

## **Report of the Auditor General on Head 306–Department of Sri Lanka Railways- Year 2017**

---

The Appropriation Account and the Reconciliation Statement under Head and Item Number stated in the First Schedule and Third Schedule of the Appropriation Act, No. 24 of 2016 as amended by the Appropriation (Amendment) Act, No.32 of 2017 and the Revenue Account and Stores Advance Account relevant to the Code included in the Table 3:1:2 of the Annual Budget Estimate were presented to Audit by the Department of Sri Lanka Railways. The financial and physical performance reflected by those accounts and the reconciliation statements were audited in terms of Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

### **1.2 Responsibility of the Chief Accounting Officer, Revenue Accounting Officer and the Accounting Officer for the Financial Management and Accountability**

---

The Minister of Finance is charged with the raising of Revenue and the collection of other Government monies as well as with the general oversight of all the financial operations of Government in terms of Financial Regulation 124 of the Democratic Socialist Republic of Sri Lanka. The Chief Accounting Officers have been appointed by the Minister of Finance to discharge the above responsibility in terms of Financial Regulation 124(2). The Head of the Department will be the Accounting Officer in respect of all the financial transactions of his Department in terms of Financial Regulation 125(1)(a) and the Revenue Accounting Officer has been appointed by the Treasury. This responsibility includes designing, implementing and maintaining internal controls relevant to the maintenance, preparation and fair presentation of Accounts and Reconciliation Statements presented within the limitations imposed by Parliament 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, Government Financial Regulations and Administrative Regulations

### **1.3 Audit Scope**

---

The audit of Department of Sri Lanka Railways –Head 306 for the year ended 31 December 2017 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka in respect of designing of financial and physical performance, Government expenditure, Government revenue, management of human and physical resources, apply of internal control systems, compliance with laws, rules and regulations and maintenance of books, registers, records and reconciliation statements in an updated manner, preparation and presentation of accounts in timely manner, issuance of performance reports to respective parties based on the performance indicators. The Management Audit Report for the year under review was issued to the General Manager of the Department on 23 August 2018. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the plans, accounts, reconciliation statements and performance reports 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.

## 1.4 Audit Observation

-----

The audit observations of the Department of Sri Lanka Railways for the year ended 31 December 2017 revealed in audit appear in Management Audit Report in detail, mentioned in paragraph 1.3 above. The material and significant audit observations out of the audit observations included in the Management Audit Report appear in paragraph 2.1 to 2.18 of this report. It was observed that the accountability as the Chief Accounting Officer and the Accounting Officer had been satisfactorily executed, to ensure the adequacy of the financial administration subjected to the following summarized audit observations revealed in the execution of the provisions specified in the Financial Regulation 128 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka

Accountability of the Accounting Officer in terms of Financial Regulation 128	Non-compliance of the Accounting Officer to the Provision	Reference to the Paragraph of the report Containing Observations
---	---	--

-----

Financial Regulations

-----

128(1)(a)	The work of his department is planned and carried out with due despatch , having regard to the policy laid down by the Government and the intentions of Parliament in granting him financial provision for the activities authorised and that an endeavour is made to complete the programme of work laid down for the year and / or attain the targets specified.	<ol style="list-style-type: none"> <li>1. Action Plan had not been prepared correctly. 2.1.1</li> <li>2. Failure to plan the procurement activities adequately. 2.3.1</li> <li>3. Failure to achieve the expected level of output 2.2.1</li> <li>4. Delays in the execution of projects 2.2.1</li> <li>5. Projects without progress despite the release of funds 2.2.2</li> <li>6. Deficiencies in the implementation of procurement process. 2.3.2</li> <li>7. Uneconomical transactions 2.8</li> </ol>
-----------	--	--

		8. Deficiencies revealed in value for money audit.	2.10
128(1)(b)	The organisation for financial control and accounting in his department is effective, and provides adequately for the correct ascertainment, where necessary, of dues to Government, the systematic, complete and prompt collection of dues , and bringing to account of monies received, the authorization of commitments, on behalf of the Government, the supervision and examination of services and supplies rendered, and the prompt and correct payment therefor from public funds.	1. Failure to achieve performance in the foreign funded projects 2. Failure to achieve the expected level of output 3. Deficiencies in the implementation of procurement process.	2.2.1 (iii) 2.1.2 2.3.2
128(1)(c)	The Financial Regulations and other supplementary instructions of the Government are adhered to in his department, and that they are supplemented by departmental instructions where necessary.	1. Non-maintenance of registers and books 2. Non-compliance	2.16 2.17
128(1)(d)	An adequate system of internal check for receipts, payments, and issues is maintained and tested from time to time.	1. Deficiencies in the Revenue Accounts 2. Deficiencies in the Advances to Public Officers Account 3. Deficiencies in the Stores Advances Account 4. Deficiencies in the Advance Accounts Under Winding up	2.12 2.13 2.14 2.15

128(1)(e)	Adequate and proper arrangements are made for the safe custody and preservation of money, stores, equipment, and other assets belonging to the Government, or is in its custody, and that these are verified from time to time; and, where they are disposed of, such disposal is according to prescribed Regulations and instructions.	<ol style="list-style-type: none"> <li>1. Deficiencies in conducting Annual Board of Surveys</li> <li>2. Management weaknesses</li> <li>3. Assets Management</li> </ol>	<p>2.4 (d)</p> <p>2.9</p> <p>2.4 (a),(b),(c)</p>
128(1)(f)	Such information, statements and returns are called for by the Chief Accounting Officer or the Treasury, are rendered correctly and promptly.	<ol style="list-style-type: none"> <li>1. Failure to prepare the budget estimates realistically.</li> <li>2. Presentation of the Annual Performance Report after a delay.</li> </ol>	<p>2.11</p> <p>2.1.3</p>
128(1)(g)	The activities of his department are undertaken with due regard to economy, efficiency, propriety and integrity expected in the transactions of public business.	Irregular transactions	2.6
128(1)(o)	The procedure laid down in Financial Regulations 103 to 108 is adhered to in case of losses to Government by the delays, negligence, faults or frauds on the part of officers / employees and surcharges are imposed on officers / employees responsible for such losses in terms of F. R. 156 (1).	Losses and damages	2.7

## **2. Material and Significant Audit Observations**

---

### **2.1 Performance**

---

#### **2.1.1 Planning**

---

There were 14 functions to be discharged by the Department during the year under review and in order to achieve expected outcome from 10 Sub-departments established under the Department and 09 foreign projects, Action Plan had been prepared in terms of Public Finance Circular No.01/2014 dated 17 February 2014. Albeit, the collection of revenue pertaining to the Revenue Code of the Department had not been included in the Action Plan.

#### **2.1.2 Failure to Discharge Functions**

---

##### **Failure to Discharge Functions Included in the Action Plan**

---

The following matters were observed.

- (i) Provisions of Rs.3,060 million made for the discharge of functions to be performed by 02 Sub-departments as per the Annual Action Plan had been totally saved.
- (ii) Financial performance of 07 projects for which provisions of Rs.2,509 million had been made by the Action Plan, 2017 remained less than 50 per cent.

#### **2.1.3 Annual Performance Report**

---

In terms of Public Finance Circular No.402 dated 12 September 2002, the Performance Report pertaining to the year under review should be tabled in Parliament within 150 days from the close of the financial year. Nevertheless, that report had been tabled in Parliament on 01 August 2018.

#### **2.1.4 Sustainable Development Goals**

---

Action had not been taken to recognize the sustainable development goals, targets, milestones to be reached and the indicators for evaluating the performance on reaching that targets in relation to the functions of the Department.

## **2.2 Domestic and Foreign Funded Projects Implemented**

---

The Department had made provisions totaling Rs.9,023 million for 34 projects implemented using domestic funds and provisions totalling Rs.9,411 million for 09 foreign funded projects comprising 05 railway line reconstruction projects and 04 projects for the improvement of the fleet of trains during the year under review and out of which Rs.12,840 million comprising Rs.7,377 million and Rs.5,463 million had been utilized respectively. Accordingly, a sum of Rs.5,594 million or 30 per cent of the provision made had been saved.

### **2.2.1 Foreign Aid Projects**

---

Activities of 05 foreign projects implemented for the development of railway tracks have been completed and the observations thereon are as follows.

- (a) Since the buildings of the railway stations had been constructed without being identified them as small railway stations and large railway stations before the installation of signal system for the Northern railway line, a sum of US\$1,020,127 had been overpaid to a contractor. Out of the overpayment thus paid, US\$ 339,927 only had been recovered and action had not been taken to recover the balance sum of US\$ 680,200 even by the end of July 2018.
- (b) Since defects were found in 03 bridges constructed on the railway line from Madu to Thalei Mannar, the contractor company had agreed to demolish them and construct new bridges. Although the agreed period of the project and the period given to rectify the defects had ended on 13 December 2016, action has not been taken to rectify the defects and construct the bridges up to date.

### **2.2.2 Domestically Funded Projects**

---

The following observations are made.

- (a) The contract for the construction of 200 railway crossing gates valued totalling Rs. 874 million (US \$ 6,478) had been awarded on 26 October 2016 and they were scheduled to be completed and handed over on 26 January 2018. Nevertheless, only 84 railway crossing gates only had been constructed by 31 August 2018. Six hundred and fifty one accidents had caused at the railway crossings during the year 2017 alone and therefore, it cannot be ruled out in audit that the delay of the above project had not been an impact on the above accidents.
- (b) It was observed at the audit test check that about 7,245 files were maintaining relating to leasing out of 2000 acres of lands of the Department of Railways to the external parties and 5,280 of such files remained functional while another 1,965 files remained dysfunctional position. In order to develop a software to computerize and update the above files and make

the revenue collection process more efficient, a sum of Rs. 1,399,015 and Rs. 1,948,929 had been spent in the years 2015 and 2016 respectively. Nevertheless, the above objective could not be achieved as yet.

## **2.3 Obtaining supplies and services through procurement Process.**

---

### **2.3.1 Planning of Procurements**

---

In order to obtain supplies and services according to the Government Procurement Guidelines, the Department had made provisions of Rs. 12,069 million and out of that, provisions of Rs. 10,993 million had been utilized. The observations on the Procurement Plan to be prepared relating to the provisions made are as follows.

#### **(a) Planning of Procurement and Initial Stage**

---

A detailed procurement plan as per the Guideline 4.2.1 (c) and the Procurement Time Schedules as per the Guidelines 4.2.2 of the Government Procurement Guidelines had not been prepared.

#### **(b) Monitoring of Planning Operations and Updating**

---

Although the procurement entity had prepared the Procurement Time Schedule on quarterly basis in terms of Guidelines 4.1 and 4.4 of the Government Procurement Guidelines and Public Finance Circular No.8/2016 dated 16 January 2017, action had not been taken to review the same.

### **2.3.2 Implementation of Procurement Process**

---

The following observations are made.

- (a) In terms of Guidelines 5.3.11 of the Government Procurement Guidelines, bids should be called for subsequent to preparing of all the documents pertaining to the procurement. Nevertheless, the documents relevant to the bid securities had not been included in the bids documents relevant to the procurement pertaining to the purchase of a generator for an engine of Class 5 and a diesel engine at a cost of Rs.39.63 million in the year 2013 and as such, action had not been taken to obtain a bid security in respect of the contract value.

(b) **Installation of Signal System at the Ahungalla Railway Station**

The following matters were observed.

- (i) In terms of Guideline 3.5 of the Government Procurement Guidelines, an engineering estimate should be prepared before calling for bids. Albeit, the project unit had not prepared an engineering estimate for the assurance of reasonableness of the prices of the equipment purchased at US\$ 890,350.
- (ii) Although a Procurement Plan should be prepared and the procurement should be implemented in accordance a Procurement Time Schedule as required by Guideline 4.2.2 of the Government Procurement Guidelines, action had not been taken accordingly and as such, a period of 03 years exceeding the scheduled period had been taken to receive the goods. Accordingly, an additional sum of Rs. 4,121,840 had to be paid as the bank interests.
- (c) In terms of Guideline 5.4.10 (d) of the Government Procurement Guidelines, in the purchase of goods, the obligation on the liabilities should be covered by an appropriate financial security of not less than 10 per cent of the contract value to protect the procurement entity. Nevertheless, action had not been taken accordingly in the purchase of a generator for the Class S-5 Diesel engine, an engine, Lorry mounted Crane and stone drilling machine.

**2.4 Assets Management**  
-----

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

(a) **Documentation of Assets**  
-----

The Register of Fixed Assets had not been prepared relating to the fixed assets according to the Treasury Circular No.842 dated 19 December 1978 and vehicle list had not been prepared according to the Financial Regulation 1647. Further, particulars on the assets had not been furnished to the Comptroller General Office functioning under the Ministry of Finance and Mass Media in terms of Assets Management Circular No.01/2017 dated 28 June 2017.

(b) **Failure to Utilize the Government Owned Assets in Maximum Efficiency**  
-----

Out of 14,129 acres of lands belonging to the Department, 4,034 acres of land comprising 2000 acres given for railway lines, office buildings and stores, 2000 acres of lands give to external parties on lease basis and 34 acres of lands given to other Government institutions without the lease basis, only had been used. The rest of vast extent of land belonging to the railway reservation had remained under the unauthorized occupation. Accordingly, it was



observed that the lands owned by the Department of Railways had not been used in maximum efficiency.

**(c) Idle and Underutilized Assets**  
-----

The following matters were observed.

- (i) One thousand Electronic Controllers valued at Rs.5,086,986 had retained idle in the stores since year 2011 years without being utilized
- (ii) Thirty railway compartments, 18 locomotive engines, 18 bogies, 22 machine units and a motor vehicle remained idle .
- (iii) It was observed that the Container Forklift worth Rs.33 million purchased in the year 1994 remained inoperative since year 2011.
- (iv) One railway wagon remained decaying at the Rathmalana Sub-department complex from the year 2002 while the wagons bearing Nos. BMT 5374, BMT 5370, and BMT 5381 remained idle while decaying at the yard over a longer period without being rehabilitated.

**(D) Conduct of Annual Board of Survey**  
-----

The following observations are made.

- (i) Although the Board of Survey for the year 2017 should be conducted in terms of the Public Finance Circular No.05/2016 dated 31 March 2016 and the reports thereof should be furnished to the Auditor General before 15 June 2018 as per the Paragraph 3.2.6 of the Circular, the Board of Survey Reports relating to 02 branch offices had not been furnished to the Auditor General even by 31 August 2018.
- (ii) Action in terms of Financial Regulation 757 (2) had not been taken with respect to the excesses, shortcomings and other recommendations highlighted by the Board of Survey reports pertaining to the years 2015 and 2016.

**2.5 Commitments and Liabilities**  
-----

**Incurring Commitments Exceeding the Annual Budget Limit**  
-----

Without being complied with the Paragraph 02 (a) of the Public Accounts Circular No. 255/2017 dated 27 April 2017, comittmemets of Rs.4.9 million had been incurred exceeding the provisions of Rs.121 million made for an Objective.

## 2.6 Irregular Transactions

-----

One out of 03 motor trolleys purchased by the Department at a cost of Rs. 107.49 million (FOB Price) in October 2016 had been removed from running by 31 July 2018. Accordingly, this transaction was devoid of regularity.

## 2.7 Losses and Damages

-----

The following matters were observed.

### (a) Stores Advance Account.

The following observations are made.

- (i) The balance of loss which had not been written off as at 31 December of the year under review amounted to Rs.69.15 million. Requests had been made to write off only a sum of Rs.13.83 million of the above loss, whereas the current position thereof had not been reported to the Audit.
  - (ii) The balance payable to the Treasury indicated as Rs. 6,357.6 million. This balance included the general stock of Rs. 5,312 million, stock in transit of Rs. 747.9 million and the losses proposed to be written off amounting to Rs. 13.8 million. Further, this payable balance comprised a stock of diesel worth Rs. 61.8 million which was not physically found and losses of Rs.55.2 million caused due to a fire broke out at the Port.
- (b) The value of 626 items of losses and damages reported as at 31 December 2017 amounted to Rs.311 million. It contained a balance of Rs. 259.82 million older than 10 years, a balance of Rs.24.22 million between 05 and 10 years and a balance of Rs.27.03 million less than 05 years.
- (c) Whilst the signal system near the Narahenpita railway station remained out of order, trains had been run causing damages to the signal system during the year under review and a sum of Rs. 791,962 had been spent to restore the damage.

## 2.8 Uneconomical Transactions

-----

The following observations are made.

- (a) Although S-5 locomotive engine worth Rs.39.19 million received in the year 2014 had been fixed in 02 months, it could not be suitably made ready for running condition even up to 31 December 2017 due to lack of a proper plan for fixing compartments. It was observed that the 02 years period of guarantee of this locomotive engine had come to end in February 2016 and therefore, the supplier held no further responsibility regarding the defects of the engine.

- (b) In respect of repairing 03 motor trolleys purchased in October 2016 within 03 months from the date of commencement of their running, a sum of Rs. 2.94 million had been paid to the employees of the Department as overtime allowances. Eventhough the Mechanical Engineer had informed the Stores Superintendent that the above expenditure should be recovered from the suppliers, action had not been taken thereon.
- (c) In the purchase of motor trolleys, although the supplier should have shipped such items on 29 October 2014, those had been shipped on 04 October 2016. Accordingly, as a result of shipping goods after a delay of 230 days, a sum of Rs. 2,261,085 had to be overpaid to the supplier due to deterioration of exchange rate.
- (d) Although water meters had been fixed only for 126 quarters out of 688 official quarters of the Rathmalana Sub-department, water meters had not been fixed for 562 quarters as yet. Therefore, the residents as well as unauthorized occupants had obtained water from the main water supply of the Sub-department and as such a sum of Rs.43.68 million had been paid as water charges during the year under review.

## **2.9 Management Weaknesses**

-----

The following observations are made.

- (a) It was revealed in the inspection of the carriages and container rehabilitation project that 02 wagons had been named under the same number, BMT 10601 and the wagon that remained under the rehabilitation had not been included in the Register of Fixed Assets.
- (b) It was revealed at the site inspection that, according to the maps of the Way Inspection Office, an unauthorized four storied building was being constructed in the railway reservation of 2 miles and 48 chains close to the Mulgampola railway gate on the Peradeniya –Kandy railway line and works of 03 floors had been completed. The responsible officers of the Department had not taken steps to halt this unauthorized construction.

## 2.10 Value for Money Audit

-----

The following matters were observed at the audit test check carried out on the value for money audit.

### (a) Container Transportation.

- (i) Either 18 containers of 20 feet in length or 09 containers of 40 feet in length can be transported by a locomotive engine. For this purpose, the fuel consumption is one liter to run the locomotive engine for a distance of one kilometer. If 18 Prime Mover (Container Transporters ) are used to transport 18 containers of 20 feet in length, the volume of fuel liters required for a distance of one kilometer is 4.68 liters (0.26x 18). In order to transport 09 containers of 40 feet in length, 09 Prime Movers (Container Transporters ) of 40 feet in length should be used and 3.33 (0.37x9) liters of fuel is consumed for a distance of one kilometer thereon . Accordingly, if Prime Movers (Container Transporters) are used to run a distance of one kilometer, the average of the additional fuel consumption is 03 liters and it was therefore observed that, gases and carbonic matters released to the environment had increased by threefold than the average volume. Accordingly, it was observed that the damages caused to the environment could be reduced by threefold by transporting containers through the locomotive engines. The number of containers released by the Sri Lanka Port Authority is about 232,000 annually and the volume of fuel additionally burnt for the transport of those containers by the Prime Movers (Container Transporters) can be estimated as 696,000 liters.
  - (ii) It was revealed by the surveys that the vehicle emission accounted for 12.5 per cent of the air pollution in Sri Lanka (year 2001) and it had reached up to 40 per cent at present. It was observed that the release of Carbon Monoxide (CO), Sulfer Dioxide (SO<sub>2</sub>), Nitrogen Oxide (NO<sub>2</sub>), Solid Particle Matters (SPM) and Heavy Metals and Lead to the environment by gases and carbonic matters by burning 696,000 liters of fuel annually could be controlled to a certain degree if the containers were transported by trains.
  - (iii) Although there is a possibility to minimize the damages caused to the healthy life of the people by the diseases such as dizziness, headache , respiratory ailments, Hay fever, pneumonia, and asthma etc. resulting from inhaling the aforesaid gases and heavy metals, attention had not been drawn thereon.
- (b) About 232,000 containers are released from the Sri Lanka Port annually and at least, those could have been transported by trains from Sri Lanka Ports up to the Orugodawatta Container Yard for a distance of 3.3 kilometers. By making arrangement to transport those containers by trains at a charge of Rs.150 per kilometer for a single container, an income of Rs. 114.84 million could have been earned annually. This method of transport is not presently used for the transport of containers, whereas the Department's attention had not been focused on earning that additional income.

- (c) During the period from 1867 to 1934, seventy five per cent of the total revenue represented the revenue earned from the transport of goods and it had declined up to 9.3 per cent at present. Accordingly, the percentage of declining the transport income was 47.7 per cent.
- (d) The fuel requirement of 11 regional stores of the Petroleum Corporation had been 987,402,120 liters during the other months except for the months of January and December 2017. The Railway Department of Sri Lanka had transported 315,435,760 liters of fuel by trains during the year under review. Accordingly, despite the possibility to transport another 671,966,360 liters of fuel to those regional stores, Department had not taken steps to transport the above stock of fuel by trains. It was observed that an income of Rs.449.39 million could have been earned if the above stock of fuel was diesel (BGT) while Rs.360.43 million could have been earned provided the above stock was petrol (BMT).
- (e) The income earned by transporting cement by trains had declined by Rs.13.22 million or 60 per cent in the year 2017 as compared with the year 2013. The Department had not focused attention on the strategies for increase the above income.

## 2.11 Utilization of Provisions made by Parliament to execute Activities

The particulars relating to the provisions made to the Department and utilisation and savings for the 05 years period ended 31 December 2017 along with audit observations thereon are as follows.

Year	Category of Expenditure	of Net Provision	Utilization	Savings	Savings as a percentage of the net provision
		Rs. Millions	Rs. Millions	Rs. Millions	%
2017	Capital	18,487	12,889	5,598	30.28
	Recurrent	14,571	14,080	491	3.36
	<b>Total</b>	<b>33,058</b>	<b>26,969</b>	<b>6,089</b>	<b>18.41</b>
2016	Capital	21,337	15,694	5,643	26.45
	Recurrent	14,288	13,396	732	5.18
	<b>Total</b>	<b>35,625</b>	<b>29,090</b>	<b>6,375</b>	<b>17.89</b>
2015	Capital	43,886	30,436	13,450	30.64
	Recurrent	14,165	14,049	116	0.81
	<b>Total</b>	<b>58,051</b>	<b>44,485</b>	<b>13,566</b>	<b>23.36</b>

2014	Capital	36,728	36,436	292	0.79
	Recurrent	16,964	16,943	21	0.12
	<b>Total</b>	<b>53,692</b>	<b>53,379</b>	<b>313</b>	<b>0.58</b>
2013	Capital	21,751	20,393	1,358	6.24
	Recurrent	10,791	10,586	205	1.09
	<b>Total</b>	<b>32,542</b>	<b>30,979</b>	<b>1,563</b>	<b>4.80</b>

The following observations are made in this connection.

### **Appropriation Account**

-----

The following matters were observed.

**(a) Failure to Utilize the Provisions Made.**

Provisions of Rs.3,063.2 million made for 10 Objects had been entirely saved without being utilized for any purpose.

**(b) Making Overprovisions.**

Savings of 48 Objects amounted to Rs.829.53 million and it had ranged from 05 per cent to 50 per cent of the net provision. Further, the savings relating to 08 Objects was Rs.1,893.6 million and it remained in a range between 51 per cent and 99 per cent.

## **2.12 Estimated Revenue and Actual Revenue**

-----

The Department had estimated revenue totalling Rs.7,200 million relating to one Revenue Code for the year 2017 and revenue of Rs.6,489.9 million had been collected during the year under review. It was 90 per cent of the estimated revenue. Details appear below.

Revenue Code	As at 31 December 2017			Collected revenue as a percentage of the estimated revenue
	Estimated Revenue	Actual Revenue	Surplus/ (Deficit)	
-----	-----	-----	-----	-----

	Rs. Millions	Rs. Millions	Rs. Millions	%
20:01:01:00	7,200	6,489.9	(710.1)	90.13

### Revenue Code-20:01:01:00 – Department of Railways

According to the Revenue Account furnished to Audit, revenue of Rs. 1,525.27 million remained outstanding as at 31 December 2017 and that period of outatanding ranged from 01 year to 55 years. The following observations are made thereon.

- (a) The revenue in arrears relating to the licences amounted to Rs. 1,387.29 million as at 31 December 2017 and 31 per cent of the revenue due from licence No.2 represented the outstanding loan balances older than 05 years. It had been informed that Rs. 360.62 million of the above arrears of revenue could be settled by 30 June 2018. Further, it had not been possible to settle the outatanding balance of Rs.0.77 million older than 20 years remained relating to the revenue of the licence 01.
- (b) As formal arrangements had not been made to recover the balances due for the transport of goods by trains, sums totalling Rs.71.74 million remained recoverable from 34 institutions by the end of the year under review and out of that the outstanding balance of Rs.20.3 million due from 17 institutions had been the balances older than 17 years. It had been infromed that a sum of Rs.33.55 million of the above outatanding balances was recovered by 30 August 2018.
- (c) Action had not been taken to recover the balance of Rs.18.21 million older than 05 yeras recoverable from Siyamcity Cement (Lanka) Ltd. Relating to supply of services to transport of limestones.

### 2.13 Advances to Public Officers Account

#### Limits Authorized by Parliament

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

Expenditure		Receipts		Debit Balance	
Maximum	Actual	Minimum	Actual	Maximum	Actual
Limit		Limit		Limit	
-----	-----	-----	-----	-----	-----

Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions
830	820	400	453	1,500	1,320

The following observations are made in this connection.

**(b) Failure to Recover the Outanding Loan Balances**  
-----

The following observations are made.

- (i) According to the reconciliation statement presented to Audit, the outanding balances as at that date totalled Rs. 92,315,632 other than the loan balances of the officers left on transfers and those outstanding balances continued to exist over a period ranging from 03 months to 15 years. Nevertheless, follow up action taken with regard to recover the above outanding balances remained at a poor position.
- (ii) Out of the property loan balance of Rs.23 million existed as at 31 December 2017, a sum of Rs.10.5 million remained unrecovered from 39 persons who had obtained the above property loan, whereas action had not been taken to recover the above balance by using original deed and the irrevocable power of attorney.

**(b) Unexplained Differences**  
-----

The following matters were observed.

- (i) According to the books of the Department, the opening balance of the Control Account amounted to Rs. 949.82 million at the beginning of the year 2017 and that balance amounted to Rs. 954 million according to the Treasury printouts. Accordingly, a difference of Rs, 4.18 million was observed between the Departmental books and the Treasury books. This difference had continued to exist since year 2004 and action had not been taken to settle that difference even up to the date of audit.
- (ii) In terms of Section 6.3 of the National Budget Circular No.118 dated 11 October 2004, the total of the individual loan balances classification should be reconciled with the balance of the Departmental Control Account. Nevertheless, action had not been taken accordingly and as such, there was a difference of Rs.21.74 million between the above balances.



## 2.14 Stores Advance 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		Credit balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual	Maximum Limit	Actual
Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions
2,000	1,576	1,800	1,698	8,535	6,357	1,500	-

The following observations are made in this connection.

- (a) All the goods available at the stores as at 31 December each year should be valued at the cost after conducting a physical stock verification. Nevertheless, without being conducted the stock verification for the year under review, the value of the closing stock had been stated as Rs. 5,312,065,598 in the accounts based on the balance indicated in the stock books.
- (b) The balance of Rs.398.33 million shown as previous years overestimations relating to the categories of stocks purchased before the year 2013 could not be settled even up to the date of audit and accordingly, the amount payable to the Treasury had decreased due to the above overestimation.
- (c) When comparing the balance of Store Advance Account continued to exist over a number of years with the Treasury printouts, a difference of Rs.25,025,164 was observed relating to the opening balance and closing balance.
- (d) According to the Stores Ledger as at 31 December 2017, the value of stores bills receivable for the stocks issued under 17 sub-departments had been stated as Rs. 805,263,496 in the accounts. Nevertheless, necessary steps had not been taken to reconcile this balance with the books of the sub-departments.

- (e) Action had not been taken to adjust the expenditure of Rs. 108,468,192 incurred as customs charges in the import of goods from the year 1993 up to date to the stock as at 31 December 2017. It had been informed that a sum of Rs. 34,541,470 of the above sum was settled by 30 June 2018.
- (f) Out of the advances paid to the suppliers for the purchase of goods during the period of 37 years from 1980 to 31 December 2017, the balance remained receivable as at 31 December 2017 stood at Rs. 18.37 million and a sum of Rs.7.82 million had been settled in the year 2018.
- (g) Even though a sum of Rs. 76,540,868 had been paid to the suppliers as at 31 December 2017 for bank Letters of Credit, goods had not been supplied. Albeit, action had not been taken either to bring those goods by informing the suppliers or take other suitable steps. Further, recovery of money or receipt of goods had not taken place relating to a sum of Rs. 33,681,582 paid to the suppliers for the Letters of Credits pertaining to the period from 1980 to 2009.
- (h) The value of unsettled Letters of Credit from the year 1998 up to 31 December 2017 amounted to Rs.533 million and the Department had taken action to settle Letters of Credit worth Rs.165 million by 30 June 2018.
- (i) The balance of Rs.123 million shown as sundry creditors in the Stores Advance Account included an unidentified balance of Rs.77 million older than a period ranging from 07 years to 20 years.

(ii)

## 2.15 Advance Account Under Winding Up

---

According to a Cabinet decision, the Department had been entrusted to wind up 05 advance accounts and such winding up activities should have been completed by the end of year 1987. Albeit, despite the lapse of 30 years by 31 December 2017, above winding up activities had not been completed. Further, there were unapproved accumulated working losses of Rs.3.4 million in the above accounts.

## 2.16 Non-maintenance of Registers and Books

---

The Department had not maintained the following documents.

Type of Document	Relevant Regulation
-----	-----
(a) Common Register of Fixed Assets combining the Sub-departments	Treasury Circular No.842 dated 19 December 1978 and Appendix 11 in terms of Financial Regulation 502 (2)
(b) Register of Fixed Assets on Computers, Accessories and Software.	Treasury Circular No. IAI/2002/02 dated 28 November 2002.

## 2.17 Non-compliances

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

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 Regulations 103, 104, 105 and 109	298,976,755	Although action should be taken relating to the losses and damages without delay in terms of Financial Regulations, action had not been taken accordingly relating to the losses and damages of the Department
(ii) Financial Regulation 128 (1)	3,568,752	As activities had not been carried out with due regards to economy and efficiency in the discharge of Government functions, clearance of the stores items from the harbour had been delayed during the year under review and therefore, demurrages had to be paid.
(iii) Financial Regulations 565 (5)	526,270,263	Action had not been taken to send the statement of monthly deposit summary to the Auditor General before the end of the following month.
(b) Paragraph 6 of the Circular No. - SP/RD/2/10 dated 03 February 2010 of the Secretary to the President.		Action in terms of provisions of the State Lands Act, No.07 of 1979 had not been taken to evict unauthorized occupants of the railway reservation.
(c) Public Finance Circular No. SA/AS/AA/Circular dated 24 January		Revenue Accounts for the year under review had not been prepared on accrued basis as

## 2.18 Human Resource Management

### Approved Cadre, Actual Cadre and Expenditure on Personal Emoluments

Particulars on the approved cadre, actual cadre, vacancies and excess staff for the execution of duties of the Department as at 31 December 2017 are given below. The Department had spent Rs. 9,096 million in respect of personal emolument category for the year under review. Accordingly, per capita expenditure had been Rs. 568,360.

Category of Employees	Approved Cadre	Actual Cadre	No.of vacancies	Excess
(i) Senior Level	212	117	95	-
(ii) Tertiary Level	451	123	328	-
(iii) Secondary Level	10,958	6,667	4,291	-
(iv) Primary Level	8,601	7,900	701	-
(v) Casual/Contract/	-	1,204	-	1,204
<b>Total</b>	<b>20,222</b>	<b>16,011</b>	<b>5,415</b>	<b>1,204</b>

The following matters were observed.

#### (a) Deficiencies Relating to the Staff

- (i) According to the data furnished by the Department of Railway relating to the cadre, the number of vacancies of the post of senior level stood at 45 per cent of its approved cadre during the year 2017. The doubt that increase in the number of vacancies of the key posts that assist the attempt towards the achievement of vision and mission of the institute during the year under review than the previous will directly pose impact on the decrease of the performance of the Department, cannot be ruled out in audit.
- (ii) There was no scheme of recruitment approved by the Department of Management Services for the entire staff of the Department.
- (iii) Officers had been appointed to cover up duties of 09 posts including the posts such as Additional General Manager (Operations), Transport Superintendent and Assistant Stores Superintendent.
- (iv) Without being taken action to fill the above vacancies, the Department had recruited 1,204 employees as casual staff without formal approval.

- (v) The number of security officers approved for the security activities of the Rathmalana Sub-department was 75 and 41 officers had been detailed in the service. We would like to point out in audit that the existence of large number of vacancies has been an immense threat for the security.
- (vi) Without being taken action to fill the vacancies of the posts of Shunt Drivers, Locomotive Drivers, Driver Assistants, Railway Guards, Railway Station Master, Railway Supervisory Manager, 144 retired officers of the Department had been re-employed.
- (b) **Human Resources Irregularly Released to the Other Parties.**  
-----

The Department had irregularly released 32 officers to the Ministry during the year under review.