

Report of the Auditor General on the Head 117 – Ministry of Higher Education and Highways – Year 2015

The audit of the Appropriation Account and the Reconciliation Statement including the financial records, books, registers and other records of the Head 117 Ministry of Higher Education and Highways for the year ended 31 December 2015 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 06 September 2017. 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 limitation of staff, other resources and time available to me.

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

The Chief Accounting Officer is responsible for the maintenance, preparation and fair presentation of the Accounts 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. This responsibility includes: designing, implementing and 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.207,410.98 million and out of that, a sum of Rs.187,640.36 million had been utilized by the end of the year under review. Accordingly, the savings out of the total net provision made for the Ministry amounted to Rs.19,770.62 million or 9.53 per cent of the net provision. Details appear below.

Expenditure	As at 31 December 2015			Savings as a Percentage of Net Provision
	Net Provision	Utilisation	Savings	
	Rs. Millions	Rs. Millions	Rs. Millions	
Recurrent	5,869.87	5,601.60	268.27	4.57
Capital	201,541.11	182,038.76	19,505.35	9.68
Total	207,410.98	187,640.36	19,770.62	9.53

2.2 Advances to Public Officers Account

Limits authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers Account Item No. 11701 of the Ministry and the actual amounts are given below.

Expenditure		Receipts		Debit Balances	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions
50.00	19.57	10.00	24.86	70.00	34.81

2.3 Imprest Accounts

The imprest balances of 04 Imprest Accounts under the Ministry as at 31 December 2015 totalled Rs.49.98 million. Details appear below.

Imprest Account Number	Balance as at 31 December 2015
	Rs.Millions
7003/0000/00/0054/0015/000	1.94
7002/0000/00/0332/0015/000	0.04
7002/0000/00/0438/0015/000	0.87
7002/0000/00/0084/0015/000	47.14
Total	49.99

2.4 General Deposit Accounts

The balances of 05 General Deposit Accounts under the Ministry as at 31 December 2015 totalled Rs.811.33 million. Details appear below.

General Deposit Account Number	Balance as at 31 December 2015
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	Rs.Millions
6000/0000/00/0002/0176/000	0.12
6000/0000/00/0013/0135/000	91.62
6000/0000/00/0016/0123/000	671.10
6000/0000/00/0017/0033/000	20.37
6000/0000/00/0020/0021/000	28.12

Total	811.33
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2.5 **Audit Observation**

The Appropriation Account and the Reconciliation Statement of the Ministry of Higher Education and Highways for the year ended 31 December 2015 had been satisfactorily prepared subject to the Audit Observations appearing in the Management Audit Report referred to in paragraph 1.1 above. Significant and material Audit Observations out of the Audit Observations included in that Management Audit Report are given in paragraph 3.

3. **Significant and Material Audit Observations**

3.1 **Non-maintenance of Registers and Books**

Non-maintenance of the following registers by the Ministry was observed during the course of audit test checks.

Type of Registers	Relevant Regulation
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(a) Register of Fixed Assets on Computers, Accessories and Software	Treasury Circular No. IAI/2002/02 of 28 November 2002
(b) Register of Security	Financial Regulation 891(1)

3.2 Appropriation Account

3.2.1 Budgetary Variance

Out of the provisions made for 2 Objects, 29 per cent and 79 per cent of the provisions had been saved as the Department of Treasury Operations had not released the imprests.

3.3 General Deposit Accounts

The following observations are made.

- (a) Action in terms of the Financial Regulation 571 had not been taken on the deposits (except Land Deposits) totalling Rs.36,638,763 older than 2 years.
- (b) According to paragraph 5.3 of the State Accounts Circular No. 243/2015 dated 24 June 2015, instructions had been given that except for the deposits payable during the ensuing 05 months, the balance should be credited to the Deposit Account of the General Treasury. Nevertheless, it had not been so done in connection with the retention money of the Maga Neguma Programme. The deposit balance of the Highways Division as at 31 December of the year under review comprised 475 Depositors and that amounted to Rs.30,312,903.

3.4 Reconciliation Statement of the Advances to Public Officers Account

The following deficiencies were observed during the course of the audit test checks of the Reconciliation Statement the Advances to Public Officers Account Item No. 11701 as at 31 December 2015.

- (a) According to the Reconciliation Statement forwarded to Audit, the outstanding balances as at that date totaled Rs.1,109,833. Even though those outstanding balances existed over periods ranging from 2 years to 23 years, the Ministry had failed to recover those outstanding loan balances.

- (b) The following observations are made in connection with the loan balances existing over long periods due from the decreased, retired and transferred to other Government institutions included in the outstanding loan balances.
- (i) The Ministry had failed to recover the loan balances totalling Rs.397,980 of 4 officers of the Ministry who had gone on transfer, by taking action in terms of the National Budget Circular No. 118 dated 11 October 2006.
 - (ii) The loan balances of three officers of the Ministry who had gone on transfer in the years 1970 and 1993 to the Department of Motor Traffic, the District Secretariat, Galle and the Department of Excise totaled Rs.35,690. According to the information obtained from the relevant institutions it had been confirmed that those officers had not reported for duty in those institutions. The Treasury approval for the write off of those loan balances had not been received even by 31 December 2015.
 - (iii) Even though the management of the Ministry had informed the Audit, that legal action will be taken for the recovery of the loan balances of Rs.58,926 recoverable from an officer who vacated the post in the year 2006, such action had not been taken even by the end of the year under review.
 - (iv) The loan balances totalling Rs.175,594 of 9 officers who had been transferred to the Department of Technical Education and Training had been outstanding. A period exceeding 23 years had elapsed after the loan balances had become outstanding. Even though the approval of the Department of Public Finance had been requested for the write off of those loan balances, information whether the approval was received had not been furnished to Audit even by 31 December 2015.

3.5 Good Governance and Accountability

Internal Audit

The transactions of the Road Maintenance Trust Fund had not been examined by the Ministry Internal Audit during the year under review.

3.6 Assets Management

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

(a) Conduct of Boards of Survey

The following observations are made.

- (i) According to the Public Finance Circular No. 02/2014 of 17 October 2014 the Board of Survey should be conducted for the year 2015 and the reports thereon should have been forwarded to the Auditor General before 17 March 2016. Nevertheless, the Ministry had forwarded those reports on 31 August 2016. According to those reports, the actual balances of the Ministry Office, the State Ministry Office, the Office of the Secretary, a Section of the Administration Division , Maga Neguma Division Media Unit, a Section of the Planning Division and the Reporting Division only had been shown whilst the balances according to the Inventory Registers had not been shown.
- (ii) Action in terms of the Financial Regulation 766 and 767 had not been taken on the excesses and shortages pointed out and the recommendations made in the Reports of the Boards of Survey for the year 2015.

(b) Assets given to External Parties

Ten computers valued at Rs.1,200,000 had been irregularly released 2 years ago to the Office of the Director of Trade and Shipping and the Private Office of the Minister of Foreign Aid Projects.

(c) Irregular use of Assets belonging to other Institutions

Instances of the use of the assets belonging to other institutions by the Ministry without formal approval were observed during the course of audit test checks. Details appear below.

Category of Assets	Owner Institution	Number	Value	Period
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			Rs.	
Motor Vehicles	Ministry of Technology and Research	01	} Not Stated	3 years
	Road Development Authority	06		5 years
	Ministry of Economic Development	02		2 ½ years

(c) Unsettled Liabilities

The unsettled liabilities of the Ministry less than 3 years old as at 31 December 2015 amounted to Rs.10,467,221,411.

3.7 Non-compliances

Non-compliance with Laws, Rules and Regulations

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

Reference to Laws, Rules and Regulations	Value	Non-compliance
	Rs.	
(a) Statutory Provisions		
Motor Traffic Act, No. 14 of 1951	-	A Jeep of the Ministry had been run during a period of 17 years from the year 1998 to the year 2015 without obtaining a Revenue Licence.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
(i) Financial Regulations 178(3)(b) and 264(b)	194,428	Even though the estimates for the repairs to be carried out to 9 air-conditioners installed in Ministry Office premises on floor 9 of Sethsiripaya given by the Technical Officer in the latter half of the year 2015 only had been attached to the voucher, the receipts in support of the payment had not been produced to

Audit. Even the institution which supplied the service had not confirmed the receipt of the cheque.

(ii) Financial Regulation 754 33,035,825 The Inventory Register had not been balances as at 31 December 2015.

(c) Circulars of the Presidential Secretariat

(i) Paragraph 3 (1) of Circular No. CA/1/17/1 of 14 May 2010

- Even though the maximum number of official motor vehicles that can be allocated for the use and security of the Minister and the Deputy Minister is 03, the Minister and the Deputy Ministry had used 6 and 4 official motor vehicles respectively. The information of such motor vehicles used beyond the limit had not been reported to the Secretary to the Ministry of Finance.

(ii) - Do - : Paragraph 3(2) 200,000

Even though only 2 motor vehicles at the rate of one motor vehicle for the Staff of the Minister and the Staff of the Deputy Minister can be obtained, the staff of the Minister had been given 6 motor vehicles whilst the staff of the Deputy Minister had been given 8 motor vehicles, both totally 14 motor vehicles.

(iii) – Do - : Paragraph 3(4)	-	Two motor vehicles used by the Deputy Minister had not been returned during the Parliamentary General Election and the monthly charges for the two motor vehicles as well had not been paid.
(d) Public Finance Circulars		

(i) Circular No. 1/2014 of 01 - February 2014	-	The matters that should be included in the Annual Action Plan had not been included in the Action Plan prepared by the Ministry.
(e) Management Services Circulars		

(i) Paragraph 2.2.1 of Circular - No. 33 of 05 April 2007	-	The Southern Expressway Extension Project had not taken action to recruit the staff required to carry out the preliminary work for the execution of the work in the effective and timely manner.
(ii) - Do - Paragraph 2.2.2	555,336	The Consultants of the OPEC Fund Road Network Development Project had been paid a sum of Rs.555,336 as the remuneration and transport allowance during the year under review without the approval of the Department of Management Services.

(iii) - Do - Paragraph 2.2.3 1,089,179 Two Consultants had been recruited for the Priority Road Project – 3 without the prior approval of the Department of Management Services and a sum of Rs.1,089,179 had been paid to the Consultants as the monthly allowance and motor vehicles hire charges during the year under review.

(f) Government Procurement
Guidelines

(i) Guideline 8.13.4 827,000,000 The contractors had been paid a sum of Rs.827,000,000 under the Variation Orders of the Priority Road Project – 1 without obtaining the approval of the Ministry Procurement Committee. The Variation Orders had been issued on the flyover at Siribopura Junction and the rehabilitation of the Thiriwanaketiya – Agalawatta Road.

(ii) Guideline 1.2.1 of the Consultancy Services Manual issued by the National Procurement Agency in November 2007 - Contracts amounting to Rs.501.23 million and Rs.437.62 million had been awarded to two Consultancy Companies for the Consultancy Services of the Priority Roads Project – 3 through a Variation Orders on the Priority Roads Project – 2 without

following the Competitive Bidding System. As a result of this arrangement, the consultancy charges of the Priority Roads Project – 3 for the years 2014 and 2015 amounting to Rs.18.82 million and Rs.76.75 million respectively had been brought to account under the Priority Roads Project – 2.

(g) Public Administration
Circulars

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- | | | |
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| (i) Paragraph (viii) of the Circular No. 09/2007-2 of 11 May 2007 | 13,914,117 | Twelve Land Acquisition Officers and Resettlement Officers had been recruited for the Southern Expressway Project under the re-employment of retired Public Officers and a sum of Rs.13,914,117 had been paid by the end of the year under review as remuneration and transport / fuel allowances. |
| (ii) Paragraph (viii) of the Circular No. 09/2007-2 of 11 May 2007 | - | If the allowance payable to a post for which a re-employment / appointment is made is problematic, it should be referred to the Director General of Establishments. Even though the Director General of Establishments should determine the allowances on the recommendation of the General |

Treasury, such methodology had not been followed in the determination of the allowances of the Southern Expressway Extension Project.

3.8 Foreign Aid Projects

The Ministry had implemented 22 Projects during the year under review under foreign financing. The estimated cost of the year under review totalled Rs.201 billion and a sum of Rs.182 billion had been utilized on those Projects. The following observations are made in connection with these projects.

(a) Performance of the Foreign Aid Projects

The physical progress of 3 constructions out of 7 construction works implemented under the Eastern University Development Project as at 31 December 2015 had been 25 per cent in respect 2 constructions whilst the progress of the other construction had been 58 per cent.

(b) Non-commencement of Projects on due dates

The physical progress of the construction of the Faculty of Engineering and the Faculty of Agriculture (Kilinochchi) of the Eastern University for which provision of Rs.300 million had been made in the year 2015 had been 10 per cent as at the end of the year under review. Even though provision amounting to Rs.881 million had been made for the construction of the Art Gallery, the University City Project and the Skills Development Programme Project of the University of Ruhuna, the physical progress had not been compared with relevant designs.

(c) Transactions of Contentious Nature

The following transactions of contentious nature were revealed during the course of test checks of Foreign Aid Projects.

- (i) A penalty interest of Rs.3,578,063 had to be paid due to delays in the payments made to the contractor in connection with the rehabilitation work of the Katugasthota to Alawathugoda Section of the Kandy – Jaffna A 09 Road of the Saudi Funds Road Network Development Project.
- (ii) As the bills of quantities of the Dehiowita – Deraniyagala Road of the Saudi Funds Road Network Development Project had been prepared without carrying out a detailed Engineering Study appropriately, the expenditure exceeded the original cost by Rs.161,522,204 due to the issue of Variation Orders from time to time.
- (iii) Action had not been taken to spread the Asphalt Concrete Mixture conforming to the specifications on the road bed of the Paranthan – Mullativu Road rehabilitated under the Priority Roads Project – 1 and as such the sum of Rs.15 million allocated for that had been retained without being paid to the contractor.
- (iv) Advances amounting to Rs.13.311 million had been paid from the Consolidated Fund without formal approval for the rehabilitation of parts of the roads damaged by floods which had not been included in the primary scope of the Tennekumbura – Rikillagaskada – Ragala Road and the Badulla – Karametiya – Andaulpotha Road under the Priority Road Project – 2.

- (v) A Variation Orders for Rs.17 million had been issued for the construction of an access road to the Madanwala Maha Viharaya which was not included in the scope of the Tennekumbura – Rikillagaskada – Ragala Road of the Project referred to in (iv) above and a sum of Rs.12.87 million had been spent on that work by 31 December 2015.
- (vi) Financial provision was not available for the payment in connection with the work done at a cost of Rs.1,950 equivalent to US \$ 14 million exceeding the loan relating to the Priority Road Project – 2 and action had not been taken either for the settlement or accounting for that money.
- (vii) The loan of Rs.1,100 million obtained by the Road Development Authority in the year 2014 for the activities of the Project referred to in (vi) above had not been settled even during the year under review.
- (viii) The rates appearing under 14 items of the bills submitted by the contractors for the maintenance work of kilometres 3.1 to 09 kilometres Section of the Peradeniya – Badulla – Chenkaladi Road of the Road Maintenance Trust Fund as compared with the Engineering Estimates revealed that the costs had been exceeded in the ranges of 100 per cent and 997 per cent. The approval of the Technical Evaluation Committee had not been obtained for the excesses.
- (ix) According to the original construction bill of quantities under the Project for the Improvement of 67 kilometres of the Navathkuli – Karativu – Mannar Road the width of the road had been 10.2 metres whilst that had been reduced to 9 metres during the construction resulting in the reduction of the contract cost by a sum of Rs.632,582,776. Nevertheless, a problematic situation had arisen with regard to the safety of pedestrians, motor cyclists and push cyclists. In view of the failure of the contractor to take action in accordance with the technical specifications, the compaction of the asphalt wearing course had been less than the specified quantity in several places. The Consultant Engineers had recommended that the payments for such sections should be reduced.

- (x) According to the final bill of the Puttalam – Marichchikatta – Mannar Road under Northern Roads Rehabilitation Project a sum of Rs.90,356,378 had been paid for the purchase of laboratory and computer equipment and survey equipment. Even though a price increase of Rs.69,356,378 or 33 per cent had occurred over the price in the bill of quantities, approval for that had not been obtained. In addition, 10 bridges and 5 causeways due for construction according to the original bill of quantities for the 36 kilometers section of the road inside the Wilpattu Sanctuary had been omitted. The reasons for the omission of such item of work had not been explained to Audit.
- (xi) The contract costing Rs.3,806.08 million for the construction of 100 kilometres of roads and the construction of a new bridge in the Kaladi area for the Project on the Development of Infrastructure Facilities for the East affected by Poverty had been awarded to a foreign contractor and the contractor had constructed only roads costing Rs.3,102.88 million. In such circumstances the construction of the bridge had been awarded again to a State Corporation for Rs.813.47 million and as such the Project had to incur a further expenditure of Rs.409.8 million.
- (xii) The contract agreement referred to above did not included terms and conditions relating to price variations. Even though the foreign contractor had made use of the above weaknesses to claim for price variations the Project had rejected those claims. The contractor had filed a case in the Arbitration Tribunal claiming compensation of Rs.593,427,982. The Project had spent a sum of Rs.3,282,442 under the domestic funds for the arbitration process.
- (xiii) The activities of the Southern Roads Co-ordination Project had been done by the staff of the Northern Roads Co-ordination Project and the staff costs had not been allocated between the two Projects.

(d) Activities Extraneous to Project Activities

The following observations are made in this connection.

- (i) Even though the activities of the Road Maintenance Trust Fund had been finalised as at 30 June 2015, a sum of Rs.3.02 million had been spent for the course fees and the incidental allowance for an officer to participate in a foreign training conducted by the University of Birmingham in the United Kingdom in July 2015. As the activities of the Fund had been finalised, the benefits thereof did not accrue to the Fund.
- (ii) According to the information furnished the National Highways Sectoral (Additional Financing) Project had not taken action during the relevant period for exemption from the Value Added Tax. As a result of that, a sum of Rs.27.34 million out of the contribution of the Government of Sri Lanka had to be paid to the Contractor as the Value Added Tax on the improvements to the Pamankada – Kesbewa Road.
- (iii) Subsequent to the completion of Projects under the Priority Road Project – 1, a Suzuki Jeep valued at Rs.41.6 million had been purchased under Variation Order No. 5 from the provision made for the Paranthan – Mullativu Road Improvement Project extraneous to the Project activities. The approval for that Variation Order in terms of the Guideline 2.14.1 of the Government Procurement Procedure had not been obtained from the Technical Evaluation Committee. In addition, that purchase had been made without obtaining the approval of the Ministry Procurement Committee in terms of the Guideline 8.13.4 of the Government Procurement Procedure.

- (iv) A sum of Rs.2 million had been spent from the provision made by the Government to the Road Sector Assistance Project for providing training to two officers of the Ministry of Higher Education and Highways in the United Kingdom for 10 days in November 2015. The information on this foreign travel had not been furnished to the Ministry of Finance in terms of the Circular No. MA/01/2015/01 dated 15 March 2015 of the Ministry of Finance. Nevertheless, it was observed in audit that the training did not directly related to Project work.
- (v) A systematic procedure had not been formulated for the settlement of expenditure on the electricity charges, the maintenance cost of electric lamps of the roads rehabilitated under the Road Sector Assistance Project and the stairs of the flyover at Panadura Town. A sum of Rs.3.46 million had been spent by the Project in the year under review for the electricity charges of the Section from Peliyagoda to Ja-ela of the Road from Peliyagoda to Puttalam. In addition, the Project had spent a sum of Rs.95,815 for the electricity charges under the stairs of the flyover at Panadura Town in respect of June and July of the year under review.
- (vi) Operating materials valued at Rs.14.79 million required for the Office of the Executive Engineer of the Road Development Authority had been purchased through the contractors connected with the relevant National Road Rehabilitation Work. Out of that, materials valued at Rs.7.70 million had been purchased by producing Variation Orders. Even though the Project had handed over stocks of P.V.C. pipes to the Road Development Authority, those remained in the stores of the Road Development Authority at Negombo without being used.
- (vii) The assets had not been handed over as a normal practice to the Road Development Authority and the National Water Supply and Drainage Board on the completion of rehabilitation work. In view of this situation the water pipelines laid at a cost of Rs.284 million on sections of the national roads of the Road Sector Assistance Project had not been transferred to the National Water Supply and Drainage Board.

(viii) The Bill of Quantities for the construction of the Road from Madampe to Rakwana of the OPEC Fund Road Network Development Project included the costs of Rs.478,067,716 and Rs.688,573,450 for the construction of pavements and culverts and the embankments respectively. Those items had been revised as Rs.438,070,710 and Rs.376,591,085 respectively and as such savings of those two items amounting to Rs.39,997,005 and Rs.311,982,365 were observed. Such situation had arisen due to the lack of skills and expertise in the preparation of cost estimates. A part of such savings had been utilized for additional work extraneous to the Project. The utilization of a sum of Rs.30,012,572 for the reconstruction of Pelmadulla Circuit Bungalow can be cited as an example.

(e) Utilisation of Funds

The following observations on funds utilization were revealed during the course of audit tests of Foreign Aid Projects.

- (i) Even though a Detailed Overall Plan had been prepared to cover the overall Project Period to ensure the satisfactory implementation of the work of the Road Maintenance Trust Fund, due to the weaknesses in the plan a sum of US \$ 12.33 million only out of the total provision of US \$ 15.95 million made for the Project had been utilized.
- (ii) Adequate information and the source documents had not been forwarded with the Withdrawal Application for Rs.6.2 million equivalent to US \$ 47,329.56 of the Road Sector Assistance Project, made on 27 January 2015 and as such the Lending Institution had not reimbursed the money.

- (iii) The special Drawing Rights provision of Rs.8,956,010 of 3 Loan Agreements of the Road Sector Assistance Project had not been and as such the Lending Institution had cancelled that amount. As such a sum of Rs.322,434,137 equivalent to US \$ 2,303,146.93 had been returned to the Lending Institution without being utilized.
- (iv) Contrary to the Guideline 5.4.(i) of the Government Procurement Guidelines, a mobilization advance of Rs.252.82 million had been granted for the Kandy – Jaffna Road of the Priority Road Project – 3.

(f) Uneconomic Transactions

The observations on the uneconomic transactions revealed during the course of audit test checks are given below.

- (i) An Incentive Scheme had been introducing through the Cabinet Memorandum dated 01 November 2013 for the completion of the acquisition of lands for the Southern Expressway Extension Project within 26 weeks. Accordingly, that work commenced on 21 May 2014 should have been completed by 19 November 2014. Even though the process had not been completed even by the end of the year under review, incentive allowances amounting to Rs.9,861,717 had been paid in that connection.
- (ii) The payments of compensation to the owners of the lands acquired for the OPEC Funds Road Network Project had been delayed from 10 June 2013 to 19 October 2015 and as such an additional interest amounting to Rs.475,654 had to be paid to the Divisional Secretary, Rambukkana.
- (iii) Interest for delays amounting to Rs.229.287 million and US \$ 393,307,068 had to be paid for the delays in making payments based on interim reports of the Priority Road Network Project – 2.

- (iv) Interest for delays amounting to Rs.384.82 million had been paid by 31 December 2015 due to the non-payment of compensation for the lands required for the Southern Expressway Project on the due dates.

(g) Transactions executed without Approval

The following transactions executed without approval were observed during the course of the audit test checks of the Foreign Aid Projects.

- (i) Eight contracts award for Rs.25,266 million under the Priority Road Project – 2 had been increased by Rs.7,001 million to Rs.32,267 million. Even though the work of those Projects had been completed by 31 December 2015, the approval for that Price Variations in terms of the provisions in the Government Procurement Procedure had not been obtained.
- (ii) According to the letters of appointment issued by the Director General of the Road Development Authority, 54 Consultants at a monthly salary of Rs.65,000 and 94 Public Relation Officers at a monthly salary Rs.25,000 had been recruited. The approval of the Department of Management Services had not been obtained for these appointments. In addition, the provision required for the creation of new posts had not been made under the Appropriation Votes of the Ministry. A study of the need for these officers had not been carried out whilst the professional qualifications, educational qualifications, experience and the expected functions had not been determined. The Government has to spent a sum of Rs.5.86 million per month for such appointments made.
- (iii) Further 09 officers exceeding the approved staff of the Stage 2 of the British Iron Bridges Project had also been recruited for the Project.

(h) Contract Administration

The following deficiencies relating to the contract administration were revealed during the course of the audit test checks of Foreign Aid Projects.

- (i) The contract for the spread of asphalt and maintenance of the Katunayake Veyangoda Road of the Road Maintenance Trust Fund had been split into 2 packages and awarded to the same contractor on 16 December 2014 at the estimated costs of Rs.313.4 million and Rs.267.67 million. Even though action in terms of the Guideline 2.14.1 of the Government Procurement Procedure had not been taken, the approval of the Cabinet of Ministers had not been taken for that. As such the real purpose of inviting for bids could not be achieved.
- (ii) Even though all contractors for the work based Road Maintenance Work of 2 to 5 years duration of the Northern Province Road Connectivity Project should have produced work based Guarantees and Risk Insurance, the documentary evidence in support of producing the insurance cover had not been furnished to Audit.
- (iii) The bids of submitted by the lowest bidders had been selected for the execution of work under the work based road rehabilitation work without comparing the quotations of the Bidders with the Engineering Estimate. The construction work done by the contractors had not been constructed according to the expected targets and as such there were problematic situations in the achievement of the objectives within the expected period at the expected cost.
- (iv) Even though the constructions of the Vavuniya – Horowpathana Road under the Northern Province Roads Connectivity Project had been completed and handed over on 28 April 2015, to the Road Development

Authority, additional work had been done after the completion of the Project. As such the handover after completion of the constructions in terms of clause 10.1 of the contract agreement had not been done. The contractor had been paid a sum of Rs.7,884,878 for the additional work without including a clause on additional work to the contract agreement.

- (v) The contractor had removed 2 Pneumatic Rolls from the work sites in two instances without the approval of the Engineer contrary to clause 4.17 of the contract agreement. In view of this situation, the asphalt laying had been delayed by 37 days. Even though liquidated damages amounting to Rs.4,919,900 should have been recovered in terms of the clause 8.17 of the contract agreement, the Northern Province Road Connectivity Project had not taken action for the recovery of liquidated damages.
- (vi) A sum of Rs.8,540,250 had been paid at the rate of Rs.228 per unit for laying Geotextile cloth in the Rip Rap Embankment areas. An overpayment of Rs.2,200,000 had been made to the contractor as an area exceeding the 9,650 square metres that should have been covered had been shown.
- (vii) The National Highways Sectoral (Additional Financing) Project had altered the primary designs of several road improvement works. In view of this reason, a sum of Rs.161.73 million or 214 items of work representing 20.09 per cent of the Matara – Godagama Road Development had been cancelled and introduced 15 new work items valued at Rs.116.57 million representing 20.5 per cent of the total contract. In addition, 326 items of work of the bills of Quantities valued at Rs.737.64 million in the scope of the improvement of the Road from Aluthgama to the Southern Expressway had been cancelled and the contractor had been paid additional mobilization advances.

- (viii) It was revealed from the Report of the Operating Committee dated 07 May 2015 that each contractor for the rehabilitation work of the Road from Aluthgama to the Southern Expressway and the Road from Hikkaduwa to the Southern Expressway had been given extension of 90 days without taking into consideration the inefficiencies of the contractors such as the irregular work plans and the deficiencies in the labour forces deployed. Further, it was observed that payments had been made for the additional costs for the preliminary works of the above roads amounting to Rs.22.51 million and Rs.26.80 million respectively and Rs.20.33 million and Rs.8.53 million respectively had been spent on price variations. In addition, liquidated damages amounting to Rs.3.893 million had been set off to the National Highways Sectoral (Additional Financing) Project.
- (ix) The improvements to the Road from Katukurunda to Nagoda had been delayed by 90 days due to the failure of the Project to handover the work site of the National Highways Sectoral (Additional Financing) Project to the Contractor. As a result of that price variations amounting to Rs.15.19 million and liquidated damages amounting to Rs.17.31 million had been paid to the contractor.
- (x) The Project had spent a sum of Rs.74.82 million for carrying out changes to the water pipelines and other infrastructure development work not falling under the scope of the work on improvements to the Road from Hikkaduwa to the Southern Expressway of the National Highways Sectoral (Additional Financing) Project which should have been carried out by the National Water Supply and Drainage Board and the Local Authority of the area.
- (xi) In view of the following reasons of the National Highways Sectoral (Additional Financing) Project, adequate action had not been taken for the certification of the quality control activities of the improvement works of the Nugegoda – Homagama Road.

- Even though the plans systems for the contract certificates should be submitted within 28 days from the commencement of contract work, the contractor had not completed those items of work. In addition, the contractor had not deployed the Quality Control Inspectors and as such, the quality standards of 12 activities had not been maintained in the Inspection lists in accordance with the standards.
- The compression strength of the cover slabs and interlock paving blocks laid under Variation Orders had not been tested. Sums of Rs.6.27 million and Rs.1.45 million respectively had been paid in that connection to the contractor.
- According to the results of the inspection reports of April, September and October 2015, the maximum thickness of the asphalt concrete bonding layer from 1+000 kilometre to 15+360 kilometres should have been in the ranges of 36 mm to 75 mm whereas actually it had been in the ranges of 106.4 mm and 122 mm. In addition, according to the inspection report, the surface thickness of the asphalt concrete layer of the above section of the road should have been 45 mm to 55 mm whereas the actual thickness had been in the ranges of 91.7 mm to 108 mm.
- According to the bid documents submitted by the contractor for the packages 03 and 04 of the rehabilitation of the Peliyagoda – Ja-ela Road of the Road Sector Assistance Project, the contractor had given discounts of Rs.278.37 million and Rs.250.1 million respectively subject to several conditions. Nevertheless, the discount rights for Rs.40.29 million and Rs.33.36 million respectively only could be claimed at the end of the Project period due to the weaknesses of contract administration and the lack of an understanding of the conditions included in the contract agreement.

- In the preparation of the bills of quantities for the National Road Rehabilitation Works, those had not been prepared realistically by taking into consideration of the noticeable factors such as the measurements of underground rehabilitation work in the urban areas. An additional sum of Rs.1,052 million exceeding the estimated costs of rehabilitation work had been spent due to the removal of certain items in the bills of quantities and introducing new items.
- Liquidated damages totalling Rs.485.4 million had been paid due to delaying the rehabilitation of sections of the Colombo – Galle – Hambantota Road and the Puttalam – Peliyagoda Road. Nevertheless, a Prolongation Rights costs claims totalling Rs.942.5 million based on the idling of the resources of the contractor due to the delay in commencing the rehabilitation work of the roads and the loss of profits due to incurring overhead costs. In addition, the Consultants had stated in their reports that delays had occurred due to the non-deployment of adequate resources due to the weaknesses of the contractors and the frequent breakdown of machinery. Nevertheless, the Advisory Committee had decided to set off the liquidated damages against the Prolongation Cost.
- In view of the failure carry out the Detailed Designs of the Section from Pinnaduwa to Godagama of the Southern Expressway appropriately, the quantity of construction work had been overstated in the bill of quantities relating to the agreement. Even though the contract cost had been shown as Rs.18.700 billion due to that reason, the actual cost amounted to Rs.14.925 billion, thus resulting in a saving of Rs.3.775 billion.

- An overpayment Rs.974,207,579 had been made as the mobilization advances to contractors under the Integrated Road Investment Project (i- Road) according to the provision in the Government Procurement Guidelines and the particular condition in the agreements entered into with the contractors.
- According to Section 45.1 (a) of the Special Conditions of the agreement entered into on the Consultancy Services of the Southern Roads Connectivity Project, excluding the provisions value and contingences, 15 per cent of the contract value, that is US \$ 193,782 , that is, Rs.23.37 million in foreign currency and Rs.19.37 million in the local currency should have been paid as advances and that advances should have been settled in 8 equal installments commencing from the fifth month after the commencement of supply of services by the client, up to the twelfth month. Accordingly, the entirety of the mobilization advances should have been fully recovered by November 2015. Nevertheless, the mobilization advance of Rs.44,756,486 had not been recovered in terms of the conditions of the agreement by the end of the year and the project had paid a sum of Rs.204.51 million to the Consultants for the work done up to 31 December 2015. Even though the mobilization Advances had not been recovered by 31 December 2015, the Bank Guarantee produced by the Consultant for the above 2 amounts had expired on 30 November 2015.
- According to the Contract on the Initial Supply of Bridges under the British Iron Bridges Project – Stage 2 the supply of 104 bridges of total length of 3,077.9 metres had been scheduled. Nevertheless, the Project had revised the bridges design contract in 06 subsequent instances. But the Cabinet of Ministers had approved only 2 of the 6 revisions and the Procurement Committee had approved the balance 4 revisions.

- Thirteen bridges in the Initial Supply of Bridges under the British Iron Bridges Project – Stage 2 had been eliminated and the Polduwa Bridge costing Rs.2,334.29 million equivalent to British Pounds 10,739,262 had been included. This contract had also been awarded by following the unsolicited Procurement Procedure. As such the Project had failed to obtain the benefits accruing from following the Procurement Procedure.
- According to the recommendation of the Special Cabinet Approved Procurement Committee, the contractor Company had agreed to grant a discount of British Pounds 1,560,000 equivalent to Rs.339,081,600 out of the total Project cost. Nevertheless, in entering into the contract agreement, the concession of British Pounds 80,000 equivalent to Rs.17,388,800 agreed for loading and unloading of the bridge to the work site had been removed and a discount of British Pounds 1,480,000 equivalent to Rs.321,692,800 only had been included in the contract.

(i) Idle or Underutilised Assets

The following observations are made on the idle or underutilized assets revealed during the course of the audit test checks of the Foreign Aid Projects.

- (i) The objective of the Project had been the rehabilitation of 142.73 kilometres of 9 roads (including culverts and bridges) in the Western, Southern, Central and Sabaragamuwa Provinces. Nevertheless, the Priority Roads Project – 3 had not taken action for the recruitment of three Material Engineers, a Deputy Director and a Senior Engineer belonging to the approved staff of the Contract Consultants. This situation had an impact on the supervision of the quality of the work of contractors.

- (ii) A sum of Rs.310.36 million provided for the maintenance of national roads in the Central Province and a sum of Rs.38.23 million had been spent in the year under review on the maintenance of 38 roads in the Central Province not related to that. Even though a sum of Rs.81.55 million had been spent for the establishment of a Secretariat for the Road Maintenance Trust Fund and for the supply of consultancy services for policy decision making on road maintenance works, recommendation on road maintenance policies introduced by Consultants had not been fully implemented. Nevertheless, the Consultancy Services Agreement had been terminated on 11 November 2014.

(j) Project Performance

The following observations are made based on the audit test checks of the performance of the Foreign Aid Projects.

- (i) The Road Maintenance Trust Fund Secretariat should have taken continuous action for the conduct of a technical audit on test basis by utilizing Road Maintenance Standards / Handbooks accepted according to the Feasibility Study Report of the Roads Sectoral Assistance Project. Even though the quality of maintenance work should be established in accordance with the main Performance Indicators, the Performance Reports on the Technical Audits had not been furnished to the Trustees of the Roads Maintenance Trust Fund.
- (ii) Even though the activities of the Road Maintenance Trust Fund should have been reviewed after 3 years from the inception of that Fund for the assessment of the effectiveness of the Trust Fund for the supply of a Sustainable Road Maintenance Financing and for the examination of the system for the improvement of its operations, its Board of Management had not reviewed its financial and physical performance despite the Road Maintenance Trust Fund had been in operation since 01 January 2006.

- (iii) According to the decision of the Cabinet of Ministers dated 26 October 2005, a sum of Rs.1 per litre of petrol and 50 cents per litre of diesel out of the revenue received by the Government from the sale of petrol and diesel, should have been allocated by the Government to the Road Maintenance Trust Fund with 01 January 2016. But, a formal procedure for the implementation of that proposal had not been implemented even by 31 December 2015.
- (iv) Even though a sum of Rs.8,500,956 from the local funds had been spent under the Manmunai Bridge Construction Project for the supply of electricity to the Manmunai Bridge. Nevertheless, one month after the completion of the construction, that is, after 19 April 2014, the supply of electricity had been out of order. This matter was brought to the notice of the Audit in writing by the Chairman of the Manmunai East Pradeshiya Sabha. Nevertheless, the retention money relating to the construction work amounting to Rs.443,424 had been paid to the contractor on 02 November 2015 without getting the defects rectified.
- (v) Even though the Manmunai Bridge had been constructed by utilizing a fairly large foreign loan as well as local funds under the Manmunai Bridge Construction Project, a formal background study had not been conducted before the commencement of works. As the approach roads to the bridge are inundated by water during the monsoon period making it impossible for the inhabitants of the Manmunai area to use the bridge.
- (vi) Five officers had been appointed as Consultants to the Project on the payment of Rs.40,000 and Rs.25,000 per month for fuel and salary respectively from the British Iron Bridges Project – Stage 2 . These officers so recruited had not fulfilled the qualifications and the other experience required for each post. Accordingly, most of the officers had not been assigned the duties relating to the Project. As such it had not been possible to obtain the expected performance from them.

(vii) The qualifications and experience of 4 officers recruited as the Public Relations Officers of the above Project had not been in the level necessary for carrying out the activities of the Project and as such it had not been possible to obtain the required performance from those officers.

(k) Activities Carried out without Planning

Out of US \$ 15 million allocated for the Project a sum of US \$ 144,810 had been cancelled by the Lending Institution due to the failure of the Project Roads Projects Preparation Facilities to utilize funds according to a proper plan. A further sum of US \$ 15,191 equivalent to Rs.2,136,446 saved had been returned to the Lending Institution.

(l) Assets not formally handed over

Even though the non-current assets of the Roads Infrastructure Facilities Supply Project valued at Rs.1.47 million had been handed over to the Road Development Authority, the Northern Provincial Roads Co-ordination Project and the Ministry of Provincial Councils and Local Government, the Lists of Handover and Takeover had not been signed by the officers responsible.

(m) Failure to Produce Evidence for Audit

The following observations are made in connection with the failure to produce evidence relating to the Foreign Aid Projects.

(i) Even though the Annual Boards of Survey of the National Highways Sectoral (Additional Financing) Project as at the end of the year under review had been carried out, the Reports of the Boards of Survey on assets valued at Rs.1.59 million had not been forwarded to Audit.

(ii) A Consultant not included in the approved staff had been recruited by the Letter No. RDA/A/10/APPT dated 13 March 2015 of the Director General of the Road Development Authority and attached to the Project. The letter had granted approval for the payment of Rs.65,000 per month to the Consultant with effect from the date of appointment. Accordingly, a sum of Rs.630,410 had been paid as salary and motor vehicle allowance to the Consultant in the year 2015. Nevertheless the documents such as the daily attendance records, assignment of work and work done reports required in the confirmation of the services contributed by the Consultant to the Project had not been furnished to Audit.

(n) Completion of Project Work

The activities of the Roads Sectoral Assistance Project had been completed on 30 June 2015. Nevertheless, the Project Completion Report agreed to be submitted on 30 September 2015 had not been submitted even by 31 December 2015. It was observed that additional provision amounting to Rs.2.57 million had been made for the preparation of the Report.

(o) Payment of Taxes from Project Funds

The application made to the Department of Inland Revenue for the exemption from the payment of the Value Added Tax on the Consultancy Services of the Southern Roads Connectivity Project, which commenced on 14 December 2014 had been delayed by 5 months up to 19 May 2015 and as a result the Project had paid the Value Added Tax and the Nation Building Tax amounting to Rs.6,780,082 and Rs.1,232,742 respectively.

(p) Excessive Estimated Costs

According to the Circular no. MPH/YWY/ACC/03/03/01 dated 03 July 2013 of the Secretary to the Ministry of Ports and Highways the Annual Budget Estimates should have been prepared accurately. Nevertheless, a provision of Rs.100 million had been made in the Budget Estimates of the year under review as the contribution of the Government of Sri Lanka for the Prevention of Fatalities of National Road Network Project whilst only a sum of Rs.46.42 million only had been utilized. As such the excessive estimates amounted to Rs.53.58 million.

(q) Unreported Financial Losses

The contract agreement under the British Iron Bridges Project – Stage 2 between the Government of Sri Lanka and the Supplier had been entered into in the United Stated Dollars. As a result of the fall in the value of the United States Dollars against the British Pound, the loss sustained in 3 years amounted to US \$ 892,781 or Rs.130,506,800.

(r) Non-commencement of Project Work

A sum of Rs.525.31 million had been spent up to 31 December 2015 for the acquisition of lands up to Dutugemunu Junction for the construction of the Colombo - Horana Road from Kirulapana under Stage III of the Baseline Road Project. The construction work of the road had not been commenced up to date due to the delays in the acquisition of lands and the failure to find a Lending Institution.

3.9 Performances

According to the Annual Action Plan for the year 2015, the Ministry of Higher Education had commenced a Project in the year 2013 for the construction of 60 Hostels in the Universities at an estimated cost of Rs.220 million per hostel in order to increase the number of resident students by 12,000 in the State Universities System.

Construction of 30 Hostels under Stage 1 had been completed and according to the decision No. CM/13/0952/521/041TBR dated 26 July 2013 of the Cabinet of Ministers the balance 30 Hostels should have been completed by 31 December 2015. The construction of 6 Hostels had not been commenced by the end of the year under review. The physical progress of 6 Hostels had been in the ranges of 5 per cent to 30 per cent whilst the progress of work of 18 Hostels had exceeded 60 per cent. The financial progress of this Project as at 31 December 2015 amounted to Rs.10,611.8 million.

Reconstruction of 1,021 kilometres approximately of the National Highways Network and the A and B Grade Highways had been carried out during the year under review. The construction of 8.9 kilometres of Expressways of E Grade had been completed and opened whilst the reconstruction of 1,643 kilometres approximately of A and B Grade Highways was in progress. In addition, 155 bridges of the National Highways Network had been reconstructed and added to the Network whilst the construction of 146 bridges had been in progress.

3.10 Human Resources Management

Approved Cadre and the Actual Cadre

- (i) The position of the cadre of the Higher Education Division of the Ministry as at 31 December 2015 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	33	20	13
(ii) Tertiary Level	02	01	01
(iii) Secondary Level	134	61	73
(iv) Primary Level	45	27	18
(v) Others (Casual Temporary / Contract Basis)	04	-	04
(vi) Recruited under 25/2014	-	09	-
Total	218	118	109

- (ii) The position of the cadre of the Highways Division of the Ministry as at 31 December 2015 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	27	20	07
(ii) Tertiary Level	05	02	03
(iii) Secondary Level	567	350	217
(iv) Primary Level	35	28	07
Total	634	400	234