

## **Report of the Auditor General on Head 306- Department of Sri Lanka Railways - Year 2015**

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The audit of the Appropriation Account, Revenue Account, Stores Advance Account, Advance Accounts Under Winding up and the Reconciliation Statements including the financial records, books, registers and other records of the Department of Sri Lanka Railways 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 General Manager of the Department on 20 September 2016. 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 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 Account, Revenue Account, Stores Advance Account, Advance Accounts Under Winding up 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**

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### **2.1 Appropriation Account**

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#### **Total Provision and Expenditure**

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The total net provision made for the Department amounted to Rs. 58,051.69 million and out of that Rs. 44,485.03 million had been utilized by the end of the year under review. Accordingly, the savings out of the net provisions made for the Department amounted to Rs. 13,566.66 million or 23.37 per cent of the net provisions. Details appear below.

Head	As at 31 December 2015			Savings as a percentage of Net Provisions
	Net Provision	Utilization	Savings	
	Rs. Millions	Rs. Millions	Rs. Millions	
Recurrent	14,165.49	14,048.78	116.71	0.82
Capital	43,886.20	30,436.25	13,449.95	30.65
<b>Total</b>	<b>58,051.69</b>	<b>44,485.03</b>	<b>13,566.66</b>	<b>23.37</b>

## 2.1 Revenu Account

### Estimated and Actual Revenue

The Department had prepared revenue estimates totalling Rs. 6,000 million under 20.01.01.00 Revenue Code for the year 2015 and revenue totalling Rs. 6,334 million had been collected during the year under review. Accordingly, revenue amounting to 334 million or 5.57 per cent had been collected exceeding the estimated revenue .

## 2.2 Advance Account

### 2.2.1 Advances to Public Officers Account

#### Limits Authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers Accounts of the Department under Item No.30601 and the actual amounts are given below.

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
545.00	488.58	400.00	420.75	1,500.00	851.06

## 2.3 Imprest Account

The balance of the Imprest Account No. 8003 of the Department as at 31 December 2015 amounted to Rs. 649.5 million.

## 2.4 Stores Advances Account

### Limits Authorized by Parliament

The limits authorized by Parliament for the Stores Advance Account of the Department under Item No.30602 and the actual amounts are given below.

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
2,000.00	1,957.55	1,800.00	1,490.88	6,935.00	6,780.03

## 2.5 General Deposit Account

The balances of 02 General Deposit Accounts of the Department as at 31 December 2015 totalled Rs. 321.9 million. Details appear below.

Type of Deposit Account	Balance as at 31 December 2015
	Rs. Millions
Sundry Deposits	202.2
Tender Deposits	119.7
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Total	321.9
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## 2.6 Audit Observation

According to the Financial Records and Books for the year ended 31 December 2015, it was observed that subject to the audit observations appearing in paragraph 1.1 of the Management Audit Reports, the Appropriation Account, Revenue Account, Stores Advance Account, Advance Accounts Under Winding up and the Reconciliation Statements of the Department of Sri Lanka Railways have been prepared satisfactorily. The material and significant observations out of the above audit observations appear in paragraphs 3 herein.

## 3. Material and Significant Audit Observations

### 3.1 Presentation of Accounts

Even though the Department should present the following accounts and the reconciliation statements to audit by 31 March 2016, those accounts and reconciliation statements had not been presented to audit even by 31 May 2016.

<b>Head/ Item Number</b>	<b>Name of Account</b>	<b>Delay as at 31 May 2016</b>
306	Appropriation Account	60 Days
30601	Reconciliation Statement of the Advances to Public Officers Account	31 Days

### **3.2 Non-maintenance of Registers and Books**

It was observed during audit test checks that the Department had not maintained the following Registers.

<b>Type of Register</b>	<b>Relevant Regulation</b>
(a) Register of Fixed Assets.	Treasury Circular No.842 dated 19 November 1978.
(b) Registers of Fixed Assets for Computers, Accessories and Software.	Treasury Circular No.IAI/2002/02 dated 28 November 2002.
(c) Register of Electrical Fittings	Financial Regulation 454 (2)

### **3.3 Lack of Evidence for Audit**

As there was no required evidence such as the evidence in support of the identity, list of duties, goods issuing orders and Board of Survey Reports available with the Department, 07 transactions relating to a sum totalling Rs.31,100.80 million could not be satisfactorily vouched in audit.

### **3.4 General Deposit Account**

The following observations are made in this connection.

- Although the Accounting Officer should be responsible for making aware the General Treasury on the accounts maintained by the Department and maintaining continuous accounting relationship, contrary to that, the general deposit balances amounting to Rs.321.95 million had not been reported to the Treasury or it had not been disclosed by the Annual Appropriation Account.
- The General Deposit Account had not been monthly balanced and compared as required by Financial Regulation 565 (3).

- (c) Monthly abstract statement of deposits had not been furnished to the Auditor General in terms of Financial Regulation 565 (5).

### **3.5 Revenue Account**

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The duties relating to the preparation of Revenue Estimates, collection of Revenue, Accounting and the presentation of Accounts relating to Revenue Code No. 20.01.01.00 have been assigned to the Head of the Department as the Revenue Accounting Officer. The following deficiencies were observed during the course of audit test check carried out on the above Revenue Codes.

- (a) According to the Revenue Account presented to Audit, revenue totalling Rs. 1,430.29 million had been in arrears and that revenue in arrears had related to periods ranging from 01 year to 15 years. Nevertheless, the follow-up action on the recovery of arrears of revenue had been at a weak level.
- (b) The half-yearly returns showing the state of arrears of revenue had not been prepared in terms of Financial Regulation 128(2).
- (c) Without taking action to identify the revenue belongs to the Department out of the revenue totalling Rs. 61.61 million collected under a Revenue Code and without crediting it to the respective revenue codes, it had been retained in the Deposit Account over a period ranging from 01 year to 2 years.
- (d) In accounting for the revenue in December 2015, a sum of Rs.144.00 million had been understated in the accounts.

### **3.6 Reconciliation Statement on Advances to Public Officers Account**

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The following deficiencies were observed during the course of audit test checks of the Reconciliation Statement as at 31 December 2015 relating to the Advances to Public Officers Account under Item No30601.

- (a) According to the Reconciliation Statement presented to audit, the balances that remained outstanding as at that date totalled Rs. 92,876,772. Even though those outstanding balances remained over periods ranging from 01 year to 05 years, the follow-up action taken on the recovery of those balances had been at a weak level.
- (b) In terms of the Public Enterprises Circular No.96 dated 10 August 1994, although the Department should prepare individual balances classification summary indicating the loans and advance balances, any list of balances whatsoever had not been prepared and presented relating to a loan balance of Rs.4,153,547 belongs to the Transport Superintendent's Office, Anuradhapura.
- (c) According to the books of the Department, the debit balance as at 31 December 2015 was Rs.846.88 million and it was Rs.851.06 million according to the Treasury printouts. Accordingly, 11 years had elapsed for the difference of Rs.4.18 million among the

balances continued to exist from the year 2004 as at 31 March 2016. Nevertheless, necessary steps had not been taken to reconcile and settle that difference.

- (d) Although the balances of the Control Account should be reconciled with the CC10 Register at the end of each month, there was a difference of Rs.13.29 million between the total of the individual balance classification summary and the balance of the Control Account of the Department.

### **3.7 Advance Accounts Under Winding up**

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According to a Cabinet decision, winding up of 05 Advance Account activities had been entrusted to the Department and that winding up activities should have been completed by the year 1987. The winding up activities had not been completed even by 31 December 2015 despite the lapse of 28 years. The unapproved accumulated working loss relating to 05 winding up Advance Account activities had totalled Rs.3.4 million.

### **3.8 Good Governance and Accountability**

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#### **3.8.1 Annual Procurement Plan**

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In order to obtain goods and services by following the Government Procurement Guidelines, provisions amounting to Rs.38,320.06 million had been made by the Annual Budget Estimate while provisions amounting to Rs.5,565.06 million had been made by the supplementary estimates allocations. Nevertheless, the Annual Procurement Plan had not been prepared in accordance with the National Budget Circular No.128 dated 24 March 2006 for the utilization of the provisions thus made.

#### **3.8.2 Audit and Management Committees**

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In terms of the Circular No.DMA/2009/01 dated 29 June 2009 of the Department of Management Services, at least 04 Audit and Management Committee meetings should be held annually, whereas only 02 committee meetings had been held during the year 2015.

### **3.9 Assets Management**

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The following deficiencies were observed during the course of audit test check conducted on the assets of the Department.

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

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It was observed during the course of audit test checks that certain assets categorized below had remained either idle or underutilized.

- (i) Lands about 12,000 acres in extent belong to the Department of Sri Lanka Railways had remained idle for about 150 years without giving on lease or utilizing for another purpose.

- (ii) One thousand Electronic Controllers, the letter of credit value of which was Rs.5,086,986 had been ordered in the year 2011 and those goods had been received by the stores. Since such goods were not in accordance with the expected specifications, it was informed to the respective company. Although that company had requested an opportunity to meet the relevant requirement on 07 June 2015, the Department had not responded to that request even by 31 May 2016. As such, stocks valued at Rs.5,086,986 had retained idle in the stores for about 05 years.
- (iii) The Container Forklift purchased by spending nearly a sum of Rs.33 million in the year 1995 had remained idle in the Colombo Railway Yard without being utilized for more than a period of 20 years.
- (iv) Twenty one locomotives, 04 railway compartments, 22 bogies, 02 four wheeler carriages, a motor vehicle and 22 machine units belonging to the Department had remained idle and underutilized condition.

**(b) Conducting Annual Boards of Survey**

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The following observations are made.

- (i) Although the Board of Survey pertaining to the year 2015 should be conducted and the report thereon should be furnished to the Auditor General before 15 June 2016 in accordance with the Public Finance Circular, No. 05/2016 dated 31 March 2016, the Department had not furnished such reports relevant to 21 branch offices operated under 03 Sub-Departments even by 18 July 2016.
- (ii) Action in accordance with the Financial Regulations had not been taken on the excesses, shortages and other recommendations pointed out by the Board of Survey Reports pertaining to the year 2015.

**(c) Irregular Utilization of the Assets Owned by Other Institutions.**

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Four motor vehicles belonged to other institutions had been utilized by the Department without properly taking over them.

**(d) Unsettled Liabilities**

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The unsettled liabilities of the Department as at 31 December 2015 amounted to Rs.340.39 million and those had been in existence for less than a period of one year.

### 3.10 Non-compliances

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

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

Reference to Laws, Rules and Regulations	Value	Non-compliance
	Rs.	
<b>(a) Establishments Code of the Democratic Socialist Republic of Sri Lanka.</b>		
Section 5.8 of Chapter XIX	74,548,474	Water bills had not been recovered from the officers who were occupying 696 Government Quarters of the Railway Department located at Rathmalana.
<b>(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka</b>		
(i) Financial Regulation 115 (3)(b)	12,839,333	Even though payments for the spare parts purchased in the preceding years had been made during the year under review in three instances, the approval of the Secretary to the Ministry had not been obtained thereon.
(ii) Financial Regulation 128 (1) (i)	13,074,314	As clearing of goods relating to 186 invoices had been delayed over a period ranging from 21 days to 963 days in 39 instances during the year 2015, demurrage charges had been paid to the Sri Lanka Ports Authority.
<b>(c) General Guidelines of the Department of Railway</b>		
(i) Section 1.1 of Chapter xi	18,579,511	The daily income of the railway stations had not been remitted to the Railway Accountant's Office on the due date.



(ii) Section 2.17 of Chapter xi

The daily income received by the railway stations should be remitted to the Chief Accountant of the Railway and those income should be reconciled daily and their accuracy should be established. Nevertheless, reconciliations of commuters income of 337 Railway Stations, season tickets income of 263 Railway Stations and parcels transport income of 303 Railway Stations had not been completed for a period ranging from 01 month to 12 months during the year under review.

(iii) Paragraph 02 ix of Circular No. 98 BATTA/Urgent Payments dated 05 November 1998. 7,345,502

Although, the advances obtained should be presented and settled within one week, advances obtained from the Railway Stations daily income on 27 November 2015 had not been settled over a number of years.

### 3.11 Foreign Aid Projects

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The Department had implemented 05 projects under foreign financed during the year under review. The estimated cost thereof according to the Project Agreements totalled USD692.27 million. A sum of Rs. 16,978.43 million had been spent on such Projects during the year under review. The following observations are made in connection with these Foreign Aid Projects.

#### (a) Performance of Foreign Aid Projects

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The observations on financial and physical performance of the Foreign Aid Projects are given below.

##### (i) Signals and Telecommunication Project

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The following observations are made in this connection.

- Failure to take over the Railway Stations within the Period of Warranty
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Out of 26 Railway Stations in which the signal systems had been installed, the warranty period of 03 years of 10 Railway Stations costing Rs. 4,567 million had expired by 20 September 2016. According to the Section 21 of Particular Condition of Contract, those had not been taken over by the Project Units. Accordingly, if any defect was caused to the equipment installed in

those Railway Stations, the Department likely to have borne an additional cost as there was no responsibility of the contractor.

- Installation of Signal Accessories at the Railway Stations

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At the time of designing Paragraph vii of the Contract Agreement, since it had not been clearly distinguished as large Railway Stations and small Railway Stations out of the 26 Railway Stations in which signal accessories had been installed, a sum of USD 469,462 or nearly Rs.62 million had been overpaid to the contractor. Necessary steps had not been taken to recover that overpayment from the contractor even by September 2016.

- Evidence on the Computation of Unit Cost

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A difference of Rs.62 million was observed relating to the cost of the signal accessories installed at the small Railway Stations and the large Stations under the project. The reasons attributed to that unusual increase in the unit cost had not been clearly furnished to Audit.

- Substandard Quality of the Signal Systems Purchased

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According to the Section 4.9 of the contract agreement, the contractor should furnish a certificate to the project on the quality of the equipment used for the project. Nevertheless, 740 Location Boxes valued at USD 2,082,360 or nearly Rs. 274 million and 189 Point Machines valued at USD1,486,296 or Rs.196 million purchased by the contractor had remained idle subject to the corrosion within a period of one year from the completion of the project.

- Making Purchases without Properly Recognizing The Requirement

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Despite the installation of an instrument to control the signal system established in the Station Master's room, the contractor had installed 56 Block Instruments at a cost of USD628,888 or Rs.83.01million for 26 Railway Stations. As the said equipment was not in keeping with the requirement, the money spent thereon had been uneconomical.

- Vehicle Control

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The contractor had purchased 06 Jeeps for the road inspection of the Project. According to Section 9.1 of the contract agreement, the contractor should hand over those vehicles to the project office after completion of the project. Out of 06 vehicles purchased, the contractor had handed over 05 vehicles to the project office. Although a payment of USD 20,800 was made to the

contractor under Interim Payment Certificate No. 20 for the remaining vehicle, that vehicle had not been duly handed over to the Project Management Unit. Further, the evidence with regard to the transfer of 06 vehicles valued at USD 156,000 properly to the officers concerned had not been furnished to Audit.

**(ii) Madu-Thalaimannar Railway Track Project**  
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The following observations are made in this connection.

○ Indented Concrete Sleepers  
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The following matters were observed during the course of field inspection on the Madu-Thalaimannar Railway Track Project carried out on 24 August 2016.

-The concrete sleepers used for the railway tract had been subject to the indentation and the contract company had started to remove those indented sleepers and replace new sleepers.

- Before the use of concrete sleepers to the railway tract, the quality thereof should be tested. Nevertheless, no evidence had been furnished to the effect that such tests had been conducted.

● Reconstruction of Bridges  
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As there were defects in 03 bridges constructed on the railway track from Madu to Taleimannar, the contract company had agreed to remove those bridges and construct new bridges. Constructions had not been commenced even by 30 September 2016 and the agreed contract period of the project and the period given for the rectification of the defects was due to be ended on 13 December 2016. The necessary expeditious steps should be taken to complete the above work within this period, whereas action had not been taken accordingly and as such the Project had a risk for bearing an additional burden of expenditure.

**3.12 Implementation of Projects under Domestic Financing**  
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Instances of projects abandoned without commencing, projects abandoned without completion and the project delays revealed during the course of audit test checks are given below.

**(a) Delays in the execution of Projects**  
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The value of the remaining work of the project for the installation of underground lathe, the estimated cost of which was Rs.50 million was Rs.47 million as at 31 December 2015. In order to implement that project, the Department of Railways and the State Engineering Corporation had entered into an agreement valued at Rs.31.45 million on 31

December 2015. Action had not been taken to complete that project even by 27 October 2016.

**(b) Projects without Progress despite the release of Money**

For the purpose of computerizing files of the Land Division of the Department of Railways and maintaining that data base, an estimate amounting to Rs.2 million had been prepared during the year under review and a sum of Rs.1.39 million had been spent thereon. Although a period of 01 year and 10 months had elapsed by 27 October 2016 from the commencement of this project, it had not been possible to reach the performance level expected from that project.

**3.13 Deficiencies in the Operation of Bank Accounts**

The following observations are made.

**(a) Long Delays in the preparation of Bank Reconciliation Statements**

Bank Reconciliation Statements relating to a bank account for the period from January to December 2015 had not been prepared even by 31 January 2016.

**(b) Dormant Bank Accounts**

A deposit account maintained by the Department had been dormant as at 31 December 2014 over a period from 12 years and 2 months and the balance thereof as at 31 December 2015 had been Rs.1,991,312.

**(c) Balances for Adjustments**

Information revealed at an analysis of the adjustments shown in the Bank Reconciliation Statements prepared by the Department of Railways for December 2015 is given below.

Particulars of Adjustments	Age Analysis		Total
	Over 06 Months less than 01 year	Over 01 Year less than 03 years	
	Rs.	Rs.	Rs.
(i) Unrealized Deposit	528,140	-	528,140
(ii) Cheques issued but not presented for payment	2,560,311	1,802,947	4,363,258
(iii) Unidentified Credits	-	134,400	134,400
(iv) Dishououred Cheques on which adequate action had not been taken.	1,817,257	-	1,817,257

(vi) Other Adjustments	97,990	210,260	308,250
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The following observations are made in this connection.

- (i) Action in terms of Financial Regulation 396 (d) had not been taken on 94 cheques totalling Rs.2,059,268 and 17 cheques totalling Rs.2,303,990 issued but not presented to the Bank and elapsed a period of 06 months relating to two Bank Accounts.
- (ii) The details of the cheques which are unrealized despite being deposited in the Bank should be submitted in terms of Financial Regulation 395 (e). Nevertheless, such schedule had not been presented on unrealized deposits valued at Rs.46,517,321 relating to a Bank Account.
- (iii) In terms of the Bank Reconciliation Statement prepared relating to a Bank account, the value of dishonoured cheques had been Rs.1,817,257, whereas such a schedule had not been presented thereon.
- (iv) The Department had not taken action to correct the errors amounting to Rs.540,319 caused to a Bank account that had been identified relating to 07 instances up to December 2015 and to amend the cash book accordingly.
- (v) The errors in the Bank Account amounting to Rs.144,101 identified by its Bank Reconciliation Statement for the month of January 2013 had not been corrected even by December 2015.

### **3.14 Transactions of Contentious Nature**

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A sum of Rs.1,220,083 had been paid to a private institution in the year 2015 in respect of 20 labourers at Rs.1,360 for their daily charge and Rs163.20 as the charges with the Value Added Tax. That institution was a construction company but not an institution engaged in the supply of labourers. Accordingly, the recruitment of labourers without examining the qualifications and the experience was a transaction of contentious nature.

### **3.15 Irregular Transactions**

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Certain transactions entered into by the Department had been devoid of regularity. Several such instances observed are given below.

#### **(a) Deviation from Government Procurement Procedure**

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Even though it had been clearly specified that the provisions relating to following Objects stated under the Paragraph 4.1 of the Annual Budget Estimate should be spent in accordance with the Government Procurement Guidelines, several transactions carried out contrary to that requirement are given below.

- (i) Contrary to Guideline 1.2.1 (a) of the Government Procurement Guidelines, purchases valued at Rs.50,510,080 had been made by calling for bids from the limited number of suppliers in February 2015.

- (ii) The approval of the Procurement Committee of the Ministry had not been obtained for the purchases valued at Rs.88,690,000 and Rs.3,909,628 made by the Stores Superintendent Office in the year 2015 contrary to Guideline 3.3 of the Government Procurement Guidelines.
- (iii) According to the Guideline 3.4.1(b) of the Government Procurement Guidelines, in the procurement of goods and services less than Rs.2 million in value, the contractor should have been selected by evaluating the bids out of 05 sealed bids. Although it had been informed to submit bids for 18 suppliers, having evaluated only the bids of above two bidders and declared that the prices were not in keeping with the specifications, those bids had been rejected. The contract had been awarded to an institution which had quoted the higher price of Rs.1,979,968.
- (iv) Six hundred units of spare parts had been purchased by paying Rs.50,510,080, Rs.51,219,776, Rs.10,132,096 and Rs.83,574,934, in February 2015. Although the maximum stock units of this stock item was 300, six hundred units had been purchased in August 2014. Even though a period of exceeding one year had elapsed from the date of purchase, only 160 units had been issued and utilized. Without taking action according to the Procurement Plan in terms of the Guideline 4.2.2.(a) of the Government Procurement Guidelines, funds of the Department had been fruitlessly tied up in stocks.
- (v) Contrary to the Guideline 5.3.11(a) of the Government Procurement Guidelines, procurement totalling Rs.7,173,712 had been made in 05 instances without obtaining the bid securities.
- (vi) The performance securities had not been obtained in accordance with the Guideline 5.4.8 of the Government Procurement Guidelines in respect of the purchases valued at Rs.338,392 made during the year under review.
- (vii) It had had been recommended to make purchases from the institution that had submitted the third lowest price of Rs.196,000 according to the report of the Technical Evaluation Committee out of the 04 suppliers presented the bids. As the bid with the lowest price of Rs.147,544 including 2 per cent commission obtained by the local agent of the bidder who submitted the lowest bid had been rejected and 30 units had been purchased from the institution that had quoted the third lowest price, a sum of Rs.1,453,680 had been overspent.
- (viii) Without using the forms in a proper manner as required by the Guideline 6.2.6 of the Government Procurement Guidelines, purchases valued at Rs.50,510,088 had been made in 06 instances in February 2015.
- (ix) Although the evaluation of bids should be carried out as immediately as possible in terms of the Guideline 7.4.1 of the Government Procurement

Guidelines, as the technical evaluation relating to the purchase of spare parts had been delayed from 01 month to 05 months as well as the recommendation of the Procurement Committee had been delayed, the validity period of the bids submitted by the bidders had to be extended in several instances. Accordingly, a delay for a period ranging from 01 year and 05 months to 02 years and 05 months from the date of placing the order had occurred in receiving the spare parts valued at Rs.12.47 million by the Rathmalana warehouse.

- (x) In terms of Guideline 7.12.2 of the Government Procurement Guideline, when only one bidder had submitted the bids, without recommending that the prices quoted in the bid were reasonable in comparison to the market values by the Technical Evaluation Committee, the spare parts valued at Rs.5,908,708 had been purchased.

### **3.16 Transactions in the Nature of Financial Frauds**

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The particulars of transactions of fraudulent nature observed during the course of audit test checks are given below.

- (a) Having presented the fake medical certificates and availed of leave for 6,065 days, the Railway Guards had obtained overtime amounting to Rs. 4.02 million fraudulently without engaging in their specific duties. Action in terms of Section (2) of Appendix 1 of Part II of the Establishments Code had not been taken in connection with those officers.
- (b) In order to mark the attendance in reporting for duties in accordance with the Public Administration Circular No.9/2009 dated 16 April 2009, the Department had purchased and installed 71 fingerprint machines at a cost of Rs.13 million. The officers holding various posts in the services such as Railway Station Masters Service, Railway Locomotive Drivers and Railway Guard Service etc. had refused to place fingerprints on those machines and as such it had not been possible to establish the accuracy of the data on the relevant overtime hours and the holiday pays.

### **3.17 Losses and damages**

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Observations on the losses and damages revealed during the course of audit test check are given below.

- (a) Action had not been taken to value and auction 4,454,.78 metric tons of scrap iron existed in the Department and 2,552.58 metric tons of rails which were unfit for use existed in the Way and Works Sub-Department as at 31 December 2015.
- (b) A balance of Rs.13,829,758 had been brought forward over a number of years as losses incurred from obsolete and disused materials. Action had not been take to write off that balance even by the end of the year under review.

- (c) According to the files made available to audit, action had not been taken to clear the goods valued at Rs.13,554,271 from the Port imported to this country under 04 indent numbers even by 31 May 2016. There was a risk for depriving of those goods or uneconomically paying demurrage charges to the Port.
- (d) In case of purchasing spare parts, although the period during which the goods should be supplied by the supplier from the date of placing the order had been mentioned according to the Condition 11 of the letter of calling for quotations, there were instances where the spare parts had not been supplied during the relevant period. The penalty for delays amounting to Rs.290,157 had not been recovered from the supplier therefor.
- (e) The absolute right regarding the publication of advertisements within the railway network had been leased to an external party. On 07 September 2011, the Department had entered into an agreement with that institution. As that institution had not taken action in accordance with the said agreement, the Department had been deprived of an income of Rs.425 million.
- (f) Action in terms of Financial Regulations 104 and 109 had not been taken on the losses and damages totalling Rs.293.67 million caused within the Department.

### **3.18 Uneconomic Transactions**

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The particulars of transactions entered into devoid of economy revealed during the course of test checks are given below.

- (a) Three thousand eight hundred and sixteen unites of goods such as spare parts, lubricants etc. valued at Rs.9.33 million purchased during the year under review had remained idle in the Stores without being issued even by 05 January 2016, the date of audit.
- (b) For the purchase of 60 Roller Bearings, 05 bids had been received under calling for National/ International competitive bids. Although there was a possibility to make the above purchase to a sum of Rs.519,720 at 8,662 per Bearing from the institution that had quoted the lowest prices out of those bids, 60 Bearings had been purchased from another institution at the rate of Rs.65,160 per Bearing and therefore, a sum of Rs.3,389,880 had been overpaid to that institution.
- (c) The Technical Evaluation Committee had rejected the bid that had quoted the lowest price inclusive of the information required to be submitted by the suppliers in terms of Paragraph 6 (b) Guidelines contained in the Procurement Notice issued to the bidders. Nevertheless, in the examination of evidence files that enquire the matters thereon from those suppliers, the evidence in support of non-presentation of such information had not been furnished to audit. Therefore, since the possible opportunity to make the



purchase at the minimum price from the supplier had been deprived of, the Government had to overpaid Rs.2,360,137.

- (d) Although a set of Permanent Way Equipment valued at Rs.4,483 million had been purchased in the year 2014, it had not been issued even by the end of the year under review. Nevertheless, the stock of Permanent Way Equipment valued at Rs.50 million had been purchased during the year under review.
- (e) Without employing more than 500 employees of the Building Division functioning under the District Engineering (Central) Office according to a proper work plan, payment of Rs.1.22 million had been made to 20 employees obtained from the private sector in the year 2015.
- (f) In terms of Paragraph 03 of the Circular No.887 dated 05 January 1987 of the Ministry of Home Affairs, it had been stated that the economic rent is approved only for the relevant year. Although applications should have been forwarded for the next year, contrary to that, the economic rent assessed in several years before had been charged in respect of 821 Government Quarters relating to 04 institutions.
- (g) In terms of Paragraph 03 of the Treasury Circular No.5/2010 dated 29 October 2010, salaries should have been directly remitted to the personal bank accounts of the employees. The salaries of the staff of the Department of Railways outside Colombo had been paid in cash. As such, a fruitless expenditure amounting to Rs.511,451 had been incurred only in January 2015 for the activities such as overtime, travelling expenses, reservation of compartments for the shroffs and the Railway Security Officers.
- (h) Action had not been taken to recover electricity charges of Rs.224,670 receivable from the bank accounts by the end of the year under review relating to the Auto Trailer Machines installed in the premises belonging to the Department.
- (i) A sum of Rs.2,651,187 remained receivable as at 30 June 2004 in respect of telephone booths of the Sri Lanka Telecom. The amount due from 30 June 2004 to 31 December 2015 had not been assessed. A sum of Rs.1,209,910 was due from that institution as at 31 December 2004 for Trilail Telephone Booths and the amount receivable as at 31 December 2015 had not been assessed. Accordingly, identified income of Rs.3,861,103 had not been recovered and action had not been taken to identify the income that had not been further identified.
- (j) Due to uncertainty of the agreements entered into by the Department with two private institutions for leasing the railway compartments, it had not been possible to determine the charges payable by those institutions to the Department of Railways. According to the Letter No.C/SU/ Blue Line/2016 dated 29 March 2016 of the Marketing and Sales Manager, a sum of Rs.36,658,140 was due from one institution up to the year 2014. A sum of Rs.558,970 was due from the other company up to 28 February 2013. A

proper methodology had not been prepared for the recovery of the money from the relevant companies even by the end of the year under review.

- (k) Action had not been taken to recover a sum of Rs.1,383,500 due from 11 small trade stalls as at 31 December 2015 even by 30 April 2016.
- (l) In leasing out trade stalls to the external parties by the Department of Railways, lease agreements had not been entered into for 05 trade stalls. Action had not been taken to recover a sum of Rs.756,025 (Inclusive of the Value Added Tax) relating to 08 trade stalls as at 31 December 2015 for which the agreements had been signed.

### **3.19 Management Weaknesses**

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The following weaknesses were observed during the course of audit test check.

- (a) Although it had been specified according to the Paragraph 05 of the Evaluation Committee Report that the goods are required to be checked prior to shipping, tickets valued at Rs.11,871,726 had been purchased without such checking surpassing the decision of the Evaluation Committee.
- (b) Imported goods valued at Rs.13,799,731 had been taken over without obtaining the Certificate of Conformity in accordance with the ordered specifications in 05 instances of purchases. Goods Receive Notes had not been issued in respect of the goods valued at Rs.661,489 in 02 instances.
- (c) According to the 45 Goods Receive Notes of the year 2014, goods valued at Rs.8,883,224, Rs.550,177 and Rs.2,028,905 had remained in undersupply, damaged and unsuitable position respectively, whereas action had not been taken to obtain the goods with the prescribed standard in place of those goods even as at 30 April 2016.
- (d) Goods relating to the Letters of Credit amounting to Rs.35,715,003 unsettled from the year 2008 to 2009 had not been made available to the Stores even by 31 December 2015. The delay for the supply of those goods to the Stores as at that date had been from 07 years to 18 years.
- (e) Goods valued at Rs.914,358 received by the Ratmalana Warehouse Division on 27 July 2011 had not been in conformity with the specifications of the Department. Action had not been taken to obtain the goods with proper specifications in place of those goods even by 31 May 2016.
- (f) In the import of goods, a sum of Rs.205,142,308 had been spent as the customs duty by the end of the year under review from the year 1993. Action had not been taken to adjust that expenditure to the stock even by 30 April 2016. The balance of the unsettled outstanding customs duty from the year 1993 up to the years preceding the year under review had been Rs.89,568,098.
- (g) A stock of tickets, the face value of which was Rs.3,314,700 had remained idle without being used since a period of 15 years.

- (h) In order to fixed water meters to the Government Quarters, Ratmalana, the Water Supply and Drainage Board had submitted an estimate amounting to Rs.77 million. The Department had not taken a suitable action in this connection and the Department had paid a sum of Rs. 72 million as water bills of those quarters from January 2014 to July 2015. The failure to install water meters had resulted in this situation.
- (i) Without preparing a specific methodology, metals had been laid on the track by the District Engineer (Upper) under 07 Permanent Plate Layers Offices. In order to buy metals for that purpose a sum of Rs.43,688,713 had been spent in the years 2013,2014 and 2015 respectively.
- (j) The income in arrears that remained receivable relating to 5,280 files in action on the lease of lands belong to the Department as at 31 December of the year under review amounted to Rs.1,276,985,437 million and a proper step had not been taken to recover that money.
- (k) In respect of transportation of goods by train, a sum of Rs.70,702,827 had not been recovered from 12 institutions relating to the year under review while a sum of Rs.30,354,368 had not been recovered from 22 institutions from the period before 2000 up to the end of the year 2014 by the end of the year under review.
- (l) In order to purchase goods, advances totalling Rs.15,969,069 had been paid to the suppliers from the year 1980 up to the year under review. Out of that, advances amounting to Rs.3,907,621 had been paid during the year under review. Action had not been taken to settle those advances even by the end of the year under review.
- (m) The Department of Railway had entrusted the printing of 33,000,000 to the Department of Government Printer. The Department of Government Printer had printed and handed over 24,364,500 tickets. It could not be established by the books and registers maintained by the Department of Government Printer that the remaining number of 8,635,500 tickets had been handed over to the Department.
- (n) There were 228,000 tickets belonging to 04 categories which do not print in the Printing Division of the Department of Government Printer. Action had not been taken to hand over them to the Department of Railways.

### 3.20 Human Resources Management

#### (a) Approved Cadre and Actual Cadre

The position on the cadre as at 31 December 2015 had been as follows.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Cadre in Excess
(i)	Senior Level	212	92	120	-
(ii)	Tertiary Level	2,909	2,071	838	-
(iii)	Secondary Level	8,500	5,018	3,482	-
(iv)	Primary Level	8,601	8,026	575	-
(v)	Others (Casual/ Temporary/ Contract Basis)	-	2,107	-	2,107
	<b>Total</b>	<b>20,222</b>	<b>17,314</b>	<b>5,015</b>	<b>2,107</b>

The following observation is made.

There were 5,015 vacancies in the approved cadre by the end of the year under review. Without properly taking action to fill those vacancies, the Department had recruited 2,107 employees as the casual staff without obtaining formal approval.

#### (b) Human Resources Irregularly Released to the Other Parties

The Department had irregularly released an employee in the Management Service to the Ministry of Disaster Management during the year under review.

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

The Department had irregularly obtained a Wharf Field Officer of the Food Department.

#### (d) Reemployment of Pensioners

Without taking action to fill the vacancies available in the Department of Sri Lanka Railways, the following officers who had retired from the service of the Department had been reemployed.

Category of Employees	Number
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Locomotive Drivers	12
Railway Guards	47
Railway Station Master	40
Railway Supervisory Management Service	14
Primary Technician (Administration)	02
Time Keeper	03
Transport Sub Department	20
Shunt Drivers	12
Driver Assistants	32
Senior Level	02
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<b>Total</b>	<b>184</b>
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