

Report of the Auditor General on Head 306 – Department of Railways – year 2016

The audit of the Appropriation Account, Revenue Account, Stores Advance Account, Advance Account Under Winding up and the Reconciliation statements including the financial records, books, registers and other records of the Head 306 - Department of Railways for the year ended 31 December 2016 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 23 August 2017. The audit observations, comments and findings on the accounts and the reconciliation statements were based on the 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 Officer for the Accounts and Reconciliation Statements.

The Chief Accounting Officer and the Accounting Officer 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. 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 Department amounted to Rs.35,467.81 million and out of that Rs.29,090.39 million had been utilized by the end of the year under review. Accordingly, the savings out of total net provision of the Department amounted to Rs.6,377.42 million or 17.98 per cent.

Expenditure	As at 31 December 2016			Savings as a Percentage of Net Provision
	Net Provision	Utilization	Savings	
	Rs. Millions	Rs. Millions	Rs. Millions	
Recurrent	14,128.99	13,396.28	732.71	5.18
Capital	21,338.82	15,694.11	5,644.71	26.45
Total	35,467.81	29,090.39	6,377.42	17.98

2.2 Revenue Account

----- Estimated and Actual Revenue -----

The Department had estimated the Revenue totalling Rs.6300 million for the Revenue Code 20.01.01.00 for the year 2016 and Revenue totalling Rs.6,521.8 million had been collected in the year under review. Accordingly, Revenue amounting to Rs.221.8 million or 3.5 per cent had been collected exceeding the estimated revenue.

2.3 Advance Account

----- 2.3.1 Advances to Public Officers Account -----

----- Limits Authorized by Parliament -----

The limits authorized by Parliament for the Advances to Public Officers Account 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
600.00	513.06	350.00	409.97	1500.00	954.00

2.3.2 Stores Advance Account -----

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
2000.00	1947.93	1800.00	2247.10	7635.00	6480.85

2.4 Imprest Account

The balance of the Imprest Account No.7002/0000/00/0450/0016/000 of the Department as at 31 December 2016 amounted to Rs.24.86 million.

2.5 General Deposit Account

The balances of the 05 General Deposit Accounts under the Department as at 31 December 2016 totalled to Rs.376.24 million. Details appear below.

Deposit Account Number	Balance as at 31 December 2016
-----	-----
	Rs. Millions
6000/0000/00/0001/0072/000	5.43
6000/0000/00/0002/0097/000	131.38
6000/0000/00/0013/0065/000	178.18
6000/0000/00/0018/0056/000	4.83
6000/0000/00/0016/0048/000	56.42

Total	376.24
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2.6 Audit Observation

Subject to the audit observations appearing in the above Paragraph 1.1 of the Management Audit Report, Appropriation Account, Revenue Account, Stores Advance Account, Advance Account Under Winding up and the Reconciliation Statements for the year ended 31 December 2016 of the Department of Sri Lanka Railway had been prepared satisfactorily. The material and important audit Observations out of the audit observations included in the above Management Audit Report appear in Paragraph 3.

3. Material and Significant Audit Observations

3.1 Presentation of Accounts

Even though Appropriation Account should be presented for audit in trilingual as at 31 March 2017 as per section 2 of State Accounts Circular No.252/2016 dated 09 December 2016, Tamil language copies had been presented to audit on 09 May 2017. That was a delay of 39 days.

3.2 Non -maintenance of Registers and Books

It was observed during the course of audit test checks that Department had not maintained the following registers.

Type of Registers	Relevant Regulation
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(a) Register of Fixed Assets	Treasury Circular No. 842 dated 19 December 1978/ Section 11 as per Financial Regulations 502(2) therein.

- | | |
|--|---|
| (b) Register of Fixed Assets on Computers, Computer Accessories and Software | Treasury Circular No. IAI/2002/02 dated 28 November 2002. |
| (c) Register of Liabilities | Financial Regulation 214 |

3.3 Lack of Evidence for Audit

Following observations are made.

- (a) As there was no required evidence such as confirmations of balances and Board of Survey Reports available within the Department, 04 transactions relating to totalling Rs.6,096.89 million could not be satisfactorily vouched in audit.
- (b) Even though the expense amounting to Rs.166,163,727 incurred for custom fee and other taxes relating to 223 of imported stock items had been shown under unsettled letters of credit, it had not been confirmed whether relevant goods are exactly remained.

3.4 Answering to Audit Queries

Answers had not been submitted to an audit query issued to the Department in the year under review even by 30 October 2017 and computable transaction value relating to that query amounted to Rs.2,740,000.

3.5 Appropriation Account

Budgetary variance

Following observations are made.

- (a) Due to excess provisions had been made for 34 expenditure objects, savings after the utilization of provisions had been in a range of 5 per cent to 100 per cent of the net provisions relating to those respective expenditure objects.
- (b) Even though additional provisions amounting to Rs.1.30 million had been obtained for an expenditure object in August 2016 from supplementary estimates that total provision itself had been remained at the end of the year.
- (c) Even though provisions amounting to Rs.100 million had been made for the reconstruction of Omantha Palei Railway line, total provision itself had been remained even after amounting to Rs.24,570,900 thereof had been transferred to another project.
- (d) Even though a compulsory saving of 15 per cent have to be made from the provision for the expenditure object 1202 as per section 2 of the National Budget Circular No.7/2015 dated 29 December 2015 on Public Expenditure Management, only 13 per cent had been saved under that expenditure object.

3.6 Imprest Account

A difference amounting to Rs.238.59 million had been revealed between the Imprest Account balance of the Department and the balance as per the Treasury Books by the end of the year under review. Similarly, balance of the Railway General Manager Account (8003) of had been amounted to Rs.649.48 million according to Department Books and had been amounted to Rs.977.61 million according to Treasury Books. Accordingly, a difference amounting to Rs.328.12 million was observed.

The Department had failed to correct the differences among those balances by acting in terms of Financial Regulation 427.

3.7 General Deposit Account

Following observations are made.

- (a) A classification of individual balances relating to deposit balances amounting to Rs.376,237,500 as at 31 December 2016 had not been submitted to audit and reconciliations also had not been done monthly as per Financial Regulation 565(3).
- (b) In terms of Financial Regulation 565(4), opening balances had not been recorded there by opening a new deposit ledger for each financial year. Similarly, even though a statement of monthly deposit summary prepared in general form 71 for each month should be submitted to the Auditor General before the end of the next month as per Financial Regulation 565(5), it had not been done accordingly.
- (c) Deposits valued at Rs.148,626,648 elapsed 2 years from the date of deposit had not been credited to revenue as per Financial Regulation 570 and 571.
- (d) Even though relevant forms should be submitted to the Department of State Accounts by reconciling of general deposits appropriately as per section 2 of State Accounts Circular No.249/2016 dated 11 April 2016, relating to general deposits amounting to Rs.376,237,500 had not been done accordingly.

3.8 Revenue Account

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 had 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 those Revenue Codes.

- (a) In terms of circular No.01/2015 dated 20 July 2015 issued by the Department of Fiscal Policy, even though revised revenue estimates should be prepared by paying attention to the facts to which priority should be given when preparing estimates and should be presented to the Department of Fiscal Policy, actions had not been done accordingly.
- (b) According to the Revenue Account submitted to audit, revenue totalling Rs. 1,566,276,874 had been in arrears and that revenue in arrears had been related to a

period ranging from 01 year to 20 years. Follow-up action on the recovery of revenue in arrears had been at a weak level.

- (c) In terms of Financial Regulation 128(2)(c), reports on revenue in arrears relating to second half of the year under review which should be presented as at 31 January 2017 had not been submitted to audit up to 15 June 2017.
- (d) Even though total revenue in the year under review had been increased by 3 per cent with compared to the previous year, receipt of revenue in arrears amounting to Rs.794.64 million relating to previous year had been included in the revenue received in the year under review. It had been 12 per cent of the total revenue.
- (e) Totalling of Rs.73.77 million as amounting to Rs.40.92 million receivable from 12 organizations for the year 2016 and amounting to Rs.32.85 million receivable from 25 organization prior to year 2000 to the end of year 2015 for transporting goods by train had not been recovered even by the end of the year under review.
- (f) Revenue in arrears valued at Rs.2,376.41 million receivable from 07 income sources as at 31 December 2016 had not been disclosed in the revenue account.

3.9 Reconciliation Statement on Advances to Public Officers Account

The following deficiencies were observed during the course of audit test checks of the Reconciliation Statement as at 31 December 2016 relating to the Advances to Public Officers Account under Item No30601.

- (a) According to the Reconciliation Statement presented to audit, balances that remained outstanding as at that date totalled to Rs.93.29 million and even though those outstanding balances have been coming over a period of 05 years, the follow-up action taken on the recovery of those balances had been at a weak level.
- (b) A loan balance amounting to Rs.4.49 million in the name of a sub department-Transport Superintendent's Office, Anuradhapura had not been recovered. A list of balances which should be prepared thereon according to the Public Enterprises Circular No.96 dated 10 August 1994 had not been prepared and presented to Auditor General.
- (c) Actions had not been taken in terms of section 1.1 of Sate Accounts Circular No.118 dated 11 October 2004 relating to loan balance amounting to Rs.645,752 due from 15 officers of 03 sub departments.

3.10 Advance Account Under Winding up

Following observation is made.

Decision had been taken to wind up 05 Advance Accounts for objects such as material products, foundry, timber converting activities, hotel services and other since 1987. In terms of Financial Regulation 518(3), liquidation activities should be completed in the year which is succeeding to the year coming after winding up those advance account activities. Nevertheless, liquidation

activity had not been completed even by 31 December 2016 despite the lapse of 29 years from advance activities had been wound up.

3.11 Good Governance and Accountability

Audit and Management Committee

In terms of the Circular No.DMA/2009/01 dated 29 June 2009 of the Department of Management Services, even though at least 04 Audit and Management Committee meetings should be held annually, only 03 committee meetings had been held by the department during the year 2016.

3.12 Assets Management

Following deficiencies were observed in the course of audit test check conducted on the assets of the Department.

(a) Idle and Underutilized Assets

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

- (i) About 6,000 acres of lands belongs to the Department of Railways had remained idle and even though it had been recorded that there are 4000 acres of illegally used lands thereof, detailed information thereon had not been identified even by 23 August 2017.
- (ii) 1000 Electronic Controllers units amounting to Rs.5.08 million had been remained idle in the stores since year 2011.
- (iii) Five engines of M9 model purchased in year 2001 by incurring amounting to Rs.810 million had not been run since year 2004 and M9-873 engine had been run only within a 02 year period from the purchased date.
- (iv) Forty four motor vehicle items, 20 machine items and 84 moving property items which belong to the Sub Department of Main Mechanical Engineering had been remained idle and underutilized.

(b) Conducting Annual Boards of Survey

Following observations are made.

- (i) In terms of section 3(2) of Public Finance Circular No. 05/2016 dated 31 March 2016, Board of Survey pertaining to the year 2016 should be conducted and the reports thereon should be furnished to the Auditor General before 15 June 2017. Nevertheless Board of Survey Reports for 05 branch offices and 416 branch offices under 19 Sub-Departments had not been furnished to the audit even by 30 June 2017 for year 2015 and 2016 respectively.

(ii) Actions in accordance with circulars had not been taken on the excesses and shortages and other recommendations pointed out by the Board of Survey Reports pertaining to the year 2015.

(c) Assets released to external parties

Department had irregularly released a motor vehicle valued Rs.3.50 million to Ministry of Transport.

(d) Irregular Utilization of the Assets Owned by Other Institutions

Department had been utilizing 04 motor vehicles belong to Ministry of Transport for a long time without properly taking over them.

3.13 Unsettled Liabilities

The unsettled liabilities of the Department as at 31 December 2016 amounted to Rs.690.33 million and those had been coming for a period of less than one year.

3.14 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 ----- Rs.	Non-compliance -----
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka -----		
(i) Financial Regulation 66	215,879,733	Even though requisitions for transferring funds should be presented to the Director General of National Budget before 31 December of the relevant financial year, 09 application forms of empowering for transferring funds had been presented to the Director General of National Budget on 23 January 2017.

(ii) Financial Regulation 103,104,105 and 109	455,442,884	Even though actions should be taken appropriately without a delay about deciding the actions to be taken when losses and damages are happened, checking losses and deciding the respondents thereto, deciding the maximum recoverable amount from losses and damages, issuing of orders to remove the losses from the books etc., Department had not been taken actions accordingly.
(iii) Financial Regulation 156 (1) (a)	2,439,883	Amounting to Rs.2,439,883 had been paid to Sri Lanka Ports Authority in 28 times as demurrage charges for clearing of goods relating to 159 invoices in year 2016 due to not taking actions accordingly.
(iv) Financial Regulation 168 (2)	-	Due to not mentioning any detail in the second copy of the two receipts issued for the income collected from Mount Mary playground, the value mentioned on it had not been accounted as income.
(v) Financial Regulation 177 (1)	420,055	Income amounting to Rs.420,055 collected during the early 04 months in the year 2016, had been banked with a delay of 26 days to 120 days.
(vi) Financial Regulation 763	-	Articles had not been appropriately prepared regarding stores control.
(vii) Financial Regulation 845	-	A list of official telephones had not been prepared.
(b) Presidential Secretariat Circular No.SP/RD/2/10 of 03 February 2010. Paragraph 6	-	Even though Head of the Department should be responsible regarding the protection of the state lands, Head of the Department had not taken actions as per the guidelines of State Land Act No.07 of 1979 to remove unauthorized persons who settled in the railway reserve.
(c) Ministry of Finance and Planning Circular No.3/2014 of 30 December 2014. Paragraph 1 of Section 3	-	Telephone system of the organization had not been arranged as it enables to separately identify the telephone charges of the telephone calls taken by the officers.

**(d) General Guidelines of the
Department of Railway**

- (i) Section 2 of Chapter XI -
Paragraph 2.17

Due to not taking actions appropriately by 30 May 2017, the delay in reconciling of income of season tickets of 334 Railway Stations, passengers and parcels with railway station general account had been in a range of 03 months to 07 months. As per the observation of the internal audit section, this delay of 09 railway stations had been in a range of 02 years to 03 years.

- (ii) Paragraph 02 ix of 6,134,071
Railway General
Manager Circular of
BATTU/Urgent
Advance Payments
No.98 of 05
November 1998

Contrary to the provisions, urgent advances had been issued from the daily income of the railway stations and actions had not been taken to settle those advances over a period of a year.

3.15 Foreign Aid Projects

A sum of Rs.1,300 million for development activities of Madu-Thalaimannar Railway Track and amounting to Rs.2,330 million for Palei- Kankasanthurei Railway Track had been estimated for which implemented under Foreign Aid Projects in the year under review and that expense had not been incurred in the year under review.

3.16 Implementation of Projects under Domestic Financing

Following observations are made.

- (a) 10 Local projects amounting to Rs.4,664 million and planned under Project No.04 had not been implemented in the year under review.
- (b) As per the Action Plan of year 2016, financial performance relating to 09 projects amounting to Rs.992 million had been below the level of 50 per cent.

3.17 Railway Performance

Following observations are made.

- (a) Out of the passenger trains planned in the year 2015 and 2016, 97.35 per cent and 97.8 per cent respectively had not been run. But train turns planned in the year 2015 with compared to year 2014 had been decreased by 8.4 per cent and train turns planned in the year 2016 with compared to year 2015 had been decreased by 3.9 per cent.

- (b) It had been shown an increase of the amount of goods transportation metric ton by 8.10 per cent, goods transportation running kilometers by 7.6 per cent and goods transportation income by 5.3 per cent in the year under review with compared to year 2015. It was further observed that goods transportation income of the train service had been able to develop further, by providing facilities to transport goods by train.
- (c) Out of the planned train turns in the year 2015 and 2016, 24.41 per cent and 16.32 per cent respectively had not been run.
- (d) Even though Corporation had requested to transport oil by 27 train carts which belong to the Petroleum Corporation in first 06 months of 2017, department had failed to fulfill those requests. Hence department had been lost an income about Rs.4.7 million.
- (e) When considering the problems arise due to the increase of running of vehicles on the roads and the environmental pollution occurred due to heavy fuel consumption, it is observed in audit that there will be an economically and socially favourable situation by transporting goods by trains. Despite of that, not taking action to implement even planned train turns was observed as an unsatisfactory situation.
- (f) According to the sample test, it had been recorded that passengers who travelled by train without a valid ticket amounted to 13,267 in the year 2016 and it had been approximately about 1,106 passengers per month. In the year 2015, those amounts had been 12,826 and 1,069 respectively. Accordingly due to a weakness in the internal administration, thus huge amount of passengers are travelling by train without a ticket and hence it is observed that department loses a huge amount income. The necessity of a new methodology which utilized modern technology for minimizing these losses was observed in audit.
- (g) Even though it had been planned to increase the railway income upto 09 per cent in the year 2015 with compared to year 2014, increase of actual income was 07 per cent. Further, even though it was expected increase of income by 10 per cent in the year 2016 with compared to year 2015, reaching for actual income was 03 per cent.
- (h) Planning of passenger railway turns had been 130,060, 119,135 and 125,365 respectively for the year 2014, 2015 and 2016 by the department. Accordingly a decrease of 8.3 per cent and 3.6 per cent respectively was observed in planning of passenger railway turns in year 2015 and 2016 with compared to year 2014.
- (i) Even though 125,365 train turns had been planned in the year 2016, only 122,621 train turns had exactly been run. Accordingly numbers of turns run less had been amounted to 2,744.
- (j) According to Parliamentary series No.351 on 12 December 2014, it had been expected to improve passenger and goods transportation by train. Similarly, it had also been emphasized the importance of taking actions to increase total passenger transportation by 20 per cent and goods transportation of by 10 per cent. Nevertheless, it was observed in the course of audit test check that untimely turns in year 2015 had been 60.51 per cent and it had been 52.53 per cent in year 2016. It was observed that attention had not been

paid towards increasing of on time running train turns by improving own services as timely and adhering to modern technology.

- (k) Even though it had been expected a 05 per cent increase of passenger transportation kilometers through the action plan of the year 2016, it had been unable to achieve that target.
- (l) Even though there are 239 train engines which can be used to run in the year under review, only 174 had been run. Accordingly it was observed in audit that it had been failed to fulfill expected targets.

3.18 Deficiencies in the Operation of Bank Accounts

(a) Dormant Bank Accounts

A current account maintained by the Department had been dormant since October 2015 and action had not been taken to cancel this account until April 2017.

(b) Balances for Adjustment

Following observations are made.

- (i) Action had not been taken in terms of Financial Regulation 396 (d), on 03 cheques valued at Rs.47,755 issued but not presented to the Bank and elapsed a period of 06 months which shown as per the analysis of the adjustments in the Bank Reconciliation Statements prepared relating to a bank account for July 2017 by the Department of Railways.
- (ii) A balance amounting to Rs.206,182 of dishonoured cheques had been shown as per the Bank Reconciliation Statement prepared relating to a Bank account and it had been failed to furnish detailed information regarding Rs.144,082 valued cheques thereof to the audit.
- (iii) Rs.187,910 valued credit balances and Rs.17,624 debit balances identified relating to a current account had been shown under uncorrected balances in the Bank Reconciliation Statement.

3.19 Transactions of Contentious Nature

Following observations are made.

Despite of the department is having the capability to implement the project of fixing Lathe Machines in the department that activity had been assigned to an outside party at Rs.31.45 million without evaluating the performance. Even though this activity should have been completed on 24 October 2016 that activity had not been completed even by the audited date of 30 July 2017. Hence it was observed that Rs.150 million valued underground Lathe purchased by the organization had been remained idle and this had been a transaction of Contentious Nature.

3.20 Irregular Transactions

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

- (a) A Bid amounting to Euro 261,970.20 (FOB) at Euro 1455.39 each had been called only from one foreign organization for purchasing of 180 injectors for repairing train engines of S 10 class. Appropriate specifications had not been prepared by the department thereto.
- (b) Without cancelling the first called Procurement of No. SRS/F/6961 for purchasing of 200 Acid Batteries by the department, newspaper advertisement had been published for the same procurement activity of No. SRS/F/7022 .
- (c) In the procurement activity for purchasing of 200 Level Crossings, 05 suppliers had been bided in various currency units and evaluations had been done without converting those bids into a common currency unit. Further it had not been clearly mentioned whether bids had been presented at the value of cost insurance and freight. Similarly, procurement activity had been offered to an organization which failed more than 50 per cent of the relevant criteria.
- (d) In terms of the contract documents relating to purchasing of 200 batteries valued at Rs.7,541,577 , even though parties should be entered in to an agreement appropriately after 21 days, actions had not been taken accordingly. Performance Bond also had not been extended as it recovers the guarantee period of this procurement activity.

3.21 Losses and damages

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

- (a) Government had been incurred a loss amounting to Rs.4,752,000 approximately due to 06 shops belongs to Weyangoda railway station had been idle since year 2003.
- (b) A telephone belongs to the department had been taken to own private home and used by an officer who is getting a monthly allowance for reimbursing of telephone bills. Department had paid amounting to Rs.344,598 as the telephone charges of that for the year 2015 and 2016 and actions had not been taken to recover that money from the relevant officer.
- (c) A balance of Rs.13,829,758 had been brought forward in the accounts over a number of years as losses incurred from obsolete and disused materials
- (d) Goods reported as imported to this country under 06 Letters of Credit valued at Rs.38,397,123 in the period of year 2010 to 2012 had not been received to the department even by 11 August 2017.

3.22 Management Weaknesses

Following weaknesses were observed during the course of audit test check.

- (a) Losses and damages which should have been recovered timely from different parties had been reported for years under the losses and damages of the Appropriation Account without recovering. Approval had been obtained to remove a part of it from the books in the year under review without identifying the possibility to recover these losses and damages.
- (b) It was observed in audit that administrative activities of the Mount Mary playground which belongs to Railway Department has not been in a satisfactory level.
- (c) Even though agreement period of Rs.2,500,000 deposit kept at a private organization for purchasing of Ovin Gas in year 2014 had been elapsed on 14 March 2015, action had not been taken to settle the relevant deposit up to now.
- (d) Even though it had been elapsed over 1 ½ years after receiving of 02 items amounted to Rs. 172,543 to the stores which supplied by the supplier in contrary to an order made on train spare parts, actions had not been taken to return those items to the supplier and get correct goods thereto.
- (e) Even though it had been elapsed over 03 years after informing the necessity of spare parts valued at Rs.197,521 under Indent No. 3283/10 for repairing trains by the Main Mechanical Engineering Sub Department, actions had not been taken to get supplied those goods to the stores even by the end of the year under review.
- (f) Even though Main Mechanical Engineering Sub Department had applied to purchase 200 Lead Batteries as an urgent requirement in April 2012, relevant goods had been purchased on 09 September 2014.
- (g) Average stock of the department had been taken a very higher value as a percentage of the issuing stock and Management had not taken actions to appropriately dispose the unused stock by evaluating about the moving of stock. Similarly, it was unable to satisfy in audit regarding the value of the unsettled Letters of Credit amounting to Rs.703.84 million coming over 18 years due to not receiving of goods to the stores, not receiving information to update the accounts and weakness in stores control etc.

(h) Leasing of Special Train

The Department had decided to maintain a special luxury passenger service called “Expo Rail” and “Rajadhani Express” by modifying normal compartments to luxury compartments and by fixing those with the trains run by the Department and following observations are made on the supply contract thereof.

- (i) Without giving publicity for this procurement activity through electronic and printed media, service contract had been offered after discussing with two private companies for a period of 05 years.

- (ii) It was observed that a feasibility study had not been done for this contract which offered at a contract price of amounting to Rs.306.02 million.
- (iii) Instead of entering into lease agreements according to appropriate formats as per Financial Regulation 702, it had been entered into agreements on agreement formats prepared by the relevant companies.
- (iv) It had not been appropriately entered into contract agreement with a company to whom maintaining services had been assigned.
- (v) Clear information regarding the order of modifying compartments, reimbursement of damages occurs to the compartments and ownership of the items added to the compartments after the modification etc had not been included into the agreements.
- (vi) Even though Department should calculate the monthly lease rental and charge in each month as per the condition 5 (a) of the lease agreement, it had been delayed for a period of 09 months to 36 months for presenting the bills.
- (vii) Even though amounting to Rs.306.02 million should have been due from the respective companies for the period from 25 September 2011 to 28 March 2016, that fund had been reduced up to Rs.204.16 million by amounting to Rs.101.86 million without a formal approval. Similarly, even though targeted number of passengers for a compartment as per agreements had been 39, it had been reduced up to 28 without a formal approval.
- (viii) Even though it had been elapsed 05 years after entering into agreements as at 31 December 2016, any fund had not been paid by the respective companies up to now and a formal action thereon had not been taken.
- (ix) Due to the deficiencies of the conditions in the agreements entered, it had been unable to take a strong legal action against those companies.
- (x) Even though demurrage charges due as per the agreements amounted to Rs.12,450,120, this fund had not been recovered from the respective companies.
- (xi) Even after ending the agreement period, respective service had been continuously obtained from those companies without recovering the charges in arrears.
- (xii) Without reporting the facts about the performance, cabinet approval had been obtained for getting extended the service period.

(i) Leasing of Viceroy Special Train

Following observations are made.

It had been entered in to lease agreements since year 1986 to a private company to run Viceroy Train consists with four compartments and a vapour engine. Even though it had been defaulted totaling of Rs.15.91 million as lease payment amounting to Rs.9.79 million and repairing charges amounting to Rs.6.12 million due from the company to the Department within those lease periods, it had been entered into agreements to lease back for 05 years from 02 May 2016 to 01 may 2021. As per Financial Regulation 702, it had not been entered into agreements in the appropriate format for this service contract and demurrage fee also had not appropriately been charged. Similarly, even though Department had being incurring a huge cost for maintaining this service to which a revision of fees according to Consumer Price Index also had not been done as per the agreements, suitable actions had not been taken for calculating that.

(j) Leasing of T1 515 Rail Car for Luxury Passenger Services

Initiating the objective of improving the tourism industry of Sri Lanka, 32 passengers travelable Rail car belong to the department had been leased to a private company for 05 years for transporting of foreign tourists. Cabinet approval had not been obtained before entering into this lease agreement and formal procurement process had not been followed for the respective service. Similarly, As per Financial Regulation 702, it had not been entered into agreement in the appropriate format and proper evaluation also had not been done regarding the cost incurred by the department for maintaining the service.

Even though it had been elapsed 03 ½ years to the above lease agreement, income amounting to Rs.880,212 had been received by running that rail car only for 9 turns. Nevertheless, amounting to Rs.2,317,081 had been incurred for modifying the car and it was observed as a uneconomic transaction. Similarly it was observed that the objective of starting this service also had not been fulfilled and it was also observed that the Department had been incurred a huge loss in each turn of that rail car.

(k) Leasing of building space at Colombo Port Railway Station

Without entering into an agreement in the specified format as per Financial Regulation 702, a part of the buildings belong to the Department had been Leased to a private company in year 1987 for maintaining an office named “Rail Tours” for providing tourists information. The Department had filed a case against the company regarding non-payment of lease amounting to Rs.1,320,000 due for this building part and it was not observed that a government valuation also had been obtained in deciding the monthly lease of amounting to Rs.40,000 each. Entering into an lease agreement amounting to Rs.40,000 each per month for 05 years was observed as an uneconomic transaction. Similarly without an opened procurement process, same building part had been lease back to the same company subject to paying of a lease amounting to Rs.120,000 each per month for 05 years from year 2016 to 2021.

(l) Leasing of reserved railway land adjacent to Ragama Railway Premises

Following observation is made.

A land belong to the department had been leased to a private party for maintaining flower plant sales outlets subject to the payment of an annual lease amounting to Rs.210,000 from 01 July 2012 to 30 June 2013.

This leasing done on temporary basis had been extending even by 31 December 2016 and it was observed that the party who obtained the lease had defaulted lease amounting to Rs.447,250.

It was further observed that even though the objective of leasing this land is to maintaining flower plant sales outlets, lessor is earning a huge income by maintaining a vehicle park on the respective place by this time.

3.23 Human Resources Management

(a) Approved Cadre and Actual Cadre

The position on the cadre as at 31 December 2016 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Cadre in Excess
(i) Senior Level	212	95	117	-
(ii) Tertiary Level	451	101	350	-
(iii) Secondary Level	10,958	6,784	4,174	-
(iv) Primary Level	8,601	7,885	716	-
(v) Others (Casual/ Temporary/ Contract Basis)	-	2,107	-	2,107
Total	20,222	16,972	5,357	2,107

Following observations are made.

- (b) Contrary to Department of Management Service Circular No. DMS/1142/V-II dated 01 December 2014, 519 employees had been recruited on casual and substitute basis in year 2015.
- (c) Even though it had been emphasized the necessity of making revisions to the Scheme of Recruitment by Committee on Public Accounts in year 2009 and 2016, Scheme of Recruitment had not been revised up to audited date of 30 July 2017. Similarly

recruitments also had been done without obtaining the approval of the Public Service Commission.

- (d) The report prepared on staff details relating to the Department as per Management Service Circular No.01/2017 dated 11 January 2017, had not been submitted to the Director General of Management Service until 30 July 2017.
- (e) According to the information submitted to the audit regarding the staff by the Department of Sri Lanka Railway, vacancies of the Senior Level Management Positions had been 55 per cent from the approved cadre. It was observed that there had been deficit of main leaders who are useful to achieve the Vision and the Mission in the year under review more than the previous years. It was observed in audit that it will be directly affected to reduce the performance of the organization.
- (f) A schedule which indicates the allocation of actual cadre approved by the Department of Management Service among each Sub Departments of the Department had not been prepared by the Department.

(g) **Human Resource obtained from other parties**

The Department had irregularly obtained the service of 02 Wharf Field Officers of the Food Department from year 2008 to even by 31 December 2016.

(h) **Reemployment of pensioners**

Instead of recruiting qualified persons to fill the vacancies of the Department of Sri Lanka Railway, 154 officers who had retired from the services of the Department and at the age ranging from 60 years to 67 years had been reemployed. As there are 94 Engine Drivers, Train Guards and Train Driver Assistants among these officers, it was observed that recruiting and training officers for such special activities is a questionable fact.