

Head 114 – Ministry of Transport

1. Financial Statement

1.1 Qualified Opinion

The audit of the financial statements of the Ministry of Transport for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, and cash flow statement for the year then ended, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. The Summary Report containing my comments and observations on the financial statements of the Ministry of Transport was issued to the Chief Accounting Officer on 28 June 2021 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report of the Ministry was issued to the Chief Accounting Officer on 24 September 2021 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements prepared give a true and fair view of the financial position of the Ministry of Transport as at 31 December 2020 and its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters appear in Paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements are further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of the Chief Accounting Officer for the Financial Statement

The Chief Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Section 16(1) of the National Audit Act, No.19 of 2018, the Ministry is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable the preparation of annual and periodic financial statements.

In terms of Sub-section 38(1)(c) of the National Audit Act, the Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Ministry and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's summary report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate and its materiality depends on the influence on economic decisions taken by users on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also furthermore;

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry's internal control.
- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Chief Accounting Officer regarding, among other matters significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5 Report on Other Legal Requirements

I express the following matters in terms of Section 6 (1) (d) of the National Audit Act No. 19 of 2018 .

- (a) The financial statements are in consistent with those of the preceding year.
- (b) The recommendations made by me regarding the financial statements of the preceding year had been implemented.

1.6 Comments on Financial Statements

1.6.1 Capital Expenditure

Audit Observation

Due to direct payments made by the Asian Development Bank under the Colombo Suburban Railway Efficiency Improvement Project, a difference of Rs.147,278,993 was observed with regard to the financing of the Asian Development Bank during the year under review in between the financial statements of the Ministry of Transport and the Project.

Comments of the Chief Accounting Officer

This is not an error or fault and failure to be accounted for the Asian Banks Direct Payments at the end of the year 2020 by the Treasury Operations Department for that year and accounting for the direct payments made by the Project at the end of 2019 , by the Department of Treasury Operations for the year 2020 had occurred.

Recommendation

The Project Office should compare the expenditure and debt reports with its Line Ministry as at the end of the financial year in preparing financial statements.

1.6.2 Imprest Balance

Audit Observation

The expenditure incurred by Other Departments had been stated as Rs. 7,443,654 in the imprest adjustment account submitted with the accounts and as a result of that amount was

Comments of the Chief Accounting Officer

Although the expenditures incurred by the Ministry on Other Expenditure Heads are consisted of the cash flow statement, it had not been included in the statement of financial performance. Therefore , excess values

Recommendation

Expenditures incurred by other Departments should be disclosed clearly in the reconciliation statement

Rs.8,880,369,033 as per the information submitted to the audit, it was not equivalent by Rs.1,436,713,269 .

received on adjustment of statement of financial performance and the cash flow statement has been entered into to the imprest adjustment account.

2. Financial Review

2.1 Expenditure Management

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) The entire provision of 06 expenditure objects amounting to Rs. 2,800,000 had been saved.	Due to the control of capital expenditure as per the policy decision implemented by the government, provisions in those expenditure objects had been saved.	Budget Estimates should be prepared by properly identifying the needs .
(b) The net provisions of 08 expenditure objects was Rs. 3,709,793,000 and out of which Rs. 955,590,783 had been saved. The saving of it had ranged from 8 per cent to 89 per cent.	As there were no adequate provisions for the procurement activities of the project after incurring recurrent expenditure out of the provisions received under 04 Vote on Accounts during the year 2020, procurement activities had to be stopped completely during that year. Further the savings had occurred on the inability to perform the task due to the matters such as resignation of employees, delays in recruitment, non-implementation of planned programmes, delays in getting Cabinet approval to make payments, non-receipt of final bills and the Covid epidemic.	The immediate causes for savings should be furnished with financial statements.

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| <p>(c) Even though the provision of Rs. 2,207,209,000 had been made available during the year under review for the project to improve the efficiency of Colombo Suburban Railways, due to spending only Rs. 414,873,553 of the provisions, an underutilization of Rs.1,792,335,447 was observed in provisions.</p> | <p>The Asian Development Bank (ADB) had signed agreements for the REIP in August 2019 and the approval of the Cabinet had been received on 15.07.2020. Nevertheless, appointment to projects to be evaluated by the Project Evaluation Committee appointed by the General Treasury from July 2020 and suspension of awarding of all contracts and signing of agreements on the instructions of the Circulars of the Secretary to the Treasury ERD/ IRCPRS / GEN / 10 dated 08 July 2020 had occurred. Because of the same reason, Tender Committee Meetings were also not held. Due to this the procurement process of 02 major construction contracts could not be completed on time.</p> | <p>ADB loans should be used promptly and efficiently without delay.</p> |
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2.2

Entered into Liabilities and Commitments

Audit Observation

Although it was extended the period for consulting services provided and additional expenses to be paid for this amounting to Rs. 25,865,000 had been approved, as per the Decision of Cabinet of Ministers No. CP20/2095/312/025 dated 07

Comments of the Chief Accounting Officer

It could not provide that value for updating accounts by a mistake. In addition to the Rs. 25 Million stated in the account, a sum of Rs.865,000+ vat furthermore should be included as liabilities.

Recommendation

Financial statements should be prepared identifying liabilities as specified.

January 2021, this liability had been stated in the statement of liabilities as - (i) (Note (iv) Rs.25,000,000 . Therefore, the total liabilities had been understated by Rs. 865,000 in the statement of liabilities.

2.3

Reconciliation Statement on Advances to Public Officers' Account

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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(a) The Ministry had failed to recover a debt balance of Rs. 398,702 that had not been received for more than 5 years from 03 officers who had left the service.	Steps have been taken to recover the outstanding debt balance promptly.	Actions should be taken to recover the outstanding debt balances.
(b) The debt balance receivable from an officer who was suspended in the year 2012 amounting to Rs. 121,945 had not been recovered.	-do-	-do-

2.4 Non-compliance with Laws, Rules and Regulations

The instances of non – compliance with the provisions of the Laws, Rules and Regulations observed in audit test checks are analyzed below.

Reference to Laws, Rules and Regulations	Observation Non – compliance	Comments of the Chief Accounting Officer	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka	As a result of failure to complete investigations in accordance with Financial Regulation 104 (3) in respect of 06 vehicle accidents, those details were not mentioned in the financial statements. Despite the amount of Rs.368,819 to be received for 8 vehicles during the last seven years were being planned to be recovered from the parties responsible for the damage, it had been shown as written off balances from the financial statements . Further, due to non-issuance of relevant reports on time, it had delayed taking further action regarding losses and damages from the year 2016 to the year under review.	The activities had not been carried out as per the prescribed regulations from the year 2011 to 2016 due to the reasons such as the merging and separating the Ministry of Transport with other Ministries on several occasions.It is stated that , as a result , there have been interruptions in complying with the regulations regarding motor vehicle accidents that have occurred in the years from 2016 onwards.	Actions should be taken in accordance with Financial Regulations and the approval received.

3. Operating Review

3.1 Delays in Execution of Projects

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Colombo Suburban Railway Project		
(i) Although the plans were formulated to resettle in 2,036 housing units by the end of the year 2020, regarding the resettlement of unauthorized occupants and the process of land acquisition related to the Colombo Suburban Railway Project, only in 386 housing units had been resettled. Further,	A number of 220 families have been resettled in 454 housing units provided by the Urban Development Authority. Another 32 families will be resettled after this difficult period. A number of 471 families are ready to be resettled by 2021 with the completion of Colombo Mawatha and Kalinga	Actions should be taken to use the budget allocations properly and efficiently for the relevant task.
although orders have been issued for 454 plots of land under Section 04 of the Land Acquisition Ordinance, of these, orders were issued under Article 05 only for two plots of land. At the same time, although the resettlement of unauthorized occupants should be completed by the end of the year 2020 as per the Decision of Cabinet of Ministers, it had not been so done.	Mawatha houses. Accordingly, providing Treasury funds, construction of houses by the Urban Development Authority and family resettlement of the Project are being implemented in parallel. The full amount approved by the Cabinet of Ministers has not yet been paid in full. A sum of Rs. 1525 Mn. has been allocated for the year 2021 as well. The remaining funds thereafter are expected to be utilized in the year 2022. The approval of the Cabinet of Ministers have been received for the Cabinet Memorandum submitted in the year 2021 (2021.01.19	

අංක / 20/2003/312/023) for the use of the same funds to resettle nearly 25 families approximately in reconstruction of the Kelaniya old railway bridge

(ii) Although the feasibility study reports designed by the Colombo Suburban Railway Project should be timely provided to the Project by the consulting (Dhowa) company, project reports were submitted with a delay and 03 final draft reports and the final report had not been submitted even by the end of the year under review.

All final reports have been obtained by submitting details to the Asian Development Bank and the Ministry of Transport providing a time period from January 2021 to April 2021 (An extension of time without additional cost) .

Reports should be submitted as entered into the agreement.

(b) Railway Line through Kurunegala Habarana - Project.

Audit Observation

Comments of the Chief Accounting Officer

Recommendation

 Although a provision of Rs. 1,332,757,000 had been made by annual estimates under the local fund financing from the year 2010 to 2020 under the Kurunegala Habarana Railway Project, a sum of Rs. 144,433,309 that is only 13.08 per cent of the total allocation had been spent out of that amount during the period.

 The project commenced its activities in the year 2016 and although the provisions were made for hydrological studies and soil testing, the provisions were saved because of the work was done by a foreign company without any obligation so as not to be a burden to the government. Activities on land vesting had been initiated in the year 2018 and it was not possible to carry out compensation investigations for compensations activities due to Covid Pandemic prevailed in the year 2020.

 The project should be carried out efficiently and the estimated underutilization should be minimized.

3.2 Assets Management

Audit Observation

Arrangements had not been made to clarify the facts and take further actions making clarification by the responsible officers regarding the shortages and excesses in the survey of goods and actions had also not been taken on non-consumable items .

Comments of the Chief Accounting Officer

Inquiries regarding excesses and shortages have been made and answers have been obtained and corrections have been made accordingly. Although the auction was slightly delayed due to the Covid -19 situation actions will be taken to dispose of it as soon as possible.

Recommendation

Necessary steps should be taken to protect the assets as well as compliance with Financial Regulations and the approval received.

3.3 Management Inefficiencies

Audit Observation

- (a) A sum of Rs. 34,353,893 had to be paid to the Asian Development Bank during the year under review as commitment charges under the Colombo Urban Railway Performance Improvement Project. Further, only the island-wide communications project could have been launched by the end of the year 2020 in evaluating the purchasing performance of the Project.

Comments of the Chief Accounting Officer

It had to incur a sum of Rs. 34,455,893 as commitment charges due to the external causes of the project such as trade unions' opposition to the project's implementation, delays during the Ministry reshuffle, delays caused by Covid 19 and the suspending of signing of government agreements for a period of about five months by a Circular.

Recommendation

Minimize the payment of commitment charges through proper management of funds.

4. Sustainable Development Goals

Audit Observation

Although it is essential that the Ministry has an accurate database to identify the relevant targets and identify the criteria needed to measure them to achieve the Sustainable Development Goals, it was observed that the institution had not made arrangements to generate an accurate database to measure the achievement of the Sustainable Development Goals.

Comments of the Chief Accounting Officer

The Ministry does not implement development projects and regulates, oversees and reviews the progress of development programmes carried out by affiliated institutions. Therefore, the Sustainable Development Goals are not stated in the Action Plan prepared for the Ministry and although the relevant Sustainable Development Goals have been stated in the Action Plan prepared by the affiliated institutions of the Ministry implementing the project and the project offices which are implementing the project, relevant criteria have not been identified. In formulating the Action Plan 2021, actions have been taken to rectify the above deficiencies and key performance indicators have been included.

Recommendation

Sustainable Development Goals should be identified and development plans should be implemented identifying the relevant criteria and it is needed to have a relevant database.