast without being subjected to constant revisions. The requirement of Rs.522 billion submitted by various payment units for the estimates requirement for the year 2019 had been limited to Rs.280 billion. After discussing with the National Budget Department, instructions were given to draft the maximum limit up to Rs.175 billion and submit. Accordingly, approval had been obtained for provisions amounting to Rs.175 billion. Out of the above provision, commitments of nearly Rs.55 billion settled in the year 2018, were remained to settle.
- (f) Additional provisions with a total value of Rs.5,076.6 million obtained under transfers as per the Financial Regulation 66/69 relevant to 12 objects had not been utilized and saved entirely. Budget estimates should be prepared only for the expense requirements identified accurately. Limitation of overtime works as not expected, not arising expected expenditure due to limitation of meetings, paid IPC not taking in to accounts, not receiving sufficient imprest, not incurring expenses as expected and exemption of taxes for civil works and consultancy works, had been affected for the entire savings and not utilizing the

additional provisions obtained under transfers as per Financial Regulation 69/66.

2.3 Entering into Liabilities and Commitments

The following observations is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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Since action had not been taken to check liability registers regularly and settle as per F.R. 214, the total value of unsettled commitments and liabilities as at 31 December 2019 was amounted to Rs.40,465 million.	Should comply with the Financial Regulation 214.	Even though action had been taken to check the liability register regularly and settle, there were liabilities amounted to Rs.40,465 million since provisions given under annual estimates were limited.

3. Operational review

3.1 Planning

Audit observation	Recommendation	Comments of the Chief Accounting Officer
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Targets that were difficult to achieve practically had been set relevant to projects when preparing the annual action plan. Further, not considering the financial allocation stated in the estimate of the year 2019, another value had been stated as budgetary allocation.	Achievable targets in practice should be set when preparing the annual action plan.	Most of the projects implemented under the Highways Division were foreign funded projects and should be completed within the period of the project. Hence, practically achievable physical targets were prepared comparing with the project period and legal problems, problems in the land acquisition process and shortage of imprest had been hindered the fulfillment of expected physical targets. Since the annual action plan prepared for the next year should be submitted to the Department of National Planning before 31 December of the relevant year, action plan prepared for the year

2019 had been submitted to the Department of National Planning on 28 December 2018. Since annual budget estimates for the year 2019 had not been finalized by the Ministry of Finance by that date, and expected estimate had been included in the Action Plan. Later, vote on account prepared for January to April 2019 had been sent to this Ministry on 03 January 2019 and there was no opportunity to include the financial allocation in the vote on account as budgetary allocation in the annual action plan.

3.2 Failure to Carryout Activities

The following observations are made.

Audit observation	Recommendation	Comments of the Chief Accounting Officer
<p>(a) Out of 07 activities included in the action plan relevant to the Petroleum Resources Development Division, 05 activities having allocations of Rs.50 million had not been commenced even as at 31 December 2019. Further, 02 activities with provisions amounting to Rs.10 million, had not been completed during the planned period.</p>	<p>Action should be taken to include proposed activities during the relevant year to the action plan and fulfill the targets.</p>	<p>These projects could not be completed within the specified time period due to the reasons including more time was taken than expected for the procurement process, instructions had to be taken from the Attorney General’s Department regarding legal matters, construction works being affected due to changes in the climate and approvals had to be obtained from other relevant organizations.</p>
<p>(b) Out of 35 activities included in the action plan prepared covering the fields of Administration, Development, Procurement, Finance and Internal Audit of the Petroleum Resources Development Division, 05 activities had not been completed.</p>	<p>Action should be taken to include activities proposed to undertake in the relevant year to the action plan and fulfill the targets.</p>	<p>These projects could not be completed though these had been expected to complete by 31 December 2019, as it was taken more time for getting legal explanations from the Attorney General’s Department.</p>

3.3 Not Performing in terms of the Objectives of the Ministry

Audit observation -----	Recommendation -----	Comments of the Chief Accounting Officer -----
<p>As at 31 December 2019, there were 1461 fuel stations island wide for the sale of fuel and out of that, 1254 fuel stations belonged to Ceylon Petroleum Corporation and the rest 207 fuel stations were belonged to Lanka Indian Oil Company. A special supervision team of the Petroleum Resources Development Division had been assigned to check the affairs of these fuel stations and 73 fuel stations out of the 1461 fuel stations belonged to the Ceylon Petroleum Corporation had been inspected by that team. Out of that, 28 fuel stations representing 38 per cent were in a poor condition. Further, only 03 fuel stations out of 207 stations belonged to the Lanka Indian Oil Company had been physically inspected during the year 2018 and out of that, 02 stations were in normal and poor condition. During the physical inspection carried out by the audit with regard to 24 fuel stations in Gampaha and Galle districts, considerable deficiencies were observed in the fuel supply service of 21 fuel stations.</p>	<p>In order to achieve objectives, relevant policy programmes, formulation of projects, post inquiries and evaluation should be done effectively.</p>	<p>Actions are being taken by the Ministry with three institutions, Sri Lanka Standards Institution, Industrial Technology Institute and Public Utilities Commission to update/ create standards in petroleum under the matter of improving the quality and the reliability in the fuel supply. Further, discussions are being held to create a more effective programme for the inspection of fuel stations.</p>

3.4 Not Achieving Expected Outcome

The following observations are made.

Audit observation	Recommendation	Comments of the Chief Accounting Officer
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<p>(a) According to the action plan for the year 2019, it had been planned to achieve physical targets of 100 work items which include routine maintenance activities, periodic maintenance activities, maintenance of structures, maintenance of signal lights and emergency works of national highways with an extent of 12,220 kilometers, nearly 4,660 bridges, and 12 flyovers by the Road Maintenance Trust Fund.</p> <p>However, from these maintenance activities under the purview of Provincial Road Development Authority offices, only 357.63 kilometers covering 09 provinces had been maintained during the year under review.</p>	<p>The roads expected to be maintained during the year should be classified and identified definitely.</p>	<p>It is not required to perform maintenance activities of roads and bridges implemented under the Road Maintenance Trust Fund for the entire national road network at once. The length of roads and number of bridges required to maintain during the year are decided based on priority basis and allocation of provisions.</p>
<p>(b) Even though it had been stated in the action plan that a budgetary provision amounting to Rs.500 million had been made for the construction activities of the Ruwanpura Expressway, targets regarding physical</p>	<p>The targeted physical progress should be stated in the annual action plan.</p>	<p>The initial advance payment for the construction activities of the Ruwanpura Expressway Project had been planned to make in the fourth quarter of the year 2019. Hence, also considering that amount, financial targets had been stated as Rs.500 million when preparing the annual action</p>

progress had not been stated. Further, it was observed that the provision made for this project was amounted to Rs.50 million only as per the annual estimate for the year 2019, Out of that, a sum of Rs.14 million had been transferred to other objects under the Financial Regulation 66.

plan. However, expected payments had not been made due to delays in the land acquisition process of the project. Thus, that money was transferred to other financially needy projects for effective financial utilization.

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| <p>(c) A provision had not been made in the action plan for the construction activities relevant to the year 2019 under the Elevated Highway Project from New Kelani Bridge to Rajagiriya and a physical progress of 20 per cent had been targeted. Even though a sum of Rs.125 million had been allocated in the annual estimate, physical progress achieved had not been stated as per the annual performance report.</p> | <p>When evaluating the annual performance, the achievements of the targeted physical progress should also be evaluated.</p> | <p>The physical targets of the Elevated Highway Project from New Kelani Bridge to Athurugiriya had been stated as 20 per cent for both activities of designing and construction. Due to the practical problems occurred when deciding a suitable investor for this project, designing or construction activities had not been implemented as planned.</p> |
| <p>(d) The targeted progress was 45 per cent whilst the actual progress was 29 per cent relevant to the first section of the Orugodawatta-Ambathale road reconstructed under the road development projects of the Colombo district commenced in the aim of reducing road traffic conditions in urban areas through the improvement of national road network of the</p> | <p>Required actions should be taken to achieve the targeted physical progress.</p> | <p>The main reason affected for the failure in achieving 100 per cent of the physical targets as planned in respect of all roads being reconstructed under the National Road Network Improvement Project in the Colombo district, was due to the delays and the problematic situation in the land acquisition process.</p> |

Colombo district. Though the targeted progress of the second section of the Orugodawatta-Ambathale road was 10 per cent, actual progress amounted to 0.2 per cent. The targeted progress of the Kotte-Bope road was 34 per cent whilst the actual progress was 25 per cent and the targeted progress of Kottawa-Thalagala road was 49 per cent whilst the actual progress was 29 per cent. It had been decided not to implement reconstruction activities of the Nawinna-Boralessgamuwa road. Accordingly, the progress of this project was in a very low level condition.

3.5 Delays in the implementation of Projects

 The following observations are made.

Audit observation	Recommendation	Comments of the Chief Accounting Officer
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(a) As there was no regulated authority for the petroleum industry since the year 2004, a resolution had been passed in the parliament in the year 2006 to include the petroleum industry as well under industries being regulated by the Public Utilities Commission of Sri Lanka Act No.35 of 2002. Accordingly, initial works had been commenced in	Required actions should be taken to make the relevant acts revised and approved.	Discussions had been made with the present subject Minister regarding the revision of this bill and a presentation had been done in this regard. Accordingly, the approval of the Attorney General's Department had been obtained in 2012 for the draft bill prepared to amend the Petroleum Products (Special provisions) Act No.33 of 2002. Hence, required actions had been taken to obtain a confirmation from the Attorney General's Department in that regard.

the year 2006 to revise the petroleum products (Special Provisions) Act No.33 of 2002 and the Ceylon Petroleum Corporation Act No.28 of 1961 in order to supply the equipment required for the regulation of the industry to the Public Utilities Commission. However, it had not been completed even as at 31 December 2019.

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| (b) Authority had been given to the Petroleum Resources Development Ministry to formulate a national policy on natural gas by a notice published in the Extraordinary Gazette of the Democratic Socialist Republic of Sri Lanka dated 21 September 2015. Even though it had been planned to complete the formulation of this national policy on Natural Gas by June 2018, it had not been completed even by 31 December 2019. | Prompt action should be taken to approve the relevant policies. | This national policy on natural gas had been re-submitted for the approval of the Cabinet of Ministers on 28 December 2019. A committee of specialists had been appointed for re-investigation of that policy as per the Cabinet decision No.20/0234/226/015. This national policy is being re-studied by that committee. After obtaining that report, action can be taken to re-submit to the Cabinet of Ministers. |
| (c) The oil tanking system established in the Trincomalee port since the year 1930, contains 102 tanks with a capacity of 12,500 liquid cubic metres and other related facilities. Lanka Indian Oil Company is utilizing 14 tanks in the lower section out of the 99 tanks remaining at present. Even though initial | Action should be taken to expedite the future works based on court judgments. | When incorporating a company by Ceylon Petroleum Corporation and Lanka Indian Oil Company for the development of 85 tanks in the upper section of the oil tanking system, it had been informed to the Ministry of Finance to make necessary arrangement to incorporate that company enabling Ceylon Petroleum Corporation and Lanka Indian Oil Company to purchase shares of that company. However, Common Employees' |

decision taking activities to renovate the 84 tanks in the abandoned upper section had been commenced on 29 April 2015, development and rehabilitation of the tanking system had not been done even by 31 December 2019.

union and Executive Officers' union of the Ceylon Petroleum Corporation had filed a case in this regard in the Supreme court.

(d) Approval had been granted by the Cabinet decision dated 19 October 2016 for the renovation of the oil warehouse established in the land owned by the Cement Corporation at Kankasanture. But a sum of Rs.142.98 million payable to the Cement Corporation by the Ceylon Petroleum Storage Terminals Company had not been settled and as a result, this project could not be implemented even as at 31 December 2019.

Action should be taken to expedite the works and settle the outstanding money.

Ministry of Lands informed to the Divisional Secretary- Thilippale for renting out the land after preparing the rental agreement and the Ceylon Petroleum Storage Terminals Company was informed to submit the survey plan to prepare the valuation reports of the land.

(e) An agreement had been entered on 30 September 2015 by the Petroleum Resources Development Secretariat with the National Aquatic Resources Research and Development Agency (NARA Institute) in order to initiate a research project of collecting maritime environmental data island wide targeting maritime areas of Sri Lanka. As at 28 September 2018, the Project had paid its total

The required actions should be expedited to establish the web server in the Petroleum Resources Development Secretariat.

According to the agreement entered with the National Aquatic Resources Research and Development Agency as the most appropriate public institute for the project of collecting island-wide environmental data targeting maritime areas of Sri Lanka, they have completed that activity and the data system is being operated. Action will be taken to enter into a separate sub-agreement for maintenance activities of the web server and the data system.

contract price of Rs.37,165,183 to the NARA Institute. But the web server which includes the data had not been established in the Petroleum Resources Development Secretariat even by the end of 2019 due to lack of trained officers who can operate the information system with a proper understanding about data and lack of required infrastructure facilities.

- (f) It had not been considered about the prerequisites that should be fulfilled when signing the integrated exploration agreement entered between the Sri Lankan government and the Total Company in France on 18 February 2016 for exploration activities in JS 5 and JS 6 land plots in the Eastern Coastal belt of Sri Lanka. Therefore, commencement of the project activities had been delayed as per the initially signed agreement until entering in to a revised integrated agreement again on 27 August 2019.
- Required action should be taken to expedite the project activities.
- The activities of the Project had been delayed until preparing the required background for implementing the agreement entered between the Sri Lankan government and the Total Company of France on 18 February 2016 for this project. Accordingly, this agreement was not ended on 18 February 2018 as per the Section 3.1 of the agreement. Hence, the agreement entered in the year 2016 remained in force until entering into the revised integrated agreement on 27 August 2019.
- (g) The approval of the Cabinet of Ministers had been obtained on 06 September 2016 for the bimodal and sterk data collection project around the eastern and western offshore belt of Sri Lanka.
- Action should be taken to identify the petroleum resources around the coastal zone of Sri Lanka and to submit the information required to take necessary actions to relevant authorities promptly.
- An integrated studying agreement had been entered between the Republic of Sri Lanka and the Total Company in France on 18 February 2016 considering JS 5 and JS 6 land plots in the eastern offshore of Sri Lanka. The main purpose of this

Lanka. Since this project is economically special to the country, the Cabinet Committee for economic management had instructed to implement this project expediently on priority basis. However, more than 1 ½ years from the date of Cabinet decision until the date of signing the agreement on 30 May 2018, had elapsed for entering into a contract regarding this project.

agreement was to carrying out exploring activities regarding petroleum sources in the two land plots by analyzing the data collected through geologic, geophysical, and technical analyzes.

Though as per the Section 8 of this agreement for the implementation of this integrated agreement, new bimodal seismic data had been required, the agreement had been entered without such data.

(h) The Cairn Lanka (Private) company had been selected for the exploration activities of petroleum in the M2 land plot at the Mannar basin after a round of international bidding process in the year 2007 and two natural gas depositions had been found from the excavations done in the year 2011. The excavations at the Mannar basin had been stopped halfway by this company and terminated the agreement on 15 October 2015. Thereafter, the excavation activities at this land plot had been abandoned halfway for a period of 04 years since the year 2015 without being achieved any progress.

The relevant authorities should be made aware about the importance of giving priority for the exploration activities of petroleum.

The Cairn Lanka (Private) company selected through the bidding process in 2007 for exploration activities in the M2 land plot had stopped its exploration activities based on a principle decision taken by its parent company- Wedentha Company. Since the cost for the exploration activities has been borne by those companies, these types of situations cannot be avoided.

- (i) I.H.S. Global Company had been selected through international competitive bidding in the year 2016 for exploration activities at M2 land plot in the Mannar basin and to implement Sales Promotion programmes to produce natural gas commercially. Even though U.S. 300,000 dollars equivalent to Rs.46,610,853 had been incurred for carrying out a marketing campaign from December 2016 to August 2018, sales promotional activities had failed.
- Before incurring expenditure, action should have been taken with a proper plan regarding expected results and based on the recommendation of a person with a specialized knowledge.
- Bids had been called with the approval of the Cabinet of Ministers for the production of natural gas depositions found from the excavations undertaken by that company and any international company had not presented for that.
- (j) Even though the initial activities of the Air Borne Gravity and Magnetic Data Colletion Project related to the Mannar basin had been commenced in the year 2012, no progress had been achieved by the Project for 07 years in spite of activities such as calling bids and selection of bidders.
- Prompt action should be taken to identify relevant resources.
- As observed, though bids had been offered to the Arken Company in Great Britain according to the decision taken at the Cabinet meeting held on 18 November 2015, the Project's activities had been stopped halfway since that company had become insolvent. The approval of the Cabinet of Ministers had been obtained in February 2019 for this Airborne Data Collection Project, since this data collection provides great support when calling bids for exploring land plots at Mannar and Cauvery basins. Accordingly, an agreement had been entered between Republic of Sri Lanka and a company in Great Britain namely Bell Geospace Ltd on 15 August 2019. This Project is expected to be completed during the year 2020.

3.6 Foreign Funded Projects

 The following observations are made.

Audit observation -----	Recommendation -----	Comments of Chief Accounting Officer -----
(a) As stated in the Section 401.7.1 of the technical specification of the Extension of Southern Expressway Project, International Roughness Index for the expressway should be between the range of 1.5- 2.3 metres per kilometre. Those indicators had been achieved by the contractors in the technical inspection reports. However, as observed during the physical inspection, the softness of some parts of the expressway was not adequate to assure the good running condition of motor vehicles.	When preparing technical specifications, provisions assuring the good running condition of vehicles, should be provided.	According to the Specification No.401.7.1 (for the inspection of softness), the Engineer should decide the softness of the surface along a sample area of 01 per 10 kilometres (0.1) and the softness given by the International Roughness Index should be measured in every area. That value (IRI) should be between 1.5-2.3 m/ km. The Planning Division of RDA had done the roughness test for the Southern Expressway Project and confirmed that IRI is within the specified limits.
(b) Even though several service areas had been recognized according to the Section 8.33 of the feasibility report relevant to the Extension of Southern Expressway Project, any plan for the construction of service stations or financial provision through bills of quantities had not been made. Accordingly, after the Welipenna Service Center at the 46 th km of the Southern Expressway, the public could not access the service facilities up to the end of the Expressway which contains 173 kilometres.	Provisions should be made to construct service areas for the Extension of Southern Expressway Project.	It is clear that a service area is essential for the Extension of Southern Expressway Project. Accordingly, although prices for the service area had not been included in the initial estimates, the approval had been requested from the China Exim bank for the construction of the service area utilizing the savings in the above 02 stages. However, that bank had rejected to give money. Further, it is informed that all the basic plans for the service area have been completed.

- (c) In accordance with the Sub-section 2.4 and 2.6 of the Government Procurement Guidelines 2006, the Procurement Committee and the Technical Evaluation Committee are required to conduct a formal evaluation of bids. However, the guidelines had not been followed relevant to two contract packages under the Second Integrated Road Investment Program. Accordingly, the Project had incurred a loss of Rs.28.73 million as at 31 December 2019 due to rate discrepancies between engineer estimate, bidding documents and bills of quantities and wrong interpretations given to work items.
- Action should be taken to recover the loss incurred for the project.
- Prices for these supplies are allowed to be quoted under the bill numbers and the charge based on those prices and quantities are allowed to be quoted in front of each item. It had been carried forward for the entire contract amount and accordingly the charges obtained can be taken as the minimum price received for the relevant specifications.
- (d) Based on the undisbursed source of the loan as at 31 December 2019, a sum of Rs.1,180.44 million in respect of the Integrated Road Investment Program and a sum of Rs. 206.03 million in respect of the Second Integrated Road Investment Program had been paid to the Donor Agency as Commitment charges.
- According to the initial plans of the project, action should be taken to implement the expected work at the maximum and utilize the total loan amount expected to be disbursed.
- The above payment had been made in accordance with the agreements entered into with the donor agencies. Within 60 days of the activation of the loan agreement, from the date of commencement of utilization of the loan, the payment of commitment charges is mandatory for the unused amount of the loan as per the loan agreement.
- (e) The mobilization advance paid to the contractors under Section 5.4.4 (iii) of the Government Procurement Guidelines 2006, should be recovered before completion of 90 per cent of the total payments of the relevant contract. However, a sum of Rs.870 million of the advance given for the Phase III of the Outer Circular Highway Project could not be recovered while 99 per cent of the total payments of that contract been made and even before the end of the loan agreement on 10 December 2019.
- Action should be taken to recover the relevant advance money properly.
- According to the Subsection 60.7 of the contract agreement which specifies the contract, the total advance payment is required to be recovered upon certification of 90 per cent of the total contract value for payment. It is informed that this total amount had been recovered from the interim bill No. 39 submitted for work up to the end of January 2020.

- (f) According to the Section 4: 3: 1 of the Government Procurement Guidelines 2006 and the Public Finance Circular No.2/2012 dated 07 August 2012, when preparing the total cost estimates, the estimates should be prepared as accurately as possible to include all costs. However, out of 235 items comprising costs of Rs.134.32 million and Rs.150 million stated in the bills of quantities relevant to the package 01 and 03 of the Southern Road Connectivity Project respectively, 198 items had not been implemented even by 31 December 2019. Accordingly, mobilization advance of Rs. 42.65 million had been overpaid to the contractor by the Project.
- Action should be taken to recover overpaid mobilization advances.
- Advance had not been overpaid and was paid on the accepted contract amount in accordance with the terms of the contract and not on the basis of the final contract amount. Advance payment is made at the beginning of the contract period. The final contract amount will be known at the end of the contract period. Advance payment had already been recovered.
- (g) Major Bridges Construction Project of the National Road Network (37 Major Bridges Construction Project)
- (i) The Government of Sri Lanka had entered into an agreement on 14 March 2013 to obtain a loan of Japanese Yen 12,381 million from the Japan International Cooperation Bank for the construction of 37 major bridges. Although six years had elapsed after signing the loan agreement by October 2019, works on 18 bridges were still pending and contracts for the construction of the remaining 19 bridges had not been awarded. As at 31 December 2019, only a sum of Rs. 9,206 million equivalent to 57 per cent of the above loan had been utilized. This loan agreement is due to expire on 05 July 2021, and the bank had not agreed to extend that period. Thus, the remaining Japanese Yen 5,378 million equivalent to Rs. 11,708
- Efforts should be made to perform the relevant work to the maximum level during the proposed loan agreement period.
- From the beginning it was known that the loan would not be sufficient to build 37 major bridges, as the loan agreement stipulated that the contracts under this loan would be awarded only to Japanese companies and that 30 per cent of the value of the goods or services would be imported or obtained from Japan. It is informed that when awarding the contract packages by the Road Development Authority, prices were high as they should be offered only to the Japanese contractors as per the terms of the loan agreement and a reasonable competition did not arise between the contractors due to the limited number of contractors applied.

million or 43 per cent of the total loan amount had become unable to obtain.

- (ii) According to the loan agreement, it had been proposed to construct 37 bridges in 05 provinces under 05 packages. However, due to improper planning of construction work, delays in awarding contracts and delays in the construction of bridges, only 18 of the 37 bridges had been completed by 31 December 2018 and the construction of 19 bridges proposed to be constructed under 03 packages in 03 provinces had been abandoned.
- Action should be taken to recover the advance paid to the contractors.
- The amount left over for civil contracts amounted to Yen 3,425 million, and considering the amount of money spent on the bridges constructed, the savings would be sufficient to build maximum 09 more bridges. If so, 27 bridges could be completed entirely. Accordingly, it is clear that 37 bridges cannot be constructed using the loan amount as stated in the loan agreement.
- (h) The contractor for the construction of the Ingiriya- Ratnapura road under the contract package 01 had sought compensation of Rs. 1,687 million against the Road Development Authority on 27 February 2018 regarding 07 non-conformances. Out of that, a sum of Rs.903.10 million comprised with interest charges as at 30 April 2018. The contractor had stated at the arbitration that the main reason for this claim was increase in the contract period by 911 days, which was due to the change in the scope of the Project and the delay in approving the work plans. The approval of the Cabinet of Ministers had been given to pay Rs. 1,000 million and related taxes to the Contractor in accordance with the Cabinet Decision No. 19/2683/119/095 dated 16 October 2019.
- Action should be taken to initiate foreign funded projects implemented under foreign funds and to achieve the relevant completion targets within the project time frame without delay.
- Seven disputes had been referred to the Dispute arbitration by the Contract Company in 2010, and the Dispute Arbitrator had given the judgment in 2018 that the Road Development Authority should pay the Contractor a sum of Rs.1,638 million in addition to the amount already paid. Thereafter, it had been agreed between the Road Development Authority and the Contractor to pay Rs.1000 million and relevant taxes.
- (i) As the Sri Lankan rupee depreciates
- Action should be
- The value of the US dollar

continuously, exchange losses on foreign-funded projects are increasing. Failure to complete projects during the specified time period had also contributed to the increase in exchange losses. Accordingly, part of the loan funds could not be utilized. The total exchange losses found in a sample test carried out in respect of 04 projects was amounted to Rs.10,161 million.

taken to initiate foreign funded projects implemented under foreign funds and to achieve the relevant completion targets within the project time frame without delay.

against the Sri Lankan rupee decided for a specific date in the contract agreement could be stated as the reason for exchange loss. It is kindly informed that the selling exchange rate declared by the Central Bank of Sri Lanka on the date of payment would be appropriate in future contract agreements.

- (j) After the completion of some projects, the project activities had not been completed expeditiously by handing over the assets and liabilities of those projects to the implementing agency and as a result, additional funds had been spent on the projects unnecessarily.
- Action should be taken to hand over the assets and liabilities of the completed projects to the Road Development Authority without delay.
- As the liquidation account of the project is currently being prepared, action will be taken to hand over all the liabilities related to the project to the Road Development Authority in future.
- (k) A sum of Rs.1,759 million had been paid to an Australian company to conduct a feasibility study on the Central Expressway comprising 04 stages. Without obtaining a final feasibility study report from that company, agreements had been entered with several local institutions at a value of Rs.97 million for a connected feasibility study.
- Action should be taken to obtain reports on feasibility studies without delay. If the feasibility study is to be amended, action should be taken to get it rectified through the relevant party.
- The total amount paid to (SMEC) Institute as at 31 December 2014 was Rs.1,600,183,080 (including taxes). By that time (SMEC) Institute had completed the entire feasibility study and submitted the reports to the Project Office. Those reports were in acceptable condition. However, as the government had decided to change the first 10 kilometres of the roadway at the starting point of the Northern Expressway in 2015, and some revisions had to be made to the feasibility study done by (SMEC) Institute. Accordingly, agreements had been signed with the University of Moratuwa to revise and update the Economic Feasibility Study

and with the University of Sri Jayewardenepura to update the Environmental and Social Impact Report.

- (l) The approval of the Cabinet of Ministers had been obtained on 01 March 2020 to terminate the agreed process with the Japanese Contractor to whom the contract awarding letter sent on 04 May 2018 for the Construction of Section III of the Central Expressway which is from Pothuhera to Galagedara and to terminate the agreement of financial arrangement with the Bank of Tokyo Mitsubishi UFJ Limited. Further, the arrangement with the Consultancy Company had been concluded by the letter dated 12 July 2019 of the Project Director. Accordingly, it was problematic in audit regarding the construction works of this Project.
- When obtaining special loans through foreign funded projects, decisions should be made with a proper study about precise contractors and donors of financial provisions by way of minimizing the cost.
- During the Cabinet Meetings held on 19 and 27 February 2020, approval had been given to the Ministry of Roads and Highways to cancel the previous procurement process for this section as well as to commence a new procurement process. Accordingly, a new procurement process has been initiated and is currently being implemented.
- (m) The profits and losses from the revaluation of the imprest funds shown in the Advance Account Statement of the Central Bank of Sri Lanka, had not been taken to relevant ledger accounts accurately and as a result, following impacts had occurred on the accounts of the Transport Project Preparatory Facility Project.
- Action should be taken to post accurate accounting entries.
- The balance of the Central Bank Imprest Fund account is revalued monthly based on the dollar value. When calculating the revaluation result for 05 months from August to December 2019, internal journal No. 5 was incorrectly prepared due to a mistake. The favourable and unfavourable variances were changed with each other. A debit journal entry had also been used for the revaluation gain of the 03 months of August, September and December.
- (i) The correct value of the profit and loss from the revaluation amounted to Rs.2,378,196 which had been brought inaccurately to the accounts during the year under review occurring a cumulative net impact of Rs.1,389,156. As a result, the Central Bank imprest account balance, imprest fund revaluation account balance and total current assets of the Project had been understated by Rs.3,767,352.

- (ii) The work in progress as at 31 December 2019 had been overstated by Rs. 2,778,312.
- (iii) There was a difference of Rs.3,767,354 between the balance of the Central Bank imprest account and the balance in the statement of financial position as at 31 December 2019.

3.7 Asset Management

Audit observation -----	Recommendation -----	Comments of the Chief Accounting Officer -----
<p>Although as per the National Budget Circular No.07/2019 dated 04 December 2019 issued by the name of Management of Public Expenditure and Maintenance of Financial Discipline, it had been stated that every effort should be taken to utilize available resources of spending agencies to avoid idle facilities cost, out of the vehicles possessed by the Ministry, 07 vehicles in a usable condition had been parked unsafely without being used during the year under review.</p>	<p>Action should be taken to strengthen the internal control system related to property, plant and equipment.</p>	<p>With the cancellation of the appointments of State Ministers on 18 November 2019, the vehicles attached to that staff had been returned to the Ministry. The vehicles were safely parked in the car park of the Road Development Authority along with other vehicles of the Ministry under the supervision of Security Officers deployed by the Road Development Authority.</p>

3.8 Security Deposits of the Public Officers

Audit observation -----	Recommendation -----	Comments of the Chief Accounting Officer -----
<p>According to the Financial Regulation 880 (i) and the Public Officers (Security) Ordinance (Cap.612), any of the officers required to have security deposits in the Highways</p>	<p>Should comply with Financial Regulations.</p>	<p>Highways Division – Furnishing securities by the officers required to have security as per the Financial Regulation 880 (i) is being carried out based on the</p>

Division as well as the Petroleum Resources Development Division of the Ministry, have not given security deposits.

requirement. Petroleum Resources Development Division - A committee has been appointed with regard to obtaining securities and future activities are being carried out.

3.9 Losses and Damages

The following observation is made.

Audit observation	Recommendation	Comments of the Chief Accounting Officer
<p>In the statement of written off from the books included in the financial statements submitted, the total losses and waivers carried forward up to 31 December 2019 was amounted to Rs.1,064,226 relating to 17 vehicle accidents. Although at least two years had passed since the occurring of those accidents, action had not been taken to recover the balance or take any suitable action even by 31 December 2019.</p>	<p>Action should be taken to timely cover the losses and damages or waive from the books.</p>	<p>As per the formal approval, a sum of Rs. 366,222 had been written off on 21 February 2020 as losses and waivers relating to 11 vehicle accidents. Actions are being taken relating to other vehicle accidents.</p>

4. Sustainable Development

4.1 Preparation for the Targets of Achieving the Sustainable Development Goals

The following observations are made.

Audit observation	Recommendation	Comments of Chief Accounting Officer
<p>(a) Highways Division Programmes to be implemented to achieve the Sustainable Development Goals had not been included in the Annual Programme. But targets and indicators only for 03 Sustainable Development Goals had been</p>	<p>The goals, targets and indicators relevant to achieving the Sustainable Development Goals should be clearly</p>	<p>(a) Highways Division There are three identified goals under the purview of the Ministry of Roads and Highways under the Sustainable Development Goals. The physical progress of the identified development projects</p>

stated in the Annual Performance Report and had not specified a progress relevant to those indicators.

identified and properly evaluated to achieve them.

to achieve each of these goals and the targets and indicators identified in relation to them were specified under Chapter 05 of the Annual Performance Report.

The Annual Action Plan did not specify the programmes for each of these goals, but would include information on sustainable development programmes in the Annual Action Plan prepared for the future years.

(b)Petroleum Resources Development Division

(i) Although in accordance with the National Budget Circular No. BD / CBP / 4/1/2-2018 dated 31 July 2017, “Affordable and Clean Energy” had been identified as the Sustainable Development Goal which is directly applicable to the Ministry of Petroleum Resources Development to achieve the Sustainable Development Goals, any project had not been planned or implemented during the year 2019 to achieve that sustainable development goal.

The goals, targets and indicators relevant to achieving the Sustainable Development Goals should be clearly identified and properly evaluated to achieve them.

It is informed that the projects are not being implemented by this Ministry and that the projects are being carried out by the Ceylon Petroleum Corporation, the Ceylon Petroleum Storage Terminal Company and the Petroleum Resources Development Secretariat. The Petroleum Resources Development Secretariat had launched a project on the exploration of liquefied natural gas. Further, the EURO 4 standard fuel introduction project had been identified by the Ceylon Petroleum Corporation in the year 2018. Those projects could be identified as “Affordable and Clean Energy”.

(ii) The Ministry had not issued any internal circular or guidance even as at 31 December 2019 regarding the directing of the staff of the Ministry to achieve the Sustainable Development Goals and even a training programme had not been implemented to make the interested parties aware of it.

Action should be taken to implement internal control provisions to achieve Sustainable Development Goals.

Officials of the Ministry would be briefed on timely topics from time to time and a lecture was given on the importance of protecting the ozone layer on 07 June 2019 under the National Programme in line with the International Environment Day.

<p>(iii) The Ministry had not clearly identified the milestones and indicators required to regulate the relevant activities in achieving the Sustainable Development Goals. Further, a data collection system had not been established in that regard and any officer had not been deployed for this purpose.</p>	<p>In order to achieve the Sustainable Development Goals, an internal control system should be developed to regulate the relevant activities.</p>	<p>Up-to-date, the Ministry had not been informed in writing of a methodology for data collection related to the Sustainable Development Goals.</p> <p>Required action would be taken after informing this Ministry in writing of a methodology to collect data related to the achievement of Sustainable Development Goals by the Ministry of Mahaweli Development and Environment.</p>
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<p>(iv) The Ministry of Petroleum Resources Development had not identified the financial provisions required to achieve the Sustainable Development targets and had not identified a methodology for deploying existing physical resources and staff of the Ministry in this regard and also a methodology for regulating the activities relevant to achieving the Sustainable Development Goals.</p>	<p>An internal control system should be developed to regulate the relevant activities in order to achieve the Sustainable Development targets.</p>	<p>Contributions from this Ministry and Institutions had already been made in the programmes of the Ministry which were directly related to Sustainable Development. Further, actions are being taken to introduce natural gas as a clean fuel which has a minimum carbon emission for generating energy. The Ministry had also formulated a National Policy on Natural Gas and had submitted it to the Cabinet of Ministers.</p>
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5. Good Governance

5.1. Internal Audit

Audit observation -----	Recommendation -----	Comments of the Chief Accounting Officer -----
<p>The Audit Plan prepared by the Internal Audit Division of the Highways Division for the year 2019 included 32 audit assignments but out of these 16 assignments had been assigned to the internal auditors of each project. Out of the remaining 16</p>	<p>Action should be taken to attach the Internal audit staff in accordance with the audit plan and make the audit works efficient.</p>	<p>According to the internal audit plan for the year 2019, 05 audit inspections had been carried out.</p>

audit assignments, the Internal Audit Division had completed only 08 assignments in the year 2019. Accordingly, the Internal Audit Division had failed to achieve the expected level of performance during the year 2019.

6. Human Resource Management

6.1. Expenditure for Attached Staff, Actual Staff and Personal Salaries

The staff composition of the Highways Division and Petroleum Resources Development Division of the Ministry at the end of the financial year is as follows.

Audit observation -----	Recommendation -----	Comments of the Chief Accounting Officer -----
(a) Highways Division		
<p>It was observed that there were 86 vacancies of Development Officers, a secondary level post in the Highways Division. The Ministry had released 87 Development Officers who had been recruited to the Ministry for the duties of the Regional Offices of the Road Development Authority which are not directly related to the role of the Ministry. A sum of Rs.12,593,794 had been paid to those officers during the year under review by the Ministry. Further, 30 officers recruited to the Road Development Authority had been released to the Ministry during the year under review. Accordingly, action had been taken to increase the approved staff without a proper evaluation and adjusting for recommendations of service requirement.</p>	<p>Action should be taken to revise the approved cadre and fill the relevant vacancies as per the actual staff requirement of the Ministry.</p>	<p>Based on a policy decision of the Government, 365 Development Officers had been attached to this Ministry in the year 2013 and the approval of the Cabinet of Ministers had been obtained for that. As all these officers could not be retained in the Ministry, they had been attached to Regional Offices and Engineering Offices of the Road Development Authority in close proximity to their residences. However, due to repeated requests from the Management Services Department to reduce this number, it has now been possible to reduce that number to 220. As per the requirement of the Ministry, the Department of Management Services had requested for the adjustment of 90 Development Officer posts in the year 2019, but it had not been approved so far. Moreover, at the request of the officers, the transfers to other institutions had</p>

been made without a successor. Further, there would be no reassignment to the relevant office.

Thirty officers of the Road Development Authority had been temporarily attached to fill the existing vacancies in the posts of Management Services Officer, Driver and Office Aid service of the Ministry and to carry out the general administration activities of the Ministry.

**(b) Petroleum Resources
Development Division**

As at 31 December 2019, there were 04 vacancies in the senior staff ranks, 02 vacancies at the tertiary level, 18 vacancies at the secondary level, 08 vacancies at the primary level and 32 vacancies due to the inability to maintain a realistic level of service and conduct a timely review of the number of employees. Accordingly, the number of vacancies in the institution as at 31 December 2019 was 33 per cent compared to the approved number of employees in the institution.

Action should be taken to revise the approved cadre and fill the relevant vacancies as per the actual staff requirement of the Ministry.

Requests had been made to the relevant institutions on several occasions regarding the existence of vacancies in the posts and at present 06 Development Officers had been attached for the vacancies.

6.2. Lack of Proper Planning of Human Resources Development

Audit observation -----	Recommendation -----	Comments of the Chief Accounting Officer -----
Highways Division		
Although plans had been made to implement 13 major training programmes for the year 2019, only two of the programmes mentioned in that plan had been implemented during the year under review. In preparing the training plan, the estimated cost	In preparing the annual training plan, the estimated cost of each training programme, the number of officers participating, and	Although 13 mainstream training programmes had been planned for the year 2019 to develop the work, attitudes and capabilities of the officers of the Ministry, the officers had been directed for training programmes based on the requests and training

of each training programme, the number of officers participating, and the duration of the training programme had not been accurately planned and prepared.

the duration of the programme should be accurately planned.

requirements of the officers as per Annexure 8 from time to time. Accordingly, a total of 35 training programmes had been conducted in the year 2019 as 28 various training programmes and 7 seminars. These programmes had provided training opportunities to a total of 279 officers, including executives.