

## Report of the Auditor General on Head 114- Ministry of Transport and the Departments under that Ministry-Year 2014

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Paragraph 1 and 2 of this Report contain the general information on the Accounts of the Ministry and the Departments under that Ministry and the Audit Observations on each Head appear in paragraph 3 onwards.

### 1. Departments under the Ministry

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<b>Head</b>	<b>Department</b>
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306	Sri Lanka Railway Department
307	Motor Traffic Department

#### 1.1 Scope of Audit

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The audit of the Appropriation Account, Revenue Account, Stores Advance Account and Reconciliation Statements including the financial records, reconciliation statements books, registers and other records of the Ministry of Transport and the Departments under that Ministry for the year ended 31 December 2014 was carried out in pursuance of provisions in Article 154 (1) of the of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Chief Accounting Officers and Accounting Officers of that Ministry and the Departments on the dates mentioned below. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

Date	Ministry/ Department	Date of Issue of the Management Audit Report
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114	Ministry of Transport	05 June 2015
306	Sri Lanka Railway Department	25 June 2015
307	Motor Traffic Department	18 December 2015.

## 1.2 Responsibility of the Chief Accounting Officer and the Accounting Officers for the Accounts and Reconciliation statements

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The Chief Accounting Officer and the Accounting Officers are responsible for the maintenance, preparation and fair presentation of the Appropriation Accounts, the Revenue Accounts, Stores Advance Account and the Reconciliation Statements in accordance with the provisions in Articles 148,149,150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Financial and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliations Statements that are free from material misstatements whether due to fraud or error.

## 2. Accounts

### 2.1 Appropriation Accounts

#### Total Provision and Expenditure

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The total net provision made for the Ministry and 02 Departments under that Ministry amounted to Rs. 81,134 million and out of that Rs. 76,337 million had been utilized by the end of the year under review. Accordingly the savings out of the net provision of the Ministry and the Departments ranged between Rs. 46 million to Rs. 4,438 million or between 01 per cent to 18 per cent of the net provision. Details are shown below.

Head	As at 31 December 2014			Servings as a Percentage of Net Provision
	Net Provision	Utilization	Servings	
	Rs. Million	Rs. Million	Rs. Million	
114	25,010	20,572	4,438	17.74
306	53,692	53,379	313	0.58
307	2,432	2,386	46	1.89
<b>Total</b>	<b>81,134</b>	<b>76,337</b>	<b>4,797</b>	<b>5.91</b>

## 2.2 Revenue Accounts

### Estimated and Actual Revenue

The two Departments under the Ministry had prepared Revenue Estimates totalling Rs. 13,937 million in respect of 04 Revenue Codes for the year 2014 and revenue totalling Rs. 15,200 million had been collected during the year under review. Revenue in the ranges of 90 per cent to 115 per cent of the estimated revenue had been collected. Details appear below.

Revenue Code	As at 31 December 2014			Excess/(Deficient) as a Percentage of the Estimate
	Estimated Revenue	Actual Revenue	Excess/(Deficiency)	
	Rs. Million	Rs. Million	Rs. Million	
20.01.01.00	5,129.00	5,909.31	780.31	15.21
10.03.01.00	1,150.00	1,114.85	(35.15)	(3.06)
10.03.07.04	58.00	51.94	(6.06)	(10.45)
10.03.02.14	7,600.00	8,123.80	(523.80)	(6.89)
<b>Total</b>	<b>13,937.00</b>	<b>15,199.90</b>	<b>1,262.90</b>	<b>9.06</b>

## 2.3 Advance Accounts

### 2.3.1 Advances to Public Officers Accounts

#### Limits Authorized by the Parliament

The limits authorized by Parliament for the Advances to Public Officers Accounts of the Ministry and 02 Departments under the Ministry and the actual amounts are given below.

Item No.	Expenditure		Receipts		Debit Balance	
	Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million
11401	8.00	3.00	2.90	3.90	34.00	16.85
30601	540.00	410.39	290.00	308.86	1,800.00	779.65
30701	28.00	24.00	17.00	19.00	125.00	100.00

### 2.3.2 Stores Advance Account

Limits authorized by Parliament for the Stores Advance Accounts relevant to a Department under the Ministry and the actual values are shown below.

Item No.	Expenditure		Receipts		Debit Balance		Credit Balance	
	Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual	Maximum Limit	Actual
	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million
30602	2,200	2,180	1,200	1,272	6,602	6,313	1,000	-

### 2.4. Imprest Account

Balance of the Imprest Account of the Motor Traffic Department functioning under the Ministry as at 31 December 2014 was Rs.383 million.

### 2.5 General Deposits Account

Balance of the Deposit Account of the Motor Traffic Department functioning under the Ministry as at 31 December 2014 was Rs.329 million.

### 2.6 Audit Observation

According to the Financial Records and Books for the year ended 31 December 2014, it was observed that subject to the audit observations appearing in paragraph 1.1 of the Management Audit Reports, Appropriation Accounts, Revenue Account, Stores Advance and the Reconciliation Statements of the Ministry and the Department under the Ministry have been prepared satisfactorily. The material and important observations out of the observations included in those Management Audit Reports appear in paragraph 3 to 5 herein.

### 3 Head 114 –Ministry of Transport

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#### 3:1 Non-maintenance of Registers and Books

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It was observed during audit test checks that the Ministry had not maintained the following registers

Type of Register	Relevant Regulation
(a) Register of Fixed Assets	Treasury Circular No.842 dated 19 December 1978
(b) Register on Computers , Accessories and Software	Treasury Circular No.IAI/2002/02 dated 28 November 2002
(c) Register on Electric Appliances	Financial Regulations 454 (2)

#### 3.2 Appropriation Account

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##### Budgetary Variance

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The following observations are made

- (a) Provisions totalling Rs.5,000,000 had been made by the annual budget estimate for two Objects and out of that Rs. 3,870,713 had been utilized by the Ministry. Accordingly, a sum totalling Rs. 1,129,287 or 22.59 per cent out of the net provision had been saved. It had been stated in the Appropriation Account that non- issuance of imprests by the Department of Treasury Operations had resulted in this savings.
- (b) Total provisions amounting to Rs.25,000,000 made for 03 objects had been saved.
- (c) As a result of making overprovisions for 22 Objects, savings after the utilization of the provisions had ranged between 5 per cent to 100 per cent of the net provision relevant to those Objectives.

#### 3.3 Reconciliation Statement relating to Advances to Public Officers Account

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The following deficiencies were observed during the course of audit test check carried out on the Reconciliation Statement relating to Advances to Public Officer Account - Item No.11401.

- (a) According to the reconcile statement presented to audit, the total outstanding balances as at that date amounted to Rs.1,035,256. Although that outstanding balances had continued to exist for a period from 1 to 16 years, the follow up action taken on the recovery of those outstanding balances was at a weak level.

- (b) No action whatsoever had been taken for the recovery of loan balance totalled Rs.599,204 comprising Rs.469,303 of 6 officers which had been outstanding for a period over 2 years and less than 3 years and Rs.129,901 of an officer which had been outstanding for a period over one year but less than two years.

### **3.4 Assets Management**

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The following deficiencies were observed during the course of audit test checks of the assets of the Ministry.

- (a) According to the Public Finance Circular No. 02/2014 of 17 October 2014, the Board of Survey for the year 2014 should be conducted and the reports thereon should be furnished to the Auditor General before 17 March 2015. Nevertheless, the Ministry had not furnished those reports even by 31 May 2015. The last Board of Survey conducted had been for the year 2013.
- (b) Action in terms of the Financial Regulations 756 had not been taken on the shortages of 160 goods relating to 37 items of goods pointed out in the Reports of the Board of Survey for the year 2013.

### **3.5 Foreign Funded Projects**

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The Ministry had implemented Matara – Katharagama new railway track construction project under foreign financing during the year under review. The estimated cost according to the relevant loan agreement amounted to Rs. 36,166 million and Rs.11,123 million had been utilized during the year under review. The construction contract of this Foreign Aid Financing Project had been awarded to China National Machinery Import Corporation institute. Although the contract programme had been submitted in accordance with the condition 8.3 of the Contract Agreement, it had been amended in 06 instances within a period less than one year by the month of July 2014. The Contractor had submitted the programme amended for the 6<sup>th</sup> time on 24 July 2014, the date of audit. Nevertheless, works on 12 items had not been commenced even by the date on which the project had been scheduled to be completed as per the said programme. Since those contract programmes had been prepared without conducting a preliminary study, the said programmes had to be amended.

### 3.6 Implementation of Projects under Domestic Financing

#### Delays in the implementation Project

Although the Transport Ministry had established a separate division for the construction of new railway tracks and made provisions for a number of years, no project whatsoever had been actively implemented. Details are given below.

Project	<u>Within the period 2011-2014</u>			Action during the year 2014
	<u>Provision</u> Rs. Million	<u>Expenditure</u> Rs. Million	Expenditure as the Percentage of the provision.	
(i) Construction of Kottawa-Horana Railway Track	38.0	02.7	07	There was no evidence to the audit that the project was in operation
(ii) Construction of Dambulla Railway Track via Kurunegala and Habarana	118.9	04.7	04	-Do-
(iii) Construction of Colombo-Hambantota Kelaniwely Railway Track	110.0	--	--	-Do-
(iv) Construction of Medawatchchiya-Trincomalee Railway Track	53.0	10.7	20	-Do-
(v) Construction of Wellawaya-Bibila-Badulla Railway Track	40.0	01.7	04	-Do-
(vi) Construction of Trincomalee, Maho, Puttalam Railway Track	16.0	--	--	-Do-

### 3.7 Uneconomic Transactions

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Details on the uneconomic transactions revealed at the audit test check are given below.

#### (a) Uneconomical Payment of Camera Rental

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In order to repair Sony-HVR-HR 1000P video camera used by the Media Division of the Transport Ministry, a sum of Rs.198,048 had been spent. For the purpose of heiring another camera during that period in the year under review, a sum of Rs.303,105 (Rs.2,350 per day) had been spent. Since the existing camera had to be frequently repaired and it took a longer period for the repairs, a colossal amount of money had to be spent on hiring a camera for that period. Accordingly , since action had not been taken to purchase a new camera, an uneconomical expenditure had to be incurred as referred to above.

#### (b) Uneconomically Spending Rs. 180,620 for Video Copies

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Editing media coverage of the Transport Ministry and writing of those edited video copies had been carried out by the private sector. A large amount of those expenditure (about 90 per cent) had been incurred, not for editing videos but for obtaining video copies. Without obtaining VCD, CD and DVD copies with the use of computer capable of writing DVDs, a sum of Rs.180,620 had been spent for obtaining video copies only within the period of past 04 months.

### 3.8 Management Weaknesses

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The following weaknesses were observed at the audit test check.

- (a) Despite the supply of 28 direct telephone connection for each division of the Ministry, a sum of Rs.339,139 had been spent in respect of the calls obtained through the common telephone connection during the year 2014.
- (b) In addition to the direct and common telephone charges, a sum of Rs.276,263 had been spent for 03 telephones that had not been assigned to any officer (Security, Technical and Planning Divisions) and the monthly expenditure of those telephones had exceeded even the limit allowed for an officer.



### 3.9 Human Resource Management

#### (a) Approved and Actual Cadre

The position of the cadre as at 31 December 2014

Category of employee	Approval Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	25	20	05
(ii) Tertiary Level	05	03	02
(iii) Secondary Level	137	84	53
(iv) Primary Level	45	31	14
(v) Other (Casual / Temporary/ Contract Basic)	03	-	03
<b>Total</b>	<b><u>215</u></b>	<b><u>138</u></b>	<b><u>77</u></b>

The Ministry had failed to fill 77 vacancies by the end of year under review.

#### (b) Idled Human Resources

Without assigning any specific duty and taking action to make progress, 10 officers including the Project Direct of New Railway line construction had been paid a sum of Rs.6,068,979 as salary within 02 years.

#### (c) Human Resources obtained from other Parties

Particulars on human resources obtained by the Ministry from the following parties are given below.

	Category of Employees -----	Number -----	Other Party -----
(i)	Government Management Assistant	01	Sri Lanka Railway Department
(ii)	Karyala Karya Sahayaka	12	-Do-
(iii)	Computer Operator	01	Sri Lanka Transport Board
(iv)	Drivers	06	-Do-

#### 4. Head – 306 – Sri Lanka Railway Department

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##### 4.1 Presentation of Accounts

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The Sri Lanka Railway Department had furnished the following accounts to audit by 31 March 2015, that is after a delay of over 01 month.

Head / Revenue Code / Item No.	Name of the Account -----	Date of Presentation of Accounts -----	Delay as at 31 May 2015 ----- Months -----
306	Appropriation Account	22 June 2015	02
20.01.01.00	Sri Lanka Railway Department Revenue Account	02 April 2015	01
30601	Reconciliation Statement on the Advance to Public Officers Account.	07 May 2015	01
30602	Stores Advance Account	20 May 2015	01

## 4.2 Non-maintenance of Registers and Books

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It was observed at the audit test checks that the Sri Lanka Railway Department had not maintained the following registers.

Type of Register	Relevant Regulation
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(a) Register of Fixed Assets	Treasury circular No 842 dated 19 December 1978 and Appendix 11 of the Financial Regulation 502 (2)
(b) Register of Fixed Assets on computer, accessories and software	Treasury circular No. AIA/2002/2 dated 28 November 2002.
(c) Register of official telephone	Financial Regulation 845(1)
(d) Register on Electric Appliances	Financial Regulation 454(2)

## 4.3 Replies to Audit Queries

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Replies to 54 audit queries issued to Sri Lanka Railway Department during the year under review and 22 audit queries issued in previous years had not been given even by 31 March 2015 and the value of the quantifiable transactions relating to those queries amounted to Rs.2,046,689,870.

## 4.4 Appropriation Account

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### Budgetary variation

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Although the provisions made for an Object amounted to Rs.3,200 million, since required provisions had not been received from the treasury, only a sum of Rs.2,910 million out of that amount had been utilized. Accordingly, Rs.290 million or 9 per cent of the provisions made had been saved.

#### 4.5 **Imprest Account**

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The following observations are made.

- (a) Contrary to the provisions in the Financial Regulation 371, ad-hoc imprest aggregating to Rs.1,390,000 had been issued to 15 non – staff grade officers in 15 instances.
- (b) Although the maximum ad-hoc imprest that can be issued to a staff grade officer amounted to Rs.20,000 according to the Financial Regulation 371, contrary to that regulation, ad-hoc imprest aggregating to Rs.1,415,000 exceeding the limit of Rs.20,000 had been issued to 16 officers in 16 instances.

#### 4.6 **General Deposit Account**

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Action had not been taken in terms of the Financial Regulation 571 with regard to the deposits totalling Rs.135,946,260 (except for land deposit) older than 02 years.

#### 4.7 **Revenue Account**

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As the Accounting officer, the preparation of revenue estimates, collecting and accounting of revenue and the presentation of accounts under the revenue code 20.01.01.00 had been assigned to the Head of the Department. The following deficiencies were observed at the audit test check conducted on that revenue code.

- (a) Without being considered the revenue of Rs.5,423 million collected in the preceding year, a revenue estimate to the value of Rs.5,128 million had been prepared for the year under review. A sum of Rs.781 million or 15 per cent exceeding the estimated revenue had been collected by the end of the year under review.
- (b) According to the Revenue Account furnished to audit, the outstanding income amounted to Rs.1,571,205,201 and those outstanding income had related to a period ranging from 1 to 52 years.

- (c) The reports on half yearly outstanding income relating to the revenue code had not been prepared as required by the Financial Regulation 128(2).
- (d) Without taking action to identify and credit to the relevant revenue cords the income totalled Rs.21,280,520 collected relating to revenue cords, it had been retained in the General Deposit Account since a period from 01 to 3 years.
- (e) It was observed at the audit test check that the Management had not taken action to recover a fine amounting to Rs.1,202,700 receivable to the to the Sri Lanka Railway in respect of 11,027 season tickets which had not been obtained although demanded by the Government Ministries, Departments and Statutory Boards and it had been Rs.598,400 for the year 2014 and Rs.504,300 for the year 2013.

#### **4.8 Reconciliation Statement on Advances to Public officers Account**

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 The following deficiencies were observed during the course of audit test check conducted on the reconciliation statement on the Advances to public officers Account Item No.30601 as at 31 December 2014.

- (a) According to the reconciliation Statement presented to audit, the outstanding balances as at that date totalled Rs.84,842,951. Although those balances had been continuously outstanding for a period from 01 to 05 years, the Department had not taken action to recover those outstanding loan balances.
- (b) The balance as per the Departmental books as at 31 December 2014 had been Rs.678,115,631 and it had been Rs.682,293,436 according to the computer print outs of the Treasury. Accordingly, the difference of Rs.4,177,805 had continued to exist since year 2004, whereas the Department had not taken action to reconcile and correct it even by 31 March 2015.
- (c) The total of the individual balance categorization summary as at 31 December 2014 amounted to Rs.791,606,075 and the balance of the Control Account of the Department as at that date was Rs.779,649,041. Accordingly, there existed a difference amounting to Rs.11,957,034.

- (d) The Department had not taken any step to settle outstanding loan balances totalling Rs.52,238,501 of 1047 deceased and retired officers relating to 19 Sub-Departments after taking action in terms of the Sections 4.2.5, 4.4 and 4.5 of Chapter XXIV of the Establishments Code.
- (e) In case of the loan balances totalled Rs.21,417,616 receivable from 4071 officers vacated the service of 18 Sub Department offices could not be recovered from the principle debtors, action in terms of the Section 4.5 of Chapter XXIV of the Establishments Code had not been taken to recover those balances from the guarantor.
- (f) The total of the outstanding loan balances of 462 interdicted employees attached to 13 Sub-Departments amounted to Rs.10,194,343. Nevertheless, no action whatsoever had been taken to recover those balances even by 31 December 2014, though the said balances had been outstanding for a long period.
- (g) In terms of Section of 4.8 Chapter XXIV of the Establishments Code, if a Government officer or an employee is released for the service of another state Corporation or a Board, he should be released upon the settlement of outstanding balances of all the loans he had obtained before. Nevertheless, no action whatsoever had been taken to recover the outstanding loan balances amounting to Rs.58,940 receivable from two employees of the Nawalapitiya Sub-Office of the Railway Department , although it had been outstanding for more than a period of 05 years.

#### **4.9 Reconciliation Statement on Stores Advance Account**

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The Sri Lanka Railway Department had implemented one stores advance activity during the year under review. The following observations are made in this connection.

- (a) Although a sum of Rs.183,807,173 had been paid as customs duly in the import of goods from the year 1993 even by 31 December 2014, that expenditure had not

been adjusted to the stock even by 31 December 2014. The unsettled outstanding loan balances from the year 1993 up to the year 2013 had been Rs.45,521,770.

- (b) In the stores, there was a stock in excess of 11 items valued at Rs.524,062 identified at the Board of Surveys conducted in the preceding years and a stock of 03 items, the value of which had not been mentioned. Nevertheless, action had not been taken to adjust the value of that stock in excess to the stock balance of the Stores Advance Account.
- (c) The stock shortage including 242 stock items valued at Rs.20,547,393 identified at the Stores Board of Surveys conducted in the preceding years and 79 items the value of which had not been mentioned, had not been adjusted to the value of the closing stock shown in the Stores Advance Account. The Stores Superintendent had not taken any step to recover those shortage even by the end of the year under review.
- (d) Although orders had been placed and made the payments for the goods and services from the foreign countries since year 1998 up to the year under review, the unsettled letter of credit value had been Rs.1,030,609,935. Action for the settlement of the letter of credit value relating to the preceding years had not been taken even in the year under review.
- (e) Having ordered the goods totalled Rs.205,751,770 from the year 2006 up to the year 2013, payments had been made to the suppliers. Evidence in support of the delivery of goods valued at Rs.77,045,483 out of the above goods to the stores had not been made available to audit. Although those goods had not been supplied, any action had not been taken in that connection.
- (f) In order to secure goods and services within the period from the year 1980 up to the year under review, advance totalling to Rs.21,078,844 had been paid to the suppliers. Those advances paid had not been settled even by the end of the year under review. Out of those unsettled advances, Rs.5,914,962 had been the advances given in the year under review. Action had not been taken either to settle those advances or to recover it from the officers concerned even by the end of the year under review.

#### **4.10 Good Governance and Accountability**

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##### **4.10.1 Annual Action Plan**

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The Annual Action Plan in terms of the public Finance Circular No. 01/2014 dated 17 February 2014 had not been prepared by the Sri Lanka Railway Department even by 31 December 2014.

##### **4.10.2 Annual Procurement Plan**

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The Procurement Plan in terms of the National Budget Circular No.128 dated 24 March 2006 had not been prepared even an at 31 December 2014.

#### **4.11 Assets Management**

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The following deficiencies were observed at the audit test check conducted on the assets of the Sri Lanka Railway Departments.

##### **(a) Idle and Underutilized Assets**

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It was observed at the audit test check that the assets remained either idle or underutilized as categories below.

Category of Assets	No. of Units
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(I) Vehicle (carriages)	135
(II) Four Wheels (Train / Carriages)	603
(III) Carriages With - Bogies	256
(IV) Train Engines	18
(V) Motor Vehicles	03

##### **(b) Conduct of Annual Board of Survey**

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In terms of the Public Finance Circular No – 02/2014 dated 17 October 2014, an Annual Board of Survey for the year 2014 should be conducted and the reports thereon should be submitted to the Auditor General before 17 March 2015. Nevertheless, the Department had not furnished those reports to audit even by 31 May 2015.



#### 4.12 Non – Compliance

##### Non – Compliance with Laws, Rules and Regulations

Non – compliance with the provisions of laws, rules and regulations observed at the audit test checks are analysed below.

Reference to Laws, Rules and Regulations	Value	Non – compliance
	----- Rs.	-----
<p>(a) Establishments Code of the Democratic Socialist Republic of Sri Lanka</p> <p>-----</p>		
(i) Section 3.2 of Chapter VIII	371,522	Without being properly identified the assigned duties and additional duties and without any written confirmation of the work done, a sum of Rs.371,522 had been paid to the office staff of the Chief Mechanical Engineering Sub-Department as overtime through the salary sheets of the May and June 2014. That recurrent expenditure had been brought to account as capital expenditure.
(ii) Section 5.6 of Chapter V III	960,341	A sum of Rs.960,341 had been paid to 68 Railway Guards on overtime without deducting the number of normal duty hours that should be worked in a week during the relevant period.
<p>(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.</p> <p>-----</p>		
(I) Financial Regulation 94	355,690,000	Railway Tracks and Work Sub- Department and Signal and Telegraphs Sub-Department had entered into Commitments exceeding the provisions made available.

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|-------|--|-------------|---|
| (II)  | Financial<br>Regulation 137(5)             | 3,201,139   | In making payments to the suppliers, the Nanuoya District Engineering office had made payments without being confirmed that the goods were received.  |
| (III) | Financial<br>Regulation 139 (4)<br>and (5) | 2,485,075   | Salaries and allowances had been paid in the years 2013 and 2014 without being obtained receipts or signatures to the vouchers in support of the receipt of the payments.   |
| (IV)  | Financial<br>Regulation 143 (3)<br>(D)     | 4,633,145   | The Chief Accountant had not taken action to issue receipts in support of the receipt of the revenue of Rs.4,633,145 that had been daily remitted by the Station Masters of the Railway Department.   |
| (V)   | Financial<br>Regulation 177(1)<br>and (3)  | 17,150      | The Government money collected should be immediately sent to the Acceptance office daily, whereas, on the instructions of the Chief Financial officer, the Station Master had retained a sum of Rs.17,150 from the daily income as travelling expenses in January 2015. |
| (VI)  | Financial<br>Regulation 185(b)             | 550,901,439 | Although arrangement should be made to reconcile the receipt entries of the cash book and the debit entries of the other account books from time to time, it was revealed in audit check that, such reconciliation had not been carried out at 5 railway stations.      |

(VII)	Financial Regulation 187 (3)	167,332,277	As the officers of the Shroff's branch visited to the railway stations throughout the island for the payment of salaries and advances, 1807 cash bags daily received by the Shroff's branch had been kept in the safe without being count.
(VIII)	Financial Regulation 751	169,118	After the goods purchased were received by the stores and supported by the vouchers, those vouchers should be produced for the relevant payments. Nevertheless, payments in respect of the purchasing done in the year 2014 had been made without being recorded in the inventory of the store keeper that the relevant goods were received.
(IX)	Financial Regulation 762 and 763	110,421,146	Thousand units of solid wheels had been purchased in the year 2014 at a time. Therefore, purchasing had been made exceeding the maximum stock level of that item by 200 units.
(c) Treasury Circular -----			
(I)	Paragraph 03 of the Treasury Circular No – 5/2010 dated 29 October 2010	511,451	Salaries of the employee staff outside the Colombo had not been remitted to their bank accounts. As the payment had been made by the Shroff's Staff, an additional expenditure of Rs.511,451 had been incurred only in the month of January in respect of their overtime, travelling expenses and reservation of compartments etc.
(II)	Management services Department letter No- DM3/C2/43/PR/vi/I dated 05 March 2012	2,083,610	Having attached 155 persons for the signal and Tele Communication project as Technician Assistant, permanent Way Inspector, Clerk and Moulder, which did not belong to its approved cadre, a sum of Rs.2,083,610 had been paid as overtime and holiday pay in the year 2013

without a written confirmation on the duties carried out.

(d) General Guidelines of the  
General Manager of  
Railway

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|------|---|---------|--|
| (I)  | Paragraph 2.6 of the<br>General Guideline of<br>Railway                                 | 630,000 | Instances were observed at the audit test check where the railway tickets received from the ticket supply division of the Head Quarters had been issued to railway stations without being entered in the AB 68 Stock Ledger. |
| (II) | Paragraph 3.15.2 of<br>the Chapter 02 of the<br>General Guidelines of<br>the Department | 272,860 | Action had not been taken with regard to the misplacement of a stock of 9252 railway tickets valued at Rs.272,860 at the Maradana Railway station.   |

### 3.13 Foreign Aid Project

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The Ministry had implemented 05 projects under foreign financing during the year under review. A sum of Rs.2,319,507,488 had been utilized on that project during the year under review. Delays in the completion of these foreign funded projects were observed. Details are given below.

Project	Estimated Cost	Date of Commencement	of Scheduled date for the Completion	Date of Completion	Expenditure as at 31 December 2014	Reason for the Delay
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					Rs. million	
Construction of Madu- Thaleimannar railway track	149.50	2011.03.29	2013.09.29	2014.09.29	5,124.34	Non-approval of the price variation, delays in the supply of gravel, unfavourable weather condition

Construction of Palei Kankasanthurei railway track	149.34	2012.06.14	2014.06.13	-	7,092.18	Delays occurred in the construction carried out within the High Security Zone and delays in the supply of gravel.
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#### 4.14 Deficiencies in Operating Bank Accounts

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##### (a) Long Delays in the Preparation of Bank Reconciliation Statements

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Long delays were observed in the preparation of bank reconciliation statements pertaining to 07 bank accounts.

The year and the month relevant to the bank reconciliation statements not prepared by 31 December 2015

- (I) December 2014
- (II) December 2014
- (III) September 2014
- (IV) December 2014
- (V) December 2014
- (VI) From January to December 2014
- (VII) From January to December 2014

##### (b) Dormant Bank Accounts

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A current account maintained by the Department had remained dormant for over a period of 07 years by 31 December 2014. Although a balance amounting to Rs.3,026,878 had been shown in this bank account as at 31 December 2014 according to the bank statement, the evidence relevant thereto had not been made available to audit.

**(c) Balances to be Adjusted**

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Details revealed according to the analysis of the bank reconciliation statements prepared by the Railway Department for the month of November 2014 are given below.

Details of the Adjustments -----	More than 06 Months and Less than 01 Year -----
	Rs.
(I) Cheques issued but not presented for payments	566,418
(II) Unidentified debit	63,744
(III) Unidentified credit	2,637

The following observations are made in this connection.

Cheques valued at Rs.35,276 issued but not presented to the bank had been shown in the bank reconciliation statement by changing the date of issue of the cheques. Action in terms of the Financial Regulation 396 (d) had not been taken on the out dated cheques.

**4.15 Transactions of Contentions Nature**

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Certain transactions carried out by the Sri Lanka Railway Department had been of contentious nature. Details on the several such transaction revealed at the audit test checks are given below.

- (a) For the daily requirement of the Railway Department 7000 Metric Tons of rails had been purchased up on the Treasury provisions and out of which rails valued at Rs.1,473 million had been issued to the Palei – Kankasanthurei Project. Adequate evidence in support of the receipt of rails valued at Rs.149 million to the project had not been made available to audit.
- (b) Six thousand eight hundred and forty nine sleepers valued at Rs.80 million utilized for the railway track of the Omaththei to Palei Railway Track Reconstruction Project had been damaged. This purchase had been done only upon the certification submitted by the institute that supplied the sleepers. An

acceptable inspection methodology on the quality of the sleepers had not been implemented.

- (c) In the inspection of a sample of time recording sheets of the Building Unit of the Nanuoya District Engineering office it was observed that, without completing the records on the work done in that time sheets, a sum of Rs.127,338 had been paid as overtime and travelling expenses.

#### **4.16 Irregular Transactions**

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Certain Transactions entered into by the Sri Lanka Railway Department were devoid of regularity. Several such instances observed are given below.

##### **(a) Deviating from the Procurement Guideline Procedure.**

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The following observations are made.

- (I) For the Tablet Circuits, 57 meters of underground cables (Armored Under Ground Cable 2X 1.5 mm) had been purchased at a cost of Rs.6,208,440 without being called for bids at more competitive level as per the provisions of the Government Procurement Guidelines and this purchase had been made by dividing the value of the transaction in to 07 segments.
- (II) In terms of the Guideline 3.3 of the Government Procurement Guidelines, the approval of the Procurement Committee of the Ministry should be obtained for the purchases exceeding Rs.5 million, whereas, without doing so, 03 items had been purchased spending Rs.28,117,978 exceeding Rs.5 million in 03 instances under the approval of the Procurement Committee of the Department.
- (III) In the purchase of 40 units of S8 Class Radiator Elements at a cost of Rs.16,576,000, relevant purchasing had been carried out at the rate of 10 units in 04 instances without being adhered to the provisions of the Government Procurement Guidelines.

- (IV) In terms of the Guideline 1.2.1 (c) of the Government Procurement Guidelines, the qualified interested parties should be provided with the fair and maximum opportunities to participate in the Procurement , whereas, without doing so, lands and buildings had been leased out. A lessee who had obtained lands of the Matala railway reservation and the railway buildings had sub-leased a premises obtained on monthly lease amount of Rs.20,000. He had obtained an advance of Rs.250,000 from the party to whom the premises was sub-leased and it was observed at the audit test check that, the said building had been sub – leased to two parties at a monthly rate of Rs.20,000.
- (V) In terms of the Guideline 6.2.2 of the Government Procurement Guidelines, in an international purchasing, at least a period of 42 days should be given for the competitive biddings, whereas it was observed that the procurement notice had been received on or after the closing date of the applications relating to international purchasing in 05 instances totalling Rs.163,833,576. Further, fair, equal and maximum opportunity had not been given to the interested suppliers to participate in this connection as per the Guideline 1.2.1 (c ) of the Government Procurement Guidelines.
- (VI) Without being called for quotations under the shopping method according to the Guideline 3.4 of the Government Procurement Guidelines, goods valued at Rs.256,145 had been purchased under urgent purchasing in May 2014 and those money had been settled by the advance vouchers. In making payments as per the Financial Regulation 139, it had not been confirmed whether the goods were received to the stores.
- (VII) In terms of the Guidelines 3.4 of the Government Procurement Guidelines, the supplier should be selected at least from 05 sealed quotations for obtaining goods and services of less than Rs.2 million under the shopping methods on the approval of the Departmental Procurement Committee, whereas goods valued at Rs.1,593,974 had been purchased based on a quotation submitted by one supplier.



(VIII) In terms of the Section (B) and (C ) of the contract conditions 4.4, the primary approval of the Engineer should be obtained by the contractor for sub-contracting and it should be informed 28 days prior to the commencement of the sub-contract works. However, U\$D 2,483,124 had been paid to the contractor for the installation of signal system and construction of buildings in June 2014, whereas written approval had not been obtained for sub-contracting.

#### 4.17 Losses and Damages

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Observations on the losses and damages revealed during the audit test checks are given below.

- (a) Action in terms of the Circula No ඩ.අ/මපාදු /2011/05 of the General Manager of Railways had not been taken for the recovery of Rs. 100,000 receivable from the pary that caused damages to the railway level crossing gates fixed at the railway crossings.
- (b) Receipts of 9000 tickets valued at Rs.595,000 not received by the railway stations, despite being recorded that those had been supplied to the stations, according to the stock book of the Head Quarters Ledger.
- (c) As the house rental had not been revised according to the Public Administration Circular No.887 dated 05 January 1987, the Government had been deprived of Rs.1,930,076 receivable from 145 houses relating to 03 Sub Departments.
- (d) Without being lodged entries to the Sri Lanka Police on the damages caused to the properties valued at Rs.940,357 of the Railway Department in 03 instances, entries had been made only to the Railways Security Division. Action had not been taken to identify the persons responsible for those damages and take disciplinary actions against them. As such, that loss had not been recovered even as at 31 May 2015, the date of audit.

- (e) Evidence in support of the fact that, the activities had been carried out using the materials valued at Rs.12,668 obtained through the Goods Requisite Forms No.527258, 527259 and 527263 from the Building Inspection Office ,Trincomalee had not been made available to audit. Action had not been taken either to recover this loss or to take disciplinary action against the officers responsible for.
- (f) Since a land area of 82,445 Sqft of 102 official quarters belong to the Building Inspection Office, Nawalapitiya had not been leased out to the officers, those quarters had been at a risk of destroying. Valuable properties such as door frames, doors, and windows of those quarters had been looted by thefts. Nevertheless, action in terms of the Financial Regulations 103 and 104 had not been taken on those losses.
- (g) A daily revenue aggregating Rs. 121,735 collected by the Station Master in Ambalangoda during October 2009 to March 2015, had not been transferred to the Chief Accountant.
- (h) Imported goods valued at Rs. 77,040,268 had been destroyed by a fire that broke out at the harbor in May 2013. Action had not been taken to recover the losses and damages as per Financial Regulation 104 by conducting a preliminary investigation in that regard.
- (i) Balances amounting to Rs. 13,829,758 that had arisen from obsolete and unused items had been brought forward in the accounts over many years. Action had not been taken to write off the said balance even by the end of the year under review.

#### **4.18 Uneconomic Transactions**

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Particulars observed in sample audit checks relating to transactions performed without frugality are as follows.

- (a) Eight trade stalls in the vicinity of the Railway Station in Veyangoda had remained closed since 2007 without disconnecting the electricity. Hence, a sum of Rs. 259,233 had to be paid as fixed charges for electricity as at the date of audit , 30 November 2014.

- (b) It was observed in audit that the Government had sustained a loss of Rs. 560,790 as the stock number RA 33/1/1 item had been purchased in 2 instances at 2010 items and 303 items under 2 prices from the same supplier by exceeding the requirement and approved limit of purchase.
- (c) Due to failure in clearing the imported goods on time, the sub department of the warehouse had taken action to pay a demurrage amounting to Rs. 1,287,679 during the first quarter itself of the year under review.
- (d) As purchases had been made in 2 instances through the file SRS(C)RG 3188/10 at 100 units under stock No. RG /10/83, and another 100 units under RG /8/10/82, a loss amounting to Rs. 369,308 had been sustained by the Government due to changes in foreign exchange rates.
- (e) As the tender board, consisting of same officers , had decided at the tender board meeting No. 97 held on 17 December 2014 to purchase 120 units of the stock item O Rings P/No 70042906000 (MTU Germany) in 2 instances at 60 units each from 2 institutes , the Government had sustained a loss amounting to Rs. 27,600.
- (f) As revenue licenses relating to 33 vehicles had not been obtained on time with regard to the period from January – June 2014 , a fine amounting to Rs. 40,800 had been paid in an uneconomical manner.
- (g) The transformation of railroad scales (weighbridges) at railway stations into electronic scales had been achieved in 38 instances by paying a sum aggregating to Rs. 2,803,915.
- (h) As the same stock number 1/01/16 had been purchased under 2 prices in 2 instances during the year under review, the institution had sustained a loss amounting to Rs. 5,478,186.

#### **4.19 Management Weaknesses**

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The following weaknesses were observed in sample audit checks.

- (a) Water had been supplied with 680 railway quarters in Ratmalana using the main water supply of the Department without installing water meters. It was observed that the Department had incurred a sum of Rs. 58,490,539 on the water consumed during the year under review alone.
- (b) Prompt actions should have been taken against the complaints received by the Department; however, action had not been taken either to take disciplinary or legal actions in connection with 154 and 11 complaints relating to disciplines received by the

transport offices in Colombo and Nawalapitiya from 2001 to November 2014 , and in the years 2011, 2013 and 2014 respectively.

- (c) Thirty five unclaimed season tickets despite being requested by Government officers had not been cancelled in a manner that they cannot be reused. It was revealed in audit that the value of those season tickets amounted to Rs. 34,290. It was also observed in audit that there had been room for irregularities in the process of cancelling the season tickets.
- (d) The rental receivable from the trade stalls being maintained in the vicinity of the Nugegoda railway station amounted to Rs. 2,713,912 by the end of the year under review. The rental amounted to Rs. 439,535 for the year 2013 and the preceding year, whereas it amounted to Rs. 2,274,377 for the year under review. Those lease agreements had exceeded 05 years, and action had not been taken to enter into new lease agreements.
- (e) Action had not been taken to rectify the erroneous credit interest amounting to Rs.15,967 stated in the bank statements from January 2013 to July 2014.
- (f) Due to weaknesses in administration, the station master of Kurunegala had issued 3 season tickets including a tri-monthly season ticket valued at Rs. 770, between Kurugenala and Colombo Fort, and 2 tri-monthly season tickets valued at Rs. 2,310 and Rs. 4,320 following a request made by the season ticket division of the Department.
- (g) Direct debits amounting to Rs. 101,737,860 had been made to the Collection Fund of the General Manager of Railway, but action had not been taken even up to 31 December 2014 to accurately identify and account the said sum.
- (h) The tickets supply division of the head office had continuously supplied tickets which had printed with Kottawa-Narahenpita III Class under the same batch number , to the Railway Station in Kottawa before the tickets issued previously to the same destination , had run out. The stock , to which the stock being used by the station master belonged, could not be verified in audit. It was further observed in audit that there could be room for various irregularities.
- (i) The railway station in Homagama had been supplied with 500 season tickets for Homagama – Nugegoda under the serial numbers 1000 – 1499 by printing Rs. 480 on them as the fare instead of the actual fare of Rs. 360. As the season tickets had been printed with an overfare of Rs. 120 than the actual fare, the station master had the opportunity to overcharge.

- (j) It was observed that 108 houses at 07 railway stations under the Sub Department of Roads and Industries (upper) of Sri Lanka Railways, had not been included in the register of houses prepared by the Department.
- (k) Encroachers had been observed with regard to 14 houses owned by the Sub- Department of Roads , Industries and Transport of the Sri Lanka Railways. The Department had not taken any action whatsoever in that regard.
- (l) No action whatsoever had been taken with regard to 08 houses that had not been suitable for residence , owned by the Roads, Industries and Transport Sub- Department of Sri Lanka Railways.
- (m) Action had not been taken to rectify 51 items of stock in excess valued at Rs. 1,140,466, and 938 items of stock in shortage valued at Rs. 60,110,208, that had been observed in the survey conducted on goods in the warehouses from 2010 to 2013.
- (n) Even though the cash received by station masters from the sale of tickets should be remitted to the chief accountant on time, disciplinary action had not been taken against 4 officers who failed over many years to remit a sum of Rs. 52,942 as per Railway Stations General Account.
- (o) Buildings leased out to a Multipurpose Cooperative Society by the Sri Lanka Railways, had been renovated and turned into a new shopping complex without informing the Department. The sum payable by them to the Sri Lanka Railways for the said building was Rs. 4,373,645. In spite of the said rental that remained due , it was observed in audit that stalls in the said building had been sub-leased to 10 external persons by obtaining deposits amounting to Rs.926,000, and about a sum of Rs. 45,650 had been charged monthly. No any action had been taken in that regard.
- (p) It was observed that a private party had been illegally using the quarters at the running shed and the precinct in Ukuwela by constructing unauthorized access roads close to the Railway Station in Ukuwela. There had been no agreement whatsoever in this connection, and a fee had not been charged as well.
- (q) A lease rent in arrears amounting to Rs. 709,143 remained receivable to the Department of Railways for the lands leased out to the Cooperative Society in Wattedgama. It was observed in audit that the said Society earned a sum of Rs. 156,000 per month by sub-leasing those buildings to 10 other parties after renovating the buildings in an unauthorized manner.

- (r) It was revealed in an inspection carried out on 78 lease files in Matale district and a field inspection conducted on several leased lands that lands had been encroached. A lease income amounting to Rs. 5.1 million remained due as at 31 December 2013, and action had not been taken to recover them.
- (s) Even though the project for the construction of railway line between Palai and Kankasanthurei should have been completed by 13 June 2014, the project had not been completed even by 03 September 2014, nor an extension had been obtained. Management decisions had not been taken properly on the delay in completing the entire project due to delay in constructing the 02 Km stretch within the high security zone of the Army from Mawattapuram to Kankasanthurei. In addition to that, a delay of about 8 months was observed due to failure of the project office to properly supply soil and gravel.
- (t) Rails and sleepers valued at Rs. 374,189,504 had been saved due to overestimation of the project. The reply of the General Manager of Railways in that regard was that alternatives had been identified to renovate each railway line. However, those had not been used for the identified alternatives even as at 31 May 2015, and although the project had been completed, the services of the project staff had been obtained over a duration of about 09 months at an expense of Rs. 300,000 per month.
- (u) Even though it had been planned to conclude the Signals and Telecommunications Project by 30 May 2014, construction of gates for the equipment rooms of 600 square meters worth 388,000 US\$ as per BOQ, had not been commenced even by the end of June, 2014.
- (v) Twenty six cheques valued at Rs. 1,679,491 received by the Sri Lanka Railways as income had been dishonoured. Those cheques remained due over a period of 2 – 10 years, and the possibility of recovering those money had not been looked into.
- (w) Action had not been taken to settle the outstanding balances relating to license income shown in the ledgers being maintained for a period of more than 20 years for external institutions. Owing to that, income aggregating to Rs. 3,475,599 that remained receivable from 59 institutions, had been shown as due balances in the ledgers even as at 30 November 2014.
- (x) Eleven cheques valued at Rs. 645,819 that had been received from the Department of Pensions for paying gratuity in favour of retired and deceased employees of the Department of Railways, had been retained in the bank account of the Department over a period of more than 2 years without taking actions to hand over to the relevant persons.

- (y) As estimates had been prepared for the installation of signal systems without a detailed analysis and a feasibility study, sums of US \$ 2.43 million, and US \$ 756,628 had been paid to the contractor by June 2014 for item 17 and item 09 in the BOQ respectively relating to the stretches from Anuradhapura, Palei , Medawachchi to Talaimannar, and from Palai to Kankasanturai. Although certain items had exceed the estimated value by 50 per cent, approval had not been obtained for the excess.
- (z) None of the officers had occupied the 1024 official quarters belonging to Sub-Departments of the Department of Sri Lanka Railways.
- (aa) The lease rent from the railway auditorium and the sports ground at Mount Mary, had been credited to the Railway Literature and Social Institute Account from the beginning instead of crediting to the Government revenue.

#### 4.20 Human Resources Management

##### (a.) Approved and Actual Number of Cadre

Position of cadre as at 31 December 2014 was as follows.

<u>Category of Employee</u>	<u>Approved No. of Cadre</u>	<u>Actual No. of Cadre</u>	<u>No. of Vacancies</u>	<u>Excess</u>
(i) Senior Level	212	119	93	-
(ii) Tertiary Level	464	189	275	-
(iii) Secondary Level	7,224	4,864	2,410	-
(iv) Primary Level	12,386	10,133	2,253	-
(v) Other (Casual / Temporary/ Contract basis)	-	1,588	-	1,588
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Total	<u>20,336</u>	<u>16,893</u>	<u>5,031</u>	<u>1,588</u>

The following observation is made.

The Department had not taken actions to fill 5,031 vacancies by the end of the year under review.

**(b.) Human Resources Released Improperly to Other Parties**

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 Particulars relating to human resources that had inappropriately been released by the Sri Lanka Railways to other parties are as follows.

<u>Category of Employee</u>	<u>Number</u>	<u>Other Party</u>	<u>Duration of Release</u>
I. District Electrical Inspector	01	Ministry of Transport	From August 2014
II. District Transport Inspector	01	-Do-	-Do-
III. Technical Assistant (Multipurpose)	05	-Do-	From December 2014
IV. Technical Assistant	04	Volleyball team of Sri Lanka Light Infantry Volunteers	From 28 April 2014
V. Driver	01	Ministry of Transport	From 03 November 2014
VI. Government Management Assistant	01	-Do-	From 20 October 2014

**(c.) Human Resources Obtained from Other Parties**

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 It was observed that the Department of Railways had deployed 2 wharf field officers from the Food Commissioner's Department from the year 2008 up to the year under review.

**(d.) Reinstatement of Pensioners**

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 Pensioners of the Department had been reinstated without taking actions to fill the vacancies existed in the Department of Sri Lanka Railways. Particulars are as follows.



<u>Category of Employee</u>	<u>Number</u>
Engine Driver	10
Guard	48
Station Master	10
Railway Inspection Management Service	25
Transport Supervisor	01
Assistant Railway Warehouse Superintendent	01
Primary Technologist (Administrative)	02
Technologist (Electric Welder)	01
Climate Clerk	04

## **5. Head – 307 Department of Motor Traffic**

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### **5.1 Lack of Evidence for Audit**

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Documents, files and documents that had been requested through 13 audit queries / letters requesting information from February 2013 to 31 October 2015 in connection with particulars relating to vehicles / 597 motorbikes registered under categories 31, 32, 60, 61, 62, 64, and 65, and English letters G, H, and J, had not been made available by the Department. The audit was hindered as certain particulars had been made available after a long delay.

### **5.2 Replies to Audit Queries**

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Considering the replies sent for 07 audit queries presented to the Department during the year under review, an audit query had been issued afresh with regard to 5 audit queries for which unclear, incomplete, and unacceptable replies had been sent. However, no replies had been sent for that audit query even as at 31 October 2015.

### **5.3 Appropriation Account**

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#### **5.3.1 Budgetary Variance**

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The following observations are made.

- (a.) As 02 Objects had been overprovisioned , the saving after utilization was in the range of 52 per cent to 70 per cent of the net provision allocated to that Objects.
- (b.) The entire provision totalling Rs. 300,000 that had been allocated to 02 Objects, had been transferred to other Objects.

- (c.) Provisions valued at Rs. 200,000 had been allocated under Object 307-2-1-11-1405 for the emission testing, and the entire provision had been transferred to other Objects in accordance with Financial Regulation 66. There had been no necessity to obtain provisions for the emission testing under a separate Object as a separate fund for emission tests was functioning at the Department.
- (d.) The Note (i) of the Appropriation Account –“ report on the movement of non-current assets” presented by the Department for the year under review, had shown a sum of Rs. 371,915 under the Object 307-2-1-2101 as additions for the year 2014. Nevertheless, the said Object had not been provisioned according to the budget estimate for the year 2014.

#### 5.4 General Deposit Account

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The following observations are made.

- (a.) Action had not been taken in terms of Financial Regulation 571 relating to 87 deposits totalling Rs. 280,346,778 that had lapsed for more than 2 years.
- (b.) There had been a difference of Rs. 186,575 between the department books and printed notes of the Treasury as at 31 December 2014 in regard of the balances of the General Deposit Account No. 6000/0000/00/0003/0159

#### 5.5 Revenue Account

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The Commissioner General of Motor Traffic, being the Accounting Officer for Revenue, had been assigned with the duties such as, preparation of revenue estimates relating to 03 revenue codes, collection and accounting of revenue, and presentation of accounts. The following weaknesses were observed in the sample audit conducted with respect to the said revenue codes.

- (a.) Revenue Code – 10.03.01.00 Luxury Motor Vehicles Tax
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The following observations are made.

- (i) Weaknesses in Estimating Revenue
- 

The amended revenue estimate for the year under review amounted to Rs. 1,020,000,000, and the total net revenue collected during the year amounted

to Rs. 1,114,853,639, exceeding the amended revenue estimate by a sum of Rs. 94,853,639 representing 09 per cent. Hence, the revenue estimates had not been prepared realistically and accurately.

(ii) Failure to Maintain Registers of Revenue in Arrears, and to Report on the Due Revenue

The following observations are made.

- As the Department had not properly maintained registers for revenue during the period 1995-2010, information relating to revenue in arrears that remained receivable for the year under review as well as the preceding years, had not been presented to audit.
- In terms of Financial Regulation 128 (2)(c) , and Section 08 of the Fiscal Policy and Economic Affairs Circular, No. 02/2002 dated 17 July 2002, half-yearly reports relating to revenue in arrears should be presented to the Auditor General with a copy to the Director General of Fiscal Policy and Economic Affairs. Nevertheless, the Department had not presented half-yearly reports on the revenue in arrears for the preceding years and the year under review as well.
- In case of a Revenue Accounting Officer failing to promptly collect a certain amount of cash that remains receivable as per Financial Regulation 176(2) and promptly declare the said sum, the Deputy Secretary to the Treasury should report in that connection to the Secretary to the Treasury. However, action had not been taken in such a manner in connection with the Department of Motor Traffic.

(iii) Failure to Review the Revenues

-----  
 In accordance with the Sections 03 and 05 of Fiscal Policy and Economic Affairs Circular, No. 01/2002 dated 17 July 2002, it is the responsibility of the Revenue Accounting Officer to estimate the revenues, and review and supervision of revenue properly from time to time in a continuous manner. Nevertheless, the Revenue Accounting Officer had not so done.

## (iv) Documentation of Taxes Relating to Luxurious Vehicles

-----

As the register being maintained for taxes levied for luxurious vehicles had not been updated, it was not possible to compute the revenue in arrears. Hence, the Revenue Account had been prepared with the values of the columns 08-14 in the DGSA Revenue - 2 Format, showing as "none"

## (b.) Revenue Code – 10-03-07-04 – Taxes on Sales of Vehicles

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The following observations are made.

## (i) Weaknesses in Preparing Estimates.

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The amended revenue estimate for the year under review amounted to Rs. 68,000,000, whereas the net revenue collected during the year amounted to Rs. 51,935,758 representing 76 per cent of the amended estimate. Hence, the revenue estimate had not been prepared realistically and accurately.

## (ii) Failure to Report on the Revenue in Arrears.

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In accordance with Section 08 of the Fiscal Policy and Economic Affairs Circular, No. 01/2002 dated 17 July 2007, required by the Financial Regulation 128 (2) (c), the half-yearly reports on the revenue in arrears should be presented to the Auditor General with a copy to the Director General of the Fiscal Policy and Economic Affairs within the ensuing month after the lapse of the relevant duration. However, the Department had not presented either the said reports or an empty report in case that there had been no revenue in arrears.

(c.) Revenue Code – 20.03.02.14 – Fees Charged Under the Motor Traffic Act, and other Receipts.

Although the initial revenue estimate and the amended revenue estimate with relevance to the revenue code for the year under review amounted to Rs. 7,450,000,000, and Rs. 7,600,000,000 respectively, the amended revenue estimate had not been shown in the Revenue Account presented to the Audit.

## 5.6 Reconciliation Statement for the Advances to Government Officers Account.

-----  
 The following deficiencies were observed in the sample check carried out on the reconciliation statement as at 31 December 2014 relating to the Subject No. 30701 - Advances to Government Officers 'Account.

- (a.) According to the reconciliation statement presented to the audit, the total of the outstanding balances as at that date, amounted to Rs. 4,133,262, and those balances had remained outstanding for a duration of 02-26 years. The follow-up actions in recovering those outstanding balances were at a weaker level, and the following observations are made in that connection.
- (i) The loan balance recoverable from deceased and retired officers that remained outstanding over a period of 03-20 years and had not been settled even as at 31 December 2014, amounted to Rs. 747,716.
  - (ii) The loan balance recoverable from 08 officers whose pensions had been suspended, amounted to Rs. 670,563.
  - (iii) The loan balance recoverable from officers interdicted that had remained due over a period of 02-26 years, and had not been settled even as at 31 December 2014, amounted to Rs. 1,054,806.
  - (iv) The non-settled loan balance that had remained outstanding for a duration of 13-21 years and recoverable from officers interdicted or vacated their services, amounted to Rs. 185,388.
  - (v) There had been a tendency of continuous growth in the difference between the total of the summary of the classification of individual balances and the balance of the control account as at the end of the year, without being identified. Furthermore, due to the unreconciled balance amounting to Rs. 2,177,500 in the year 2013 had increased up to Rs. 2,637,566 by the year 2014, there had been a risk for the employee loan balances to be removed from the loan register, or understated intentionally or by a mistake.

## 5.7 Assets Management

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The following deficiencies were observed in the sample audit check carried out in connection with assets of the Department.

### Idle and Under-utilized Assets

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The following observations are made.

- (a.) Ten printers (Mobile Smart Term) had remained underutilized for a period of more than 06 years.
- (b.) A stock of machines received from the JTZ , Germany in 2004 as gifts, had remained unused even by the end of the year under review. Action had not been taken to compute the value of those machines and account accordingly.

## 5.8 Non-compliances

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### Non-compliances with Laws, Rules, Regulations etc.

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Instances of non-compliances with the provisions of laws, rules and regulations observed during the sample audit checks are analyzed below.

#### Reference to Laws, Rules, and Regulations

#### Non-compliance

##### (a) Statutory Provisions

- |      |   |   |
|------|---|---|
| (i)  | Motor Traffic<br>Amended Act, No. 08<br>of 2009                       | Under no circumstance should a vehicle be manufactured, assembled, fabricated, innovated, adapted, or modified without prior approval of the Commissioner of Motor Traffic. Nevertheless, motor vehicles had been converted contrary to that.   |
| (ii) | Section 124 (a) of<br>Motor Traffic<br>Amended Act, No. 08<br>of 2009 | Although it is stated that the Department should establish a “Driving License Fund” and a certain amount from the fee paid to obtain the driving license card should be credited to this fund in terms of Sub Section 2, the Department had not taken action to establish such a fund even by the end of the year under review. |

(b) Financial Regulations of  
the Democratic Socialist  
Republic of Sri Lanka

- |       |                                  |  |
|-------|----------------------------------|--|
| (i)   | Financial Regulations<br>85 (2)b | In case of a necessity to amend the revenue estimates, the Director General of Fiscal Policies and Economic Affairs should be reported in that connection by the Chief Accounting Officer together with reasons to that effect. However, it had not been so done in the process of collecting revenue by the Department. |
| (ii)  | Financial Regulation<br>447      | The vote ledger had not been balanced by the end of each month.  |
| (iii) | Financial Regulation<br>880      | Sureties had not been presented by the officers in charge of public funds, revenue, stamps or goods.   |

## 5.9 Performance

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Observations on the progress of the Department in accordance with the annual budget estimate for the year 2014, and the Action Plan, are given below.

### (a) Main Activities Performed Inadequately

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The Department had not performed main activities adequately, and some of such instances observed are as follows.

#### (i) Failure to Adequately Transfer The Ownership of Vehicles.

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When the owners of the relevant vehicles had not changed the ownership in terms of provisions in Section 12 (3) (a) of the Motor Traffic Act, it was observed that there had been instances, in which the Department had not involved in that connection.

#### (ii) Activities not Performed Adequately when Luxuries Taxes are Levied.

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The following observations are made.

- Failure to report on the revenue in arrears, and collection of due revenue was at a weaker level.

- Reports relating to the taxes levied, and receivable taxes with regard to the period 1995-2010, had not been maintained properly.
- Revenue Control Accounts had not been maintained.
- Necessary actions had not been taken on the insurance companies who had not properly recovered the taxes.
- Provisions of the Act had not been executed on the vehicle owners who avoided paying taxes.
- Action had not been taken to update the register of counterfoils in a manner that enables to properly identify the receipt books of luxuries taxes being issued and received to and from each insurance company.

(iii) Activities Performed Inadequately relating to New Registrations of Vehicles.

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Several audit queries had continuously pointed out to the Commissioner General of Motor Traffic the frauds taking place at the Department. However, action had not been taken as per the provisions of the Motor Traffic Act by conducting investigations promptly on such frauds and the vehicle owners by taking disciplinary actions against the officers involved, and cancelling the registrations of those vehicles.

(iv) Failure to Perform the Duties in Accordance with the Provisions of Section 18 of the Motor Traffic Act.

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Instances in which the Department had failed to adequately perform the duties in terms of the provisions of Section 18 of the Motor Traffic Act, are given below.

- Action had not been taken as per the provisions of Act on the vehicles that had either met with an accident or fully disposed thereby cancelling the registration of the vehicle.
- A register for the vehicles that had been cancelled , was not maintained.
- Action had not been taken in accordance with the Motor Traffic Act on the vehicles, for which revenue licenses had not been obtained continuously for a period of more than 2 years.
- Even though many vehicles had been destroyed due to natural and non-natural reasons such as Tsunami, and acts of terrorism, the duties of the Department had not been executed on such vehicles.



- Registers had not been maintained in a manner that statistical information relating to the vehicles actually running in the island, could be identified.

(v) Failure to Protect the Original Files of the Vehicles

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Even though it is an essentially necessary duty of the Department to protect the original files of the vehicles being registered at the Department daily, that duty had not been performed by the Department adequately as a large number of files were misplaced or, not in the possession of the Department.

(vi) Failure to Cancel the Registration of Vehicles Timely Removed from Use

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The Department had not taken actions adequately to cancel the registration of vehicles being removed from use in a timely manner. This had paved the way for various irregularities due to misuse of the numbers or the identification numbers of such vehicles together with data belonging to vehicles assembled or imported illegally without paying the customs duties. This situation had caused further increase in the registration of fraudulent vehicles, and the revenue from the taxes on vehicles had decreased.

(vii) Legalizing the Vehicles Converted Fraudulently

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In accordance with the Cabinet Memorandum, No. 12/1490/538/036 dated 16 October 2012 on the legalization of illegally converted vehicles and the approval granted in that connection on 03 January 2013, the motor vehicles converted in such a manner should not have been allowed to be registered with effect from 31 March 2013. Although it was stated in the Cabinet decision that legal actions should be taken against the persons who use unregistered and converted vehicles after that date, no such actions had been taken against the persons who often used the illegally converted vehicles.

(viii) Failure to Take actions against the Vehicles Converted Illegally.

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At the sample audit check conducted on the vehicles running on the road, 26 illegally converted vehicles had been pointed out to the Commissioner General. In addition to that , many illegally converted vehicles could be observed. However, the Department

had not taken any actions that could have been done easily such as, cancelling the registration of such vehicles as per the Motor Traffic Act, refusal to issue annual revenue licenses , and apprising the Police and the Criminal Investigation Department of those vehicles.

(b) Planning

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Failure to Adhere to the Annual Action Plan

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Even though provisions amounting to Rs 150,000,000 had been allocated for the installation of electronic traffic system in accordance with the Action Plan prepared by the Department for the year 2014, no expense had been incurred during the year under review in that connection.

**5.10 Transactions of Contentious Nature**

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Some of the transactions performed by the Department were of contentious nature. Particulars of such transactions revealed at the sample audit checks are given below.

- (a.) There had been differences in 06 instances between the computer system of the department, and the custom entry numbers of the computer systems of the Department of Customs in respect of the new registrations of commercial vehicles.
- (b.) A vehicle registered by the Department as a truck had been converted into a double cab in the model of Land Rover Defender, whereas a vehicle registered as a single cab had been converted into a double cab in the model of Land Rover Defender.
- (c.) Two Mtistubishi vans of the same model had been registered under 2 classes of vehicle with the categories KU and PG as a motor car and a dual purpose vehicle. Likewise, a van imported for transporting goods, had been registered as a motor car under KN category.
- (d.) Eighteen dual purpose single cabs that had been registered under the categories “PP” and “PX”, had been converted into luxury motor cars.
- (e.) Out of 85 Custom Notes for which only 141 motor cycles had been imported with a view to registering fraudulently, 2577 motor cycles had been included into the computer system as being imported, whereas 2098 motor cycles had been included

into the computer system of the Department as being imported from 07 Custom Notes for which, no motor cycle had been imported.

- (f.) The Government had been deprived of a huge amount of tax income due to a large number of motor cycles, either imported illegally, or assembled, had been registered at the Department daily. One hundred and eight such registrations had been made within a period of only 5 days in the month of June, 2014.
- (g.) Thirteen motor cars that should have been registered under the category of “K”, had been registered as dual purpose single cabs under the categories of “PP” and “PY” by the Department.
- (h.) Four motor cars that should have been registered under the category of “K”, had been registered as double cabs and vans under the categories from “PA” to “PM”
- (i.) Four motor cars that should have been registered under the category of “K”, had been registered as motor lorries under the category of “L”
- (j.) Ten super luxury motor cars including B.M.W, Toyota, Prado, Mercedes Benz and 26 motor vehicles of other makes had been registered by fraudulently utilizing the Custom Import Notes ,under which motor cycles and other goods had been imported.
- (k.) The importers of vehicles for specific purposes such as mobile eye clinic vans , and mobile workshop vans, had got the vehicles released when the import documents were presented to the Sri Lanka Customs by underpaying the customs duties stating that the rest of the vehicles except for the driver’s cabin, had been adapted to the relevant purpose. There had been 22 instances , in which the said vans had been registered as dual purpose vehicles at the Department by stating the number of seats as 05 and 07.

#### **5.11 Transactions in the Nature of Financial Irregularities**

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Particulars observed in the sample audit checks relating to the transactions of fraudulent nature are given below.

- (i) At the physical inspection carried out on a truck and a single cab vehicle that had been registered with the Department under categories “PV” and “PR” respectively, it was observed that the said vehicles were double cabs of the model Land Rover

- Defender. Those vehicles had been imported as special purpose vehicles under the Customs Nos. that requires low customs duties, and later converted in to luxury cabs.
- (ii) Twenty two vehicles imported as special purpose vehicles under Customs No 8705 , and released by underpaying the customs duties had been registered as dual purpose vans, whereas 56 vehicles had been registered as motor lorries.
- (iii) Even though luxuries taxes of Rs. 4,320,000 remained receivable in respect of 18 vehicles that had been registered with the Department as single cabs ,and later converted into jeeps, action had not been taken for the recovery.
- (iv) In comparing the number and particulars of the motorcycles registered with the Department of Motor Traffic and the computer system of the Department of Customs in accordance with the Customs Notes , it was not revealed that 108 used motorcycles registered by the Department, had been imported legally by paying the customs duties.

### 5.12 Unresolved Audit Paragraphs

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References to the audit paragraphs that the Department had not rectified relating to the deficiencies pointed out in the audit paragraphs included in the reports of the Auditor General for the years 2012 and 2013 in respect of the Department, are given below.

#### Reference to the Report of the Auditor General

<u>Year</u>	<u>Paragraph No.</u>	<u>Subject Referenced</u>
2012	12- c, d, e, f, g, h, I, j, k, m, n, o, p, q, r, s, u, v,	Transactions in the nature of financial irregularities
2012	8- c – (i), (ii), (iii)	Performance
2012	10. a, c, d, e, f, g, h, I, j,	Transactions of contentious nature
2012	11- c, d	Improper transactions
2013	1.10 –a, b, c, d, g, h	Fraudulent transactions
2013	1.12- d, e, f, I, j, k	Management weaknesses

### 5.13 Management Weaknesses

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The following weaknesses were observed in the sample audit checks.

- (a.) A Rewards and Incentive Fund had been established in the Department with the objectives of disclosing the persons involved in rackets including manufacture,

assembly, fabrication, innovation, adaptation, or modification of vehicles without obtaining a proper approval of the Commissioner General of Motor Traffic, and taking legal actions against them. One per cent of the fees charged under the Motor Traffic Act had been used for this Fund annually. Although it was possible for the Fund to identify the illegally converted vehicles pointed out through the audit observations thereby taking actions in that connection, none of such activities had been executed by the Rewards and Incentives Fund.

- (b.) In terms of Section 18 of the Act, action should be taken by obtaining information from the insurance companies to suspend registration of vehicles not in running condition after meeting with accidents. However it had not been so done. Owing to that reason, it is indicated as per the information of the Department that those vehicles are still in running condition. As the Department had not taken actions in a timely manner to cancel the registration of vehicles not in running condition, there had been a possibility for various irregularities and to misuse the identification numbers of vehicles not in running condition together with the data of the vehicles assembled or imported illegally by dodging customs duties.
- (c.) In the registration of special purpose vehicles such as ambulances and hearses, the Department lacked a proper /adequate methodology to avoid the deviation from that specific purpose resulting in many irregularities. Accordingly, the audit had pointed out that such irregularities could be prevented by allowing the persons or institutions involved in such a business to import vehicles only through a specific license. However, action had not been taken in that connection.
- (d.) In issuing driving licenses from the provincial offices of the Department, the written test is held after collecting the applications , and the driving license is printed after all the relevant documents are received by the office in Verahera. However, according to the information obtained from the computer system of the Department, about 200 driving licenses could not be printed from 2010 to August 2014 due to various deficiencies following the negligence and lack of awareness of the officers of the provincial offices. The Department had not taken any action in that connection.

## 5.14 Human Resources Management

### (a.) Approved and Actual Number of Cadre

The position of cadre as at 31 December 2014 was as follows.

<u>Category of Employee</u>	<u>Approved</u> <u>No.</u>	<u>Actual</u> <u>No.</u>	<u>No. of</u> <u>Vacancies</u>	<u>Excess</u>
(j) Senior Level	21	24	03	-
(ii) Tertiary Level	21	05	16	-
(iii) Secondary Level	790	709	81	-
(iv) Primary Level	127	125	02	-
(v) Other (Contract basis)	-	<u>02</u>	-	<u>02</u>
<b>Total</b>	<b><u>965</u></b>	<b><u>865</u></b>	<b><u>102</u></b>	<b><u>02</u></b>

The Department had not taken actions to fill 102 vacancies by the end of the year under review.

### (b.) Weaknesses of the Internal Control in Connection with the Internal Transfers of the Officers

The following observations are made.

- (i) Action had not been taken to grant internal transfers to the officers in accordance with Circular No. 05/2012 dated 30 November 2012 relating to internal transfers.
- (ii) As the Department has several divisions for new registrations for motor vehicles and transfer of ownership, the list of internal transfers had been prepared without consulting the heads of those divisions.