

## Report of the Auditor General on Head 117 Ministry of Highways, Ports and Shipping – Year 2014

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Paragraphs 1 and 2 of this Report contain the general information on the Ministry and the Audit Observations on the Head appear in paragraph 3 onwards.

### 1.1 Scope of Audit

The audit of the Appropriation Account, and the Reconciliation Statement, including the financial records, reconciliation statements, books, registers and other records of the Ministry of Highways, Ports and Shipping, for the year ended 31 December 2014 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Secretary to the Ministry on 07 September 2015. The audit observations, comments and findings on the accounts and 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.

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

The Chief Accounting Officer is responsible for the maintenance, preparation and fair presentation of the Appropriation 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 Finance and Administrative Regulations. The responsibility includes; designing, implementing, maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

## 2. Accounts

### 2.1 Appropriation Account

#### Total Provision and Expenditure

The total net provision made for the Ministry amounted to Rs. 144,265 million, and out of that Rs. 133,304 million had been utilized by the end of the year under review. Accordingly the saving out of the net provision of the Ministry amounted to Rs. 10,961 million and represented 7.60 per cent of the net provisions. Particulars are as follows.

<u>Expenditure</u>	<u>As at 31 December 2014</u>			<u>Savings as a</u>
	<u>Net Provision</u>	<u>Utilization</u>	<u>Savings</u>	<u>Percentage of Net</u>
	Rs. Millions	Rs. Millions	Rs. Millions	<u>Provisions</u>
Recurrent	361.60	361.39	0.21	0.06
Capital	<u>143,903.76</u>	<u>132,942.17</u>	<u>10,961.59</u>	7.62
<b>Total</b>	<b><u>144,265.36</u></b>	<b><u>133,303.56</u></b>	<b><u>10,961.80</u></b>	7.60

### 2.2 Advance Account

#### Advances to Public Officers Account

#### Limits Authorized By Parliament

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

Item Number	Expenditure		Receipts		Debit Balance	
	Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions
11701	9.00	8.82	3.60	6.08	40.00	26.97

### 2.3 Imprest Account

The Imprest balances of the Ministry as at 31 December 2014 totalled Rs. 132,297. Details appear below.

Ministry	Imprest Account Number	Balance as at 31 December 2014
		Rs.
Ministry of	7002/0000/00/0332/0014	31,700
Highways, Ports and Shipping	7003/0000/00/0054/0014	100,597
Total		132,297

### 2.4 General Deposit Account

The balances of Deposit Accounts of the Ministry as at 31 December 2014 totalled Rs369.39 million.

## 2.5 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 Report, the Appropriation Account, and the Reconciliation Statements of the Ministry of Highways, Ports and Shipping have been prepared satisfactorily. The material and important observations out of the observations included in the Management Audit Report appear in paragraph 3 herein.

## 3. Head 117 - Ministry of Highways, Ports and Shipping

### 3.1 Non-maintenance of Books and Registers

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

	Type of Register -----	Relevant Regulation -----
(i)	Register of fixed assets	Treasury Circular, No. 842 of 19 December 1978
(ii)	Register of fixed assets on computer accessories and Software	Treasury Circular, No. IAI/2002/02 of 28 November 2002
(iii)	Register for received cheques and money orders, etc.	Financial Regulation 451
(iv)	Register for electrical appliances	Financial Regulation 454 (2)
(v)	Register of damages	Financial Regulation 110
(vi)	Register of liabilities	Financial Regulation 214
(vii)	Register for listing vehicles	Financial Regulation 1647 (e)
(viii)	Surety register	Financial Regulation 891

### **3.2 Replies to Audit Queries**

An audit query issued to the Ministry during the year under review had not been replied even up to 31 March 2015. The value of quantifiable transactions relating to the said audit query amounted to Rs. 8,332,466.

### **3.3 Appropriation Account**

#### **Budgetary Variance**

The following observations are made.

- (a.) The Ministry had prepared the Imprest Limits based on the Annual Budget Estimates for the year 2014 and forwarded to the Department of Treasury Operations in accordance with the Treasury Operations Circular, No. 05/2013 dated 04 December 2013. Those limits had been approved by the Department of Treasury Operations. Nevertheless, the provisions of Rs. 3,365.57 million made for the following Objects in the Annual Budget Estimates could not be utilized as the Department of Treasury Operations had not issued the imprests to the Ministry during the respective months as expected.
- (b.) The total net provision amounting to Rs. 308.60 million made for 06 Objects, had been saved.
- (c.) As 05 Objects had been overprovisioned, the savings after utilization of the provision ranged from 51 to 93 per cent of the net provision of those Objects.
- (d.) Liabilities valued at Rs. 34,092.95 million had been committed by exceeding the saving after utilizing the provision made by the Ministry for 54 Objects by 31 December 2014 contrary to Financial Regulation 94(1)

### 3.4 Reconciliation statement on the Advances to Public Officers Account

The following deficiencies were observed during the course of test checks of the Reconciliation Statement as at 31 December 2014 relating to the Advances to Public Officers Account Item No. 11701

- (a.) According to the reconciliation statement made available to audit, the total of the balances in arrears as at that date amounted to Rs. 1,693,198. Although those balances had been brought forward over a period ranging from 1 to 20 years, the Ministry had failed to recover those outstanding balances.
- (b.) Although a sum of Rs. 780,534 recoverable from officers deceased, retired, or transferred to other Government institutions, had remained outstanding over a period of more than 20 years, the Ministry had failed to recover those balances.

### 3.5 Non-compliances

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

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

References to Laws, Rules and Regulations -----	Value ----- Rs.	Non-compliance -----
(a) <u>Financial Regulations of the Democratic Socialist Republic of Sri Lanka</u>		
(i) Financial Regulation 115	104,832	Payments relating to the preceding year had been made in the year under review without obtaining the

approval of the Chief Accounting Officer

- |   |   |           |  |
|---|---|-----------|--|
| (ii)                                    | Financial Regulation 139                                    | 159,208   | Nine receipts relating to a sum of Rs. 159,208 incurred on newspaper advertisements, had not been made available to audit.   |
| (b) <u>Management Services Circular</u> |   |           |  |
| (i)                                     | Circular, No. 33 of 07 April 2007                           | --        | Twenty five officers had been recruited to the Management Unit of priority projects 1, 2 and 3, whereas 81 officers had been recruited to the Project Consultancy Unit without obtaining approval as per Circular. |
| (ii)                                    | -Do-  | 2,345,944 | Employees of the Road Development Authority had been paid a sum of Rs. 2,345,944 from the Road Network Project as special allowances without obtaining approval in terms of provisions of the Circular.            |
| (c.) <u>Public Finance Circulars</u>    |   |           |  |
|   | Paragraph 4 of the Circular, No. PE/423 of 26 December 2006 | -         | The annual budget of the Road Maintenance Trust Fund for the year under review had not been presented to the Director General of   |

State Accounts on or before 15  
September 2013

(d.) Government

Procurement Guidelines

- |      |                          |             |   |
|------|--------------------------|-------------|---|
| (i)  | Guideline 3.1 and<br>3.2 | 119,266,514 | Contrary to Government Procurement Guidelines, 11 consultants had been employed for the Combined Road Investment Program to carry out preliminary inquiries, and a total sum of Rs. 119,266,514 had been paid from the project.   |
| (ii) | Guideline 8.13.4         | --          | Although the contract value of the plaque that was made during construction of the monument " <i>Nilwala Gate</i> " relating to the Southern Transport Development Project, amounted to Rs. 4,510,000, an approval had not been obtained properly for the additional works valued at Rs. 2,891,337 that had been carried out by the contractor, |



(e.) Decisions of the Cabinet  
of Ministers

Paragraph 4 of the  
Cabinet Decision dated  
26 October 2005

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Sums of Rs. 1 and Rs. 0.50 should have been credited to the Road Maintenance Trust Fund from the sale values of petrol and diesel respectively with effect from 01 January 2006. However, the expected objectives of the Road Maintenance Trust Fund could not be achieved due to difficulties in implementing this decision.

**3.6 Foreign-funded Projects**

The Ministry had implemented 29 projects under foreign loans during the year under review. According to the Appropriation Account of the year 2014, the estimated costs totalled Rs. 122,257,809,460, and a sum of Rs. 113,342,363,419 had been utilized for that project in the year under review. The following observations are made in connection with those foreign-funded projects.

(a.) **Performance of the Foreign-funded Projects**

Deficiencies in the performance of following projects were observed.

(i) **Baseline Road Project – Stage III**

The preliminary activities relating to the construction of new road stretch from *Kirulapana* to *Dutugemunu* junction along the Colombo – *Horana* road had been commenced in 2009 under Baseline Road Project – Stage III. The construction had not been commenced even by 30

December 2014. The sum of Rs. 423.43 million spent in that connection had become uneconomic.

(ii) **Priority Road Project –Stage II**

As bills of the contractors had not been paid within the specific period, the contractors had been paid a sum of Rs. 142 million as interests for the delay.

(iii) **Priority Road Project –Stage I**

The following observations are made.

- Due to failure in making payments to the bills of the contractors within the specified period, a sum of Rs. 29.16 million had been paid to the contractor as liquidated damages and interests.
- Due to failure in taking action to apply asphalt concrete on the surface of the *Paranthan-Mulativu* road in compliance with specifications, the project had retained a sum of Rs. 35,508,531 without being paid.

(iv) **Saudi Fund Road Network Development Project**

The following observations are made.

- The construction of the following roads had not reached the expected goals by 31 December 2014. Particulars are as follows.

<u>Road</u>	<u>Percentage of the Progress Expected</u>	<u>Percentage of the Physical Progress</u>
Stretch of <i>Thampalagamuwa-Surangal</i> junction on the <i>Thampalagamam - Kinniya</i> road	100.00	82.50

Nuri road, <i>Dehiowita</i> – <i>Deraniyagala</i>	75.49	43.57
Stretch from <i>Palapathwala</i> – <i>Naula</i> on the Kandy – Jaffna road	85.83	22.37

- Due to failure in preparing BOQs with regard to the construction of Dehiowita- Deraniyagala road after conducting a formal study with emphasis on engineering aspects, the cost of the contract had increased by a sum of Rs. 154,696,303 by 31 December 2014.

(v) *Hatton – Nuwara Eliya Road Improvement Project*

The surface of a stretch of about 200 M on the *Diagama* Road from *Lindula* junction had been improved by laying asphalt concrete. Although an additional expense of Rs. 2,828,200 had been incurred in that connection, the said activity had not been in the scope of the project.

(vi) National Road Sector Project

The following observations are made in this connection.

- Due to changes in the scope of the renovation of *Matara – Godagama* road, additional expenses of Rs. 14 million ,and Rs. 25 million had been incurred on construction of the wall of the *Rahula* College, *Matara*, and the relocation of drainage system respectively.
- The consultant of the contract should have been provided with facilities as per the contract agreement. However, the contractor of the National Road Sector Project had provided a house of first class at a sum of Rs. 4,640,023 contrary to the contract

agreement. Nevertheless, Rs. 2,320,012 out of the sum paid in that connection had been recovered through the interim payment report, No. 13.

(vii) Road Sector Assistant Project

The following observations are made.

- A review on the construction had not been carried out in a productive manner during the initial stage of the project, and the cost of the project had not been properly estimated. Hence, the variation of costs relating to 04 roads, had increased in the range of 12.6 – 18.3 per cent. As such, a sum totaling Rs. 603.82 had to be paid on variation orders.
- The project had spent a sum of Rs. 78.8 million on the relocation of drainage system belonging to the National Water Supply and Drainage Board , an activity that had not been in the scope of the contract for the construction of Southern Expressway from Hikkaduwa. Additionally, a sum of Rs. 5.74 had been spent on the construction of an office building for the Executive Engineer, and the construction of safety walls around the post offices at *Hikkaduwa* and *Gonapinuwala*.
- Although the local consultants are not entitled to other allowances except for the salaries in accordance with their letter of appointment, those officers had been paid sums of Rs. 2,880,000 and Rs. 1,418,792 as fuel allowances and travel expenses respectively.
- In comparing the number of pin kerbs shown in the paragraph 8.2.2 of the BOQ relating to the Matara – Godagama road, with the amount that had been used by the end of the year under review,

pin kerbs equivalent to a stretch of 6,272 meters had been saved. Despite that, pin kerbs worth Rs. 5,496,500 had been purchased under 2 **variation orders** for a stretch of 2,198.6 meters.

(viii) Northern Expressway Project

A private institution had been tasked to conduct a feasibility study on 3 stages in the construction of the said project at a contract value of Rs. 986,380,104. Accordingly, the feasibility study had been carried out by identifying the *Enderamulla* to *Mirigma* stretch as the first stage, *Mirigama* to *Kurunegala* stretch as the second stage, and the stretch from Kurunegala to Kandy as the third stage. Those stages had later been amended, and the feasibility study relating to the stretch from *Enderamulla* to *Gampaha* had been completed by the contractor at the end of the year under review. However, the stages of the project had later been amended from *Kadawatha* to *Gampaha*. Hence, the expenditure incurred on the feasibility study carried out on the stretch from *Enderamulla* to *Gampaha*, had become futile.

(ix) OPEC Road Network Improvement Project

As bills had not been settled on time in terms of Paragraph 14.8 of the General Conditions of the contract agreement, a sum of Rs. 1,585,810 had to be paid under the OPEC Road Network Improvement Project as late payments and interests.

(b.) Idle / Under Utilized Assets of the Project

The following observations are made.

- (i) Priority Road Project – Stage II was scheduled to be completed on 28 June 2014. A Geological Information System Software (GIS) had been purchased on 11 June 2014 at a cost of Rs. 2, 708, 184. The reason for

such a procurement on the verge of completion of the project was not revealed in audit.

- (ii) The equipment purchased at a cost of Rs. 84 million for the drainage system of the Road Sector Assistant Project, had been stored at the project site over a period of 2 years without being utilized.
- (iii) Although the Executive Engineer in *Kuliyapitiya* had been assigned to build a bridge valued at Rs. 70,190,859 on the *Kuliyapitiya - Alapaladeniya* road on 08 April 2010 and 16 August 2010 under the Regional Bridges Project, the construction had not been completed even after a period of 5 years. Hence, the parts of the bridge that had been transported to the said location, remained idle.
- (iv) Four lattice arches prepared in excess for the subway in *Kotagala* valued at Rs. 2,113,008, had been stored in an unsafe manner at the premises of the Norwood Executive Engineer's Office without being utilized.

(c.) **Failure to Commence the Project on the Specified Date**

Although the contract agreement for *Pamankada - Kesbewa* road had been signed on 01 October 2012, the road had been made available to the contractor after a delay of 06 months on 25 March 2013 for the renovation under phase one, whereas the road for the phase two had been made available on 20 May 2014. As such, the value of the BOQs relating to this road had increased by Rs. 30.36 million. The delay in the acquisition of lands for the renovation of road, and the delay in relocating the utility services such as water and electricity, had contributed to this delay. According to the estimate of the project engineer, the value of the preliminary and general activities amounted to Rs. 145.33 million. However, the contractor had presented a value of Rs. 256 million in that

connection. Nevertheless, payments had been made in accordance with the prices of the contractor without analyzing the rates.

### 3.7 Performance

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

(a.) Maganeguma Projects

The following deficiencies were observed in the sample audit checks carried out on the *Maganeguma* projects

(i) Hambanthota District

The following matters were observed in the audit check conducted on laying interlock concrete blocks on the roads in rural areas within the areas of authority of Pradeshiya Sabhas in *Angunakolapelassa*, *Katuwana*, and *Thissamaharama* in *Hambanthota* district.

(ii) Angunakolapelassa Pradeshiya Sabha

The following deficiencies were observed in examining the files and the physical inspection of projects.

- In terms of the instructions of the *Maganeguma* Circular, No. 2013/2 dated 03 May 2013, files had not been properly maintained in a manner presentable for inspection.
- Although *Indigetawela* cemetery road in *Angunakolapelassa* had been improved by laying concrete blocks under stage I by incurring a sum of Rs. 500,000, only a specific area had been

allotted for the cemetery at the said location. Furthermore, information relating to the dwellers who used the said road, had not been made available.

(iii) Katuwana Pradeshiya Sabha

The following deficiencies were observed during the physical inspection.

- Payments amounting to Rs. 20,079 had been made for the works of 2 roads that had not been completed.
- Without taking into consideration the number of beneficiaries, roads had been constructed for the sake of 2 or 3 beneficiaries.
- Log entries had not been recorded with regard to a certain road, or a set of roads in order to verify that the construction had been continuously supervised.
- The physical inspection of roads had revealed deficiencies such as, failure to build the shoulders on either sides of the roads by properly filling them with soil, cracks on the concrete walls on either sides of the roads, cracks on the concrete walls built on the middle of the roads, cave-ins on the roads, failure to build the canals on either sides of the roads, and failure to conduct maintenance activities of the connected roads.
- The following deficiencies were observed during the physical inspection carried out on the roads on which, concrete blocks had been laid in the area of authority of the *Pradeshiya Sabha, Katuwana*.



- Selection of a road that does not connect to a national or a provincial road, failure to compress roads properly prior to applying concrete blocks, laying concrete blocks without applying quarry dust or sand in between the blocks, occurrence of cave-ins regularly on the road, and, presence of spaces at the places where concrete blocks had been laid, and the concrete walls on either sides of the road.

(iv) *Pradeshiya Sabha , Thissamaharama*

The following deficiencies were observed in examining the files and the physical inspection of projects.

- As per the agreement entered into with the contractors, a period of 6 months had been allowed for constructions valued at about Rs. 500,000. Hence, the construction had been delayed.
- The number of beneficiaries had not been taken into account when road improvement projects had been implemented. Instead, roads had been selected and improved in the areas where only 2 or 3 people would be benefitted.
- Deficiencies observed during the physical inspection included, roads with uneven surfaces due to failure in laying concrete blocks by properly levelling the road, selection of areas where no connected roads were available, and cracks on the stretches of the concreted areas of the roads. Furthermore, cave-ins on the road had been resulted in due to failure in preparing the foundation by levelling it properly.
- Although an estimate valued at Rs. 60,000 had been prepared for laying stones, levelling and filling the joint planes with sand, instance

were observed during the physical inspection, in which joint planes on the surface had not been filled with sand.

- Stones had been surfaced in several places at the 70 M boundary of the road near *Andaragasyaya* preschool in *Thissamaharama*, and stones had been laid improperly at the end of the said road. A sum of Rs. 23,011 had been paid for levelling the surface of the road.
- Stones at the end part of the *Akkara Wissa* road (Stage I), *Magama*, had become surfaced. A sum of Rs. 23,011 had been paid for levelling and solidification of the surface of the road mechanically.

(v) *Kurunegala District*

The following deficiencies were observed during the sample check conducted on the rural roads improved under the Maganeguma Project in Executive Engineer's Division, *Maho, Pradeshiya Sabha, Kurunegala, and Pradeshiya Sabha, Alawwa*.

- The distances of the roads constructed by the Executive Engineer's office, Maho at the stretch of road from stage 47 to 48 in the reservoir village of *Usgala, Siyambalangamuwa* were observed to be less than that of the survey plan. However, an overpayment of Rs. 493,024 had been made to the contractor in excess of the actual sum payable.
- The sides of the road of stage 42 had not been filled with gravel, and compressed using a vibrator. Due to this, the contractor had been paid a sum of Rs. 162,987 in excess.
- In terms of Circular, No. 2007/01 of the Secretary of the Stage 48 to Ministry of Highways and Road Development, dated 26 February 2007, only roads connecting a provincial or national road network should be selected for improvement. Irrespective of that, the 48 road

in the reservoir village of *Siyambalangamuwa* that leads only to a private residence, had been constructed. Hence, the sum of Rs. 963,812 incurred therein had become uneconomical.

- Although *Pradeshiya Sabhas* had incurred a sum of Rs. 2,536 per square meter for laying concrete blocks, the Road Development Authority had incurred a sum of Rs. 4,048 in that connection. Hence, an expenditure of Rs. 6,707,770 had been incurred in excess of the expenditure incurred by the *Pradeshiya Sabha* on the improvement of an area of 3,963.3 square meters of the road in *Usgala Siyambalangamuwa*.

(vi) Area of Authority of the *Pradeshiya Sabha*, *Kurugenegala*

The following deficiencies were observed during the physical inspection of the constructions.

- Despite the height of the concrete walls on the sides of the road being stated as 8.3 inches in the BOQs, it was revealed with regard to the roads physically inspected that the height ranged between 08 inches to 05 inches, the height of the walls on the sides was 6 inches, and the height of the walls on the sides of 3 roads was 7 inches. Hence, the safety of the road remained unsatisfactory.
- Deficiencies such as, failure to properly identify the area of the road that can be improved, failure to select a road connected to a provincial road or national road network, failure to prepare the shoulders of the roads with gravel, and cave-ins of stones at certain places of the roads were observed.

### 3.8 Bank Accounts

Action had not been taken as per Financial Regulation 396 (d) even by the end of the year under review on the cheques valued at Rs. 120,229 that had not been

presented to the bank despite being issued by 31 December 2014 with respect to the current account of the Ministry.

### 3.9 Human Resource Management

#### Approved Cadre and the Actual Cadre

The position on the cadre as at 31 December 2014 had been as follows.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
	-----	-----	-----	-----
(i)	Senior Level	27	18	09
(ii)	Tertiary Level	04	03	01
(iii)	Secondary Level	606	354	252
(iv)	Primary Level	32	24	08
		-----	-----	-----
	Total	669	399	270
		=====	=====	=====