

1. Financial Statements

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1.1 Qualified Opinion

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The audit of the financial statement of the Ministry of Transport for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 including my comments and observations on the financial statements of the Ministry of Transport was issued to the Chief Accounting Officer on 31 May 2022 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 and the Detailed Annual Management Audit Report relating to the Ministry in terms of Sub-section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Chief Accounting Officer on 09 June 2022. This report will be presented in Parliament in pursuance of provisions in Article 154 (6) of the Constitution to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Ministry of Transport as at 31 December 2021, 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

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My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. 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 Statements

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The 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 such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

As per Sub-section 38 (1) (c) of the National Audit Act, the Chief Accounting Officer shall ensure that effective internal control system for the financial control of the Ministry of Transport exists, 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

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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 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, they could reasonably be expected to influence the economic decisions of users taken 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 scepticism throughout the audit. I also:

- 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 and Regulatory Requirements

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I express the following matters in accordance with Section 6 (1) (d) and Section 38 of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year.
- (b) The recommendations made by me on the financial statements of the Ministry of Transport for the preceding year had been implemented.

## 1.6 Comments on Financial Statements

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### 1.6.1 Capital Expenses

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Audit Observation	Comment of the Chief Accounting Officer	Recommendation
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As the direct payments made by the Asian Development Bank to the Treasury relating to the Colombo Suburban Railway Project had not been shown in the financial statements of the Project, a difference of Rs. 115,854,907 was observed between the financial statements of the Ministry of Transport and the Project.	This is not an error or a mistake. The direct payments made by the Asian Development Bank by the end of the year 2021, had not been brought to accounts for that year by the Department of Treasury Operations. The direct payments made by the end of the year 2020, had been brought to accounts for the year 2021 by the Department of Treasury Operations.	When preparing the financial statements, the Project Office together with the Line Ministry, should make a reconciliation with respect to the expenditure and debt reports as at the end of the year of finance.

## 2. Financial Review

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### 2.1 Management of Expenditure

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The following observations are made.

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
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a) A sum of Rs. 389,795,882 had been saved by the end of the year under review out of Rs. 668,500,000 being the net provision made for 05 Objects. That saving represented 46 -96 per cent of the net provision.	Provision had been saved as no payments had been made for projects (Sisu Seriya) focusing on social welfare due to reasons such as, approved cadre of the Minister's office had	Requirements should be correctly identified and the budget estimates should be prepared as correctly as possible.

- outnumbered the actual cadre, imposing limits on expenditure by reviewing the expenses of Ministries, and closure of schools following the Covid-19 pandemic thus resulting in savings under the Object, 114-2-3-02-1509.
- b) Provision amounting to Rs. 400,000,000 had been made through the annual budget estimate for “Sahasara” bus modernization project under the Object, 114-2-3-11-2506 relating to the development of infrastructure facilities. Even after the transfer of Rs. 118,882,612 therefrom to other Objects in terms of Financial Regulation 66, performance of the said project remained poor; as such, provision amounting to Rs. 209,892,341 had been saved further. - Do.
- c) Sums of Rs. 3,200 million and Rs. 235 million had been allocated by the Asian Development Bank and through local funds respectively in the year under review for the Colombo Suburban Railway Project. However, the expenditure incurred under local funds amounted to Rs. 96 million representing 41 per cent whilst only a sum of Rs. 2,012 million had been spent from the provision made by Asian Development Bank and the entire estimated provision had been underutilized. As such, a sum of Rs. 83 million had been paid as commitment fees by the end of the year under review. Savings occurred under the Object, 114-2-4-10-2104-12 as the actual expenses had been less than that of the year 2021. - Do.
- Savings occurred under the Object, 114-2-4-10-2104-17 due to reasons such as, a less amount had been paid as taxes in the year 2021, decrease in the expenses on training and development, and decline in the acquisition of lands.
- Savings occurred under the Object, 114-2-4-11-2104-17 as no payments had been made from foreign funds in the year 2021 due to delays in entering into agreements.

- d) A sum of Rs. 350 million had been allocated through provision from the Asian Development Bank whilst Rs. 1,578 million had been provided through local funds under annual estimates for the Colombo Suburban Railway Project. However, performance in the resettlement of the dwellers along the sides of the railway tracks remained weak. As such, only 17 per cent equivalent to Rs. 264 million had been utilized from the provision made through local funds.
- Do.
- Do.
- e) Project for providing information on railway operations had been commenced in the year 2018 under the Object, 2-2103-11, and by 31 December 2021, a sum of Rs. 6,362,730 had been incurred thereon. Although the project should have been completed within 02 years, the implementation had been delayed. However, having been observed later that the objectives of this project were under scope of the Colombo Suburban Railway Project, it was proposed that the project was scheduled to be discontinued. Nevertheless, provision amounting to Rs. 21,000,000 was made on the project for the year 2021 as well, and that provision was saved in full.
- This project had been impeded since the beginning of the year 2019, and was not further implemented through the research and development institution of the Ministry of Defence as the railway information could be obtained via REIP of the Colombo Suburban Railway Project. In order to seek recommendations thereon, a Committee was appointed by the Letter, dated 2021.07.06. As such, savings occurred.
- Provision should be made by properly identifying the requirements.

## 2.2 Reconciliation Statement on the Advances to Public Officers Account

Audit Observation	Comment of the Chief Accounting Officer /Accounting Officer	Recommendation
a) A loan balance of Rs. 121,945 remained due over a period of 09 years from an officer who had been interdicted on 01 September 2012, had not been recovered.	A grace period of 06 months was granted by the Secretary for settling the loan.	Action should be taken to recover the loan balance.
b) Action had not been taken to recover a loan balance of Rs. 398,702 remained due over a period of 06-09 years from 03 officers who had vacated their posts.	Legal action is being taken by the Attorney General's Department.	- Do.
c) Action had not been taken to recover a distress loan balance of Rs. 48,515 remained due over 1 ½ years from an officer who had retired on 01 March 2020.	This officer is deceased. Her pension file is being prepared by obtaining the W&OP registration number.	- Do.

## 2.3 Non-compliance with Laws, Rules, and Regulations

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
Reference to Laws, Rules, and Regulations	Non-compliance	
Financial Regulations of the Democratic Socialist Republic of Sri Lanka.		
a) Financial Regulation 571 (c).	Action had not been taken in terms of Financial Regulations on lapsed deposits valued at Rs. 10,000.	Action will be taken to credit to the Government revenue for the year 2022.
		The Financial Regulations should be followed.

b) Financial Regulation 880.	Action had not been taken to identify all the officers who should give securities, thus failing to obtain securities. A Register of Securities had not been maintained as well.	Action will be taken in due course to identify the officers who should give securities in terms of Financial Regulations.	Securities should be given and a Register of Securities should be maintained in terms of Financial Regulations.
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## 2.4 Incurring Liabilities

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
The provision made under Object 114-2-3-9-2506 on an expenditure relating to the year of accounts had been exceeded by Rs. 37,439,339 thus incurring liabilities.	Liabilities had been incurred only under the Object 114-2-3-9-2506. Liabilities had been incurred within the limit of provision under other Objects.	Action should be taken to incur expenses within the limit of provision made for the year under review.

## 3. Operating Review

### 3.1 Performance of the Projects Implemented under the Head of Expenditure of the Ministry

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
<u>Foreign-funded projects</u>		
The report of the feasibility study and detailed plans prepared to improve the railway service in Colombo suburban through the Colombo Suburban Railway Project had been presented to the Ministry of Transport in March 2021. However, the recommendations and proposals mentioned therein had not been implemented for a period of One year. As of 31 December 2021, a sum of Rs. 1,446,952,381 had been spent on the preparation of those reports whilst a sum of Rs. 69,345,336 had also been paid to the Asian Development Bank as interest on loans. Furthermore, a sum of US	It was proposed at the discussion held with the honorable Prime Minister on 2021.06.10 that the said project be implemented using the Asian Development Bank fund.	Measures should be taken promptly to utilize the loans for the growth of economy.

\$ 275,000 remained payable by 15 March 2022 as the first installment of loans obtained from the Asian Development Bank.

### 3.2 Performance of the Projects Implemented with Local Funds

#### a) Kurugengala-Habarana Railway Line Project

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
<p>(i.) During the period 2010-2021, a provision of Rs. 1,032,757,000 had been made through annual estimates from local funds on the proposed project for constructing the railway line from Kurunegala to Habarana via Dambulla. Only 46 per cent of the total provision made for the project had been utilized thus saving 54 per cent or Rs. 555,906,008.</p>	<p>Provision had saved due to reasons such as, preliminary engineering surveys had been done using drones, payments had been restricted only to the incentives relating to the surveying, and soil testing and hydrographic surveys had been done without becoming a burden of expenditure for the Government. As soon as that saving had been identified, the provision had been transferred to other projects under consent of the Treasury.</p>	<p>Budgetary provision should be utilized on the intended purpose efficiently. Such provision should be used for another Government project to be successfully completed.</p>
<p>(ii.) By the year 2024, a number of 4090 plots should be acquired with compensation paid under this project. However, compensation had been paid only for 3 per cent thereof equivalent to 133 plots by 24 January 2022.</p>	<p>In order to conduct inquiries relating to compensation, the land owners should have furnished the deeds and other documents to the Divisional Secretariats on time, but the offices remained closed owing to Covid-19. Such inquiries could not be concluded due to delays in presenting the documents owing to travel restrictions.</p>	<p>The project should be implemented efficiently without delay.</p>



- (iii.) Under the Kurugengala-Habarana Railway Line Project implemented in the year 2010, paying compensation should be completed for 4090 plots to be acquired by the year 2024. However, constructing the railway line remained doubtful due to reasons such as, failure in identifying the sources of funding or the investors by the year 2022 for constructing the railway line from Kurunegala to Habarana-the objective of the project, and failure in entering into a financial agreement even by 11 February 2022.
- A commercial agreement had been entered into with a Chinese company in the year 2018, and in the year 2022, the necessity to enter into a financial agreement had been informed in writing to the Minister of Finance by the Minister of Transport. Accordingly, the Department of External Resources is taking further action by obtaining the necessary information.
- An agreement should be entered into with the investors implementing the project.

### 3.3 Performance of the Sahasara Project

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
<p>a) A sum of Rs. 194.94 million had been spent on the "Sahasara" Project during the period from 2018 to 31 December 2021. That sum, after a lapse of 03 years of the project period, represented 0.72 per cent of the total estimated value of the project amounting to Rs. 26,860 million. Furthermore, of the total expenditure incurred, a sum of Rs. 150 million had been spent on administrative expenses of the project whilst a sum of Rs. 28 million had been spent for purchasing GPS devices relating to the objectives of the project.</p>	<p>Recruitments had been made only to the posts of Director, Deputy Director, and Senior Manager of the project up to September 2018 whereas the Cabinet approval that determined the scope of objectives of the "Sahasara" Project was received in October 2018. As such, the provision of Rs. 500 million made for the year 2018 could not be spent. As all the procurements had been suspended in accordance with the National Budget Circular, No. 5/2019 dated 24 September 2019, only the operational expenses had been incurred in the year 2019.</p>	<p>Efficient utilization of provision made for the project should be ensured by achieving the expected objectives thus so that the provision would be utilized on another project.</p>

- b) In order to assist the control unit of “Sahasara” Project, Cabinet approval had been given to obtain the service of staffs of institutions with relevant know-how and experience in terms of Management Services Circular, No. 2016/1. However, action had not been taken even by 21 February 2022 to appoint a staff formally. Although the approved cadre of the project was 47, the actual cadre was 16. Not replied. Action should be taken to recruit the minimum staff.
- c) This project had been implemented under the condition that the project would be funded through allocations for loans valued at USD 50 Million by the MCC-(Millennium Challenge Corporation) agreement. However, the MCC agreement had not been signed, but the project had been implemented without identifying a funding source, thus failing to take action to encourage foreign investment viz foreign loans or grants. Not replied. A methodology should be put in place to properly fund the project.

### 3.4 Assets Management

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The following observations are made.

Audit Observation -----	Comment of the Chief Accounting Officer -----	Recommendation -----
a) Four vehicles registered under the Ministry of Transport but remained under the custody of other institutions and the Ministry as at 31 December 2021, had not either been	Once those vehicles had been released to other Ministries, letters had been sent several times requesting to return such vehicles to the Ministry. But, no action had been	Action should be taken either to formally release or take over the vehicles.

released formally or taken to hand over the acquired to the Ministry. vehicles. The vehicles released to the staff of the Ministry when scope of the Ministry had changed, had not been returned as well.

- b) Two vehicles that had been used over a longer period without being formally taken over by the Ministry, were in a state of disposal. However, those vehicles remained idle since 2015 without being disposed.
- It is informed that action will be taken to take over the 02 vehicles and dispose under approval of the Comptroller General.
- The vehicles should be formally taken over and disposed.

### 3.5 Examination on Losses and Damages

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Audit Observation	Comment of the Chief Accounting Officer	Recommendation
----- a) Action had not been taken to recover a loss of Rs. 299,521 in 05 instances relating to recoveries and write offs in accordance with Financial Regulation 109.	----- The relevant drivers have been informed on the balance of Rs. 190,663 to be payable in respect of 03 losses. If not responded, legal action will be taken, and further action is being taken with respect to the loss of Rs. 108,858 relating to 02 accidents.	----- Action should be taken to properly recover the losses.
b) Losses caused to 04 vehicles that had met with accidents in the year under review, had not been assessed and brought to accounts.	A loss of Rs. 6,382,850 had been estimated for those 04 accidents.	Losses and damages should be properly brought to the accounts.
c) The Asus Vivo Book 178 Gen Laptop worth Rs. 170,000 given to the Media Secretary of a former Minister by the Ministry in writing, was stolen on 09 July 2021 while the Laptop was in his possession. An inquiry was not conducted	The inquiry on the misplaced Laptop of the Media Secretary to the former Minister is still in progress in terms of Financial Regulation 104(4). Action will be taken to conclude the inquiry without delay	The inquiry should be concluded without delay as per the Financial Regulations. Action should be taken to properly recover the losses and damages.

on that loss in terms of thereby providing the Financial Regulation report. 104(4) even by 28 March 2022, and the Ministry did not take any action for recovery of the loss.

#### 4. Sustainable Development Goals

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
The Ministry had not taken action to identify the targets required to reach the sustainable development goals by the year 2030 and indicators to measure the performance thereof.	Corrective measures were taken on the said deficiency in preparing the Action Plan of the year 2022.	Development plans should be executed by identifying the sustainable development targets. A database should be established.

#### 5. Human Resource Management

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
a) It was observed in the examination conducted on the approved cadre and actual cadre as at 31 December 2021 that 13 vacancies existed in 07 posts whereas 04 excesses existed in one post. That situation had changed by the date of audit on 28 February 2022. As such, 39 Development Officers had been attached to the Ministry, and hence, 09 vacancies existed in 08 posts with 43 excesses in 03 posts.	The appointing authority will be informed on the vacancies existing in the Ministry. As the scope has been widened due to affiliation with the Ministry of Transport and the Ministry of Highways and Mass Media, it is scheduled to revise the approved cadre.	Formal approval should be obtained on the new posts, and the vacancies should be filled in accordance with service requirements.

- b) As vacancies existed for 09 officers in 05 posts under the technical staff of the project, miscellaneous problems had affected the efficiency in the acquisition of lands.
- It is informed that the project is implemented with a minimum staff due to financial difficulties faced by the Government; vacancies can not be filled as new recruitments have been suspended; and as an alternative, affairs of the Divisional Secretariats relating to lands are assisted by the Development Officers already recruited by the Government.
- The necessary staff should be appointed, thus ensuring efficiency.