

Report of the Auditor General on Head 114–Ministry of Transport and Civil Aviation - 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 were presented to Audit by the Ministry of Transport and Civil Aviation. 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 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 Ministry of Transport and Civil Aviation –Head 114 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 Secretary to the Ministry 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 Ministry of Transport and Civil Aviation 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 2.12 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 127 and 128 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

Accountability of the Chief Accounting Officer in terms of Financial Regulation 127	Non-compliance with that Provision by the Chief Accounting Officer/ Accounting Officer	Reference to the Paragraph included Observation in the Report
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Financial Regulations		

127 (1)(a)	Planning the financial work of his department so that the business is transacted with correctness and financial propriety.	Deficiencies in the internal audit 2.11
127(1)(b)	A system should be evolved providing adequate controls over expenditure and the collection of revenues.	Deficiencies in the human resources management 2.12
127(2)	Existing items of expenditure, as well as proposals for new or increased	1. Delays in the execution of projects 2.2.1 (a)

expenditure in the departments under his control are closely examined in the Ministry from the point of view of economy and efficiency.

		2. Failure to achieve performance of the foreign funded projects	2.2.1 (b) i – xvii 2.2.1.(c) i – iv
		3. Impact caused to the environment due to implementation of projects.	2.2.1 (d)
		4. Deficiencies in the implementation of procurement process.	2.3
		5. Internal Audit	2.11
127(3)	All cases of doubt or difficulty are referred to him so that he may bring his own administrative experience and judgement to bear on them.	1. Deficiencies in the utilization of vehicles	2.4(c)
		2. Deficiencies in the maintenance of the Office	2.4 (b)
		3. Assets given to external parties.	2.4 (c)
127(4)	Appropriation Accounts are duly rendered by each of his Accounting Officer, and examine at the Ministry before he signs them; and that important differences in the Estimates and the actual expenditure are critically investigated by him.	1. Incurring commitments exceeding the annual budget limits.	2.5
		2. Deficiencies of the General Deposit Accounts	2.10
127(5)	Important variations between departmental Estimates and expenditure receive critical examination at the Ministry.	1. Failure to utilise the provisions made	2.7 (a) i
		2. Making overprovisions	2.7 (a) ii

		3. Deficiencies in the utilization of provisions allocated by the Supplementary Estimates.	2.7 (a) iii
127(6)	Collection of Revenue or other Government dues for which Accounting Officers are responsible is closely watched and examined by the Ministry.	1. Deficiencies of the revenue accounts	2.8
		2. Deficiencies indicated in the Advances to Public Officers Accounts	2.9

**Accountability of the Accounting Officer in terms of
Financial Regulation 128 (1)**

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	Deficiencies in the conduct of Annual Board of Surveys	2.4 (c)
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2. Material and Significant Audit Observations

2.1 Performance

2.2 Local and Foreign Aid Projects Implemented

2.1 Foreign Aid Projects

The following observations are made.

(a) Delays in the Execution of Projects

The project for the construction of Matara- Kataragama railway line at an estimated cost of Rs.36,166 million should have been commenced on 01 August 2013 and completed by 31 July 2016. Since the contractor had failed to carry out works of the project properly, it had been extended again up to 26 October 2018.

(b) Performance of the Foreign Funded Projects

Installation of Signal System

For the installation of signal, telecommunication and railway crossing security systems from Matara to Beliatta relating to the project for the construction of railway tract from Matara to Kataragama, an amended agreement(Addendum) had been signed on 27 July 2017 and the following matters were observed during the course of audit test check carried out in this connection.

(i) Elimination of Signal System from the Original Ageement

Although the Technical Evaluation Committee had recommended the constructions according to the Schedule of Contract Price of US\$ 290 million stated in the original agreement inclusive of signal and telecommunication system, the installation of this signal system had been eliminated from the original contract in terms of Cabinet Approval No.අමප/10/1352/445/028 dated 22 July 2010.Subsequently, according to the Cabinet Approval No. අමප/17/0974/709/039/TBR dated 24 May 2017, the contact had been again awarded to the initial contract company- China Mechinery Import and Export Corporation by the amended agreement after a period of nearly 06 years. Accordingly, it was observed that the contractor had received an opportunity to extend the contract period without paying chargers for delays although the completion of the project had been delayed.

(ii) Award of the Contract

In terms of Guideline 3.1 of the National Procurement Guidelines, contractor should be selected by calling for international competitive bids. Nevertheless, without calling for competitive bids relating to the contract for the installation of signal system, relevant contact had been awarded to the initial contactor company at a cost of US\$ 16,975,533 on the provisions remained from the Provisional Sum of the contact of the construction of Matara-Kataragama railway line, upon the Cabinet Approval dated 24 May 2017.

(iii) Amending the Contract Programmes

According to Section 8.3 of the Contract Condition, an amended programme should be submitted in case of failure to achieve progress as per the programme presented by the contractor. Accordingly, as a result of failure to achieve progress in accordance with the programme submitted by the contractor of the above contract by the end of July 2017, an amended programme should have been submitted. Nevertheless, an amended programme had not been thus

presented even by 31 August 2018. Therefore, the planned progress and the actual progress could not be evaluated.

(iv) Presentation of Procurement Plan

According to the contract programme, the contractor should prepare a procurement plan and obtain approval of the Project Management Unit. Nevertheless, a procurement plan had not been presented relating to the supply of signal equipment and accessories of the above contract although an estimate worth US\$ 12.91 million had been prepared thereon. According to the contract programme, although purchase of signal accessories should be carried out during the period from August 2017 to March 2018, action had not been taken in accordance with a time table. As such, it had not been possible to purchase accessories even up to 31 August 2018.

(v) Progress of the Constructions

Although the contract on the installation of signal system should be commenced on July 2017 and handed over for train operations by August 2018, in 13 months, the progress of the constructions stood at 36 per cent even by 31 August 2018.

(C) Project on the Construction of Matara-Kataragama new Railway Line

The following observations are made.

(i) Submission of Contract Programmes

According to Section 8.3 of the Contract Condition, in case of failure to achieve relevant progress as per the period of time scheduled by the contractor, amended programmes should be submitted. Nevertheless, after the amended programme No.31 submitted in October 2016, the contractor had submitted an amended contract programme (Master Programme) on 31 May 2018, after 01 year and 07 months. Therefore, due to failure in evaluating progress of the constructions, recognizing future works etc., supervision of the contract could not be properly carried out and construction delays had experienced.

(ii) Construction of Railway Line

For the construction of 32 kilometers of railway line of the above contract, an estimated provisions of US\$.26.88 million had been allocated and expenditure of US\$ 11.85 million had been incurred thereon by 31 March 2018. The following matters were observed in that connection.

- **Making payments without carrying out constructions of the contract**

According to the agreement, US\$ 8,064,000 had been allocated for the construction of railway line (Main Track Laying) and payment of US\$ 5,126,458 had been made to the contractor by the end of March 2018 for that purpose. Nevertheless, information on the physical progress of the constructions as at that date was not available in the Project Management Unit or the Contract Consultation Company. Therefore, constructions of 20.3 kilometers should have been completed for the payment of above sum. Nevertheless, it was revealed at the physical examination carried out on 27 May 2018 that the constructions to that extent had not been completed.

- Similarly, construction of the line (3rd Tamping) had not been carried out even by 27 May 2018, the date of conducting physical inspection, whereas US\$ 564,547 had been paid to the contractor for that purpose by the Interim Payment Certificate No.47 on 31 March 2018.

(iii) Payment for Raw materials

Although payment should not be made for the raw materials available at the site in terms of Section 14.5(c) of the Original Contract Agreement, US\$ 3,648,703 had been paid for the rails (transported up to the Port) and US\$ 1,413,734 had been paid for the sleepers and metal available at the site by the end of March 2018 as payments for raw materials instead of making payments on completion of the construction of the railway line.

(iv) Quality Assurance of the Rails and Sleepers

In terms of Section 7.4 of the contract conditions, the contractor should submit a quality testing certificate for the assurance of quality of the rails and sleepers. Nevertheless, quality testing certificates had not been furnished for the assurance of quality of the rails and sleepers purchased at US\$ 4,526,117 on 31 March 2018. Moreover, the Project Unit had failed to examine this domestically and submit a report.

(v) Stock Control

Although the quantity of rails and sleepers to be purchased for the construction of railway line up to 32 kilometers should be determined, the consultation company of the project had failed to furnish a report inclusive of the information on the quantity of rails required to be purchased, stock used and the remaining stock. Therefore, it had not been possible to maintain a stock control on the rails purchased.

(vi) Weak Soil Improvement Process

For the improvement of mountain steps by removing weak soil thereof, the D.C.M. Filling Method had been recommended by the Scheduled of Payment of the contract agreement. Nevertheless, without ascertaining as to which method was used by the contractor for that purpose, US\$ 23,606,282 had been paid thereon by the end of March 2018 according to the recommendations of the consultation company. Acomparision not been done regarding the cost for the method used and the method approved.

(vii) Granting Approval for Designing

Granting approval for the desingings is a main function of the contract consultation company in terms of Section 5.1 of the contract agreement. Although approval for the detailed designings can be granted under 04 instances accoring to the aforesaid Section, contaray to that, US\$ 6,732,905 had been paid to the contract consultation company by the end of March 2018 for granting design approval under the Approved in Principle.

(viii) Submission of Final Designings (As Built Documents)

In terms of Section 5.6 of the contract conditions, approval for the Shop Drawing should be obtained from the contract consultation company. Nevertheless, without being obtained such approval, US\$ 52,780 had been paid.

(ix) Delays in the Constrcutions

In terms of the contract agreement, constructions were scheduled to be commenced in August 2013 and completed by July 2018. Nevertheless, it was observed that due to weaknesses of the contact company and the contact supervision, only 76.1 per cnet of the constructions of the contract worth US\$ 278.2 million had been completed by 31 March 2018 despite lapse two years from the scheduled period. The targetted progress and the actual progress relating to each construction are given below.

Item	Targetted Progress as a percentage	Actual Progress (As at 31.03.2018) as a percentage
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Construction of Railway Stations	100	57.2
Construction of Railway Lines	100	30
Construction of Parallel Lines	100	0
Installation of Signal Systems	100	9.98
Provisional allocations	100	13

(x) **Construction of Side Walls**

US\$ 14,288,000 had been allocated as the cost for the construction of side walls. The following matters were observed at the audit test check carried out in that respect.

- **Non-completion of Soil nail side walls**

According to the progress report of the consultation company of the month of March 2018, twenty one locations had been identified for the construction of side walls (right side and left side of the road). Nevertheless, 07 instances were observed where, the progress had remained at less than 75 per cent. However, the entire amount of US\$ 2,857,600 allocated for the construction of above side walls had been paid to the contractor even by March 2018 through the Interim Payment Certificate No.47

- **Construction of right of way**

It was observed at the physical inspection carried out on the project that in the construction of Soil nail side walls, constructions of right of the way had been carried out over 17+150 miles in the private lands exceeding the extent of lands acquired for the construction of railway line and US\$144,229 had been paid to the contractor for that purpose by 31 March 2018.

- **Filling soil instead of constructing of side walls**

Although Scheduled of Payments (SOP) amounting to US\$31,109 had been made for the construction of a concrete side walls of 22 meters in length on the right side of the line (RHS) from DK13+540 to DK 13+562 miles as per the approved construction contract, it was observed at the physical inspection that the contractor had filled a private land with soil without approval of the Project Management Unit instead of constructing side walls and payments had been made for that purpose. Evidence had not

been made available that a cost estimate was prepared and obtained approval thereon for the cost variation occurred due to filling of soil instead of constructing side walls.

(xi) Construction of Remaining Side Walls

Although US\$ 3,572,000 had been allocated for the construction of 28 Toe Walls under the construction of side walls, the contractor had not taken action to commence construction of 08 of the above side walls by March 2018. Evidence was not furnished to Audit that the designs were prepared and obtained approval therefor. Further, US\$ 1,285,920 had been allocated for the construction of Anchor Frame side walls. Nevertheless, evidence regarding the **number of meters** approved for the Anchor Frame side walls in the above contract, the number of side walls completed as at the date of audit and the number of side walls yet to be completed was not available with the project.

(xii) Utilization of Foreign Loans

According to Section 1.14 of the loan agreement, although 07 years **grace period** had been granted with effect from the date of **enforcement** of the loan agreement, the loan agreement comes into effect from 19 April 2013 and the grace period ends in April 2020. It was observed that only 76 per cent of the total constructions had been carried out by the end of March 2018 though a period of less than 02 years remains for the expiry of the grace period of the loan. It was accordingly observed that, there could be a risk for the payment of loans without earning income by operating trains.

(xiii) Foreign Exchange Losses

In terms of Condition 1.3 of the loan agreement, loan should be obtained within 04 years from the date of signing the Agreement. According to the loan agreement signed in April 2013, the total loan should have been obtained by the end of April 2017. Nevertheless, due to the delays occurred relating to the constructions, a foreign exchange loss of Rs.36.51 million had been suffered in respect of the payments made from May 2017 to April 2018.

(xiv) Construction of Parallel Lines

According to the original construction contract agreement, a contract cost of US\$ 1,693,000 had been estimated for the construction of 105 parallel lines. Nevertheless, the construction and consultation company had not taken action to initiate constructions by preparing designings and obtaining approval for those lines even by 27 May 2018, the date of audit.

(xv) Use of Provisional Provisions

The provisional provisions of US\$ 29 million allocated in terms of original construction contract agreement had been reduced up to US\$ 12.02 million by the amended agreement dated 27 July 2017. Accordingly, it had not been clearly recognized the works to be carried out upon the reduced provisions for the completion of activities recognized by the original agreement under the above provisions. Further, it was observed that out of US\$ 12.02 million allocated from the revised provisions, US\$ 11.13 had been saved even by the end of March 2018.

(xvi) Construction of Railway Stations Buildings

It was an Employer's Requirement in the construction contract agreement that a cement block used for the construction of railway stations should be of 10 Mpa in strength. Nevertheless, constructions had been approved by reducing the above strength up to 05Mpa on the recommendations of the consultation company and approval of the Secretary to the Ministry of Transport. Although the cost benefit of the construction arising from the above change had been estimated as Rs.6,093,829, the manner in which that benefit is received by the Ministry under the Lump Sum payment method was not revealed.

(xvii) Payment of Compensation for the Acquisition of Lands.

Although lands for the construction of railway lines should be acquired after recognizing the requirements, it was observed at the physical inspection that there were instances where lands had been acquired exceeding the requirements.

(d) Environmental Impact of the Project

According to the Employer's Requirement of the contract agreement, although the contractor should mediate on the environmental and social issues arisen, 338 instances were observed that the contractor had not mediate on environmental and social issues even by the date of audit despite the payment of total value of US\$ 250,000 to the contractor that had been allocated up to end of March 2018.

2.3 Obtaining Supplies and Services through the Procurement Process

The Ministry had made provisions of Rs.293.69 million to obtain supplies and services according to the Government Procurement Guidelines and out of that provisions of Rs.42.99 million had been utilized. Accordingly, a sum of Rs.250.07 million or 85.36 per cent of the provisions made had been saved.

2.4 Assets Management

The following observations are made.

(a) Utilization of Vehicles

There were 71 motor vehicles belonging to the Ministry as at 31 December 2017 and out of that 13 vehicles had been released to external institutions while 58 vehicles had been used by the Ministry. Sums totaling Rs.34,168,403 comprising Rs.15,089,345 for fuel and lubricants, Rs.15,559,582 for servicing and repairs and Rs.3,519,476 for the insurance had been spent relating to those vehicles.

Failure to submit the number of kilometers run

The number of kilometers run relating to 29 vehicles assigned to the offices and the officers of the Ministry relating to the period from January to August 2017 had not been furnished.

(b) Expenditure on the maintenance of offices

The Ministry maintains its office in a building obtained on a monthly rental of Rs.5,141,072 and the annual building rent had been Rs.61,453,924. Accordingly, per capita expenditure on the maintenance of the office amounted to Rs.259,298.

(c) Conduct of Annual Board of Surveys

Steps had not been taken according to the Financial Regulations with regard to the excesses, shortcomings and other recommendations pointed out by the Board of Survey Reports relating to the year 2016.

(d) Assets Provide for External Parties

Although the Ministry had released 13 motor vehicles to external parties, action had not been taken either to transfer the ownership or get back those vehicles.

2.5 Commitments and Liabilities

Incurring commitments exceeding the annual budget limit

The savings out of the provisions of Rs.45.38 million made for 08 Objects contrary to the Paragraph 2 (a) of the Public Finance Circular No.288/2017 dated 27 April 2017 amounted to Rs.0.477 and commitments of Rs.1.34 million had been incurred by exceeding that savings by Rs.0.06 million.

2.6 Sustainable Development

Although the milestones required for the determination of relevant activities for the achievement of sustainable development goals had been identified, action had not been taken to include and implement them by including in the Action Plans.

2.7 Utilization of Provision Made by the Parliament for the Execution of Activities

Year	Category of Expenditure	Net Provision	Utilization	Savings	Savings as a percentage of Net Provision
		Rs. Millions	Rs. Millions	Rs. Millions	
2013	Recurrent	7,032	6,893	139	1.98
	Capital	5,998	4,555	1,443	24.06
	Total	13,030	11,448	1,582	11.73
2014	Recurrent	7,556	7,548	8	0.11
	Capital	17,454	13,024	4,430	25.38
	Total	25,010	20,572	4,438	17.44
2015	Recurrent	12,595	12,471	124	0.98
	Capital	15,785	8,420	7,365	46.66
	Total	28,380	20,891	7,489	26.39
2016	Recurrent	17,910	17,238	672	3.75
	Capital	32,009	17,768	14,241	44.49
	Total	49,919	35,006	14,913	29.87
2017	Recurrent	17,838	14,072	3,766	21.11
	Capital	18,114	7,931	10,183	56.22
	Total	35,952	22,003	13,949	38.80

The following observations are made in this connection.

(a) Appropriation Account

The following observations are made.

(i) Failure to utilize the provisions made.

The total net provision of Rs.743 million made for 10 Objects had been saved without being used for any purpose.

(ii) Making overprovisions

Overprovisions of Rs.13,855 million had been made for 42 Objects and sums totalling Rs.8,180 million only had been used from the provisions pertaining to those Objects. Accordingly, savings had ranged from 05 per cent to 99 per cent of the net provisions made.

(iii) Making provisions through the Supplementary Estimate Allocations.

As estimates had been prepared without conducting a proper study and recognizing requirements, provisions amounting to Rs.19,219 million had been obtained through Supplementary Estimates for 04 Capital Objects for which provisions had not been made and Rs.3,703 million of the above provision had been saved.

2.8 Estimated and Actual Revenue

The revenue estimated by the Ministry for the year 2017 under 01 revenue code totaled Rs.14,400 million and revenue totaling Rs.15,446 million had been collected during the year under review. It had represented 107.26 per cent of the estimated revenue.

Revenue Code-20.03.02.08- Embarkation Tax

Since the Ministry had increased the percentage of the recovery of tax or revenue relevant to the collection of revenue from January of the year under review, revenue had been collected exceeding the estimations.

2.9 Advances to Public Officers Account

Limits Authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers Account Item No. 11401 of the Ministry, and the actual amounts are given below.

<u>Expenditure</u>		<u>Receipts</u>		<u>Debit Balance</u>	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
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Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
10	9.98	6	6.6	45	32.50

Non-recovery of outstanding loan balances

According to the reconciliation statement presented to Audit, the balances that remained outstanding as at that date totaled Rs.1,240,840 (except for the balance related to the officers transferred) and those outstanding balances had continued to exist over a period from 01 year to 19 years. Nevertheless, the follow-up actions taken for the recovery of the outstanding balances remained at a weak level.

2.10 General Deposit Account

The balances of 03 General Deposit Accounts of the Ministry as at 31 December 2017 totalled Rs.187,887 and action in terms of Financial Regulation 571 had not been taken on 01 deposit totaling Rs.114,552 older than 02 years (except for lands).

2.11 Internal Audit

Even though an Internal Audit Unit had been established, action had not been taken to furnish the copies of the Internal Audit Report to the Auditor General as required by Financial Regulation 134 (3)

2.17 Human Resource Management

Attached Cadre, Actual Cadre, and Expenditure on Personnel Emoluments

Particulars on the approved, actual, and vacant cadre for the execution of duties of the Ministry of Transport and Civil Aviation as at 31 December 2017 were as follows. The Ministry had spent a sum of Rs. 103 million in the year under review on personnel emoluments. Accordingly, the per capita expenditure amounted to Rs.551,690.

	Category of Employee	Approved Cadre	Actual Cadre	No.of Vacancies
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(i)	Senior Level	38	28	10
(ii)	Tertiary Level	05	05	-
(iii)	Secondary Level	131	103	28
(iv)	Primary Level	84	51	33
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	Total	258	187	71
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