

Auditor General's Department
306/72
Polduwa Rd.
Battaramulla.

To all the Officers,

The Reports / Publication Report on the Financial Statements of the Public Corporations, Boards, Authorities, and Statutory / Non-statutory Funds in terms of Section 14 (2) (c) of the Finance Act, No. 38 of 1971, and the 154 (6) Report on the Public Ministries and Departments.

In addition to the instructions and the Circulars issued so far in this connection, it is hereby informed that the Paragraph given herewith on the performance review should be related to the reports presented to the auditees with effect from the year 2017 in accordance with the following guidelines.

Moreover, it is also informed to further use the Circular, No. AGSEC/ Audit/ 2017-05, of 31 March 2017 named "Promoting the Performance Audit" as a guidance in this regard.

Guidelines:

Every institution possesses various objectives in order to achieve the expectations relating to its establishment, and various functions are formulated to make those objectives a reality. The plans required thereto are prepared as long-term and short-term. Accordingly, the guidelines for evaluating the process of achieving the relevant targets and its productivity, are as follows.

02. Indicators that can evaluate the progress of each institution, may have been formulated by certain institutions, whereas other institutions may not have done so. In such instances, acceptable indicators for evaluating the progress should be formulated, and consent of the institution should be obtained thereto.

<u>Vision of the Institution</u>	<u>Mission of the Institution</u>	<u>Objectives of the Institution</u>	<u>Functions Formulated for Achieving the Objectives</u>	<u>The Targets/Progress Expected from the Functions</u>	<u>Indicators that can Evaluate the Progress</u>

A function / functions formulated to achieve the objectives of the institution should be selected according to the table given above, and it is necessary to confirm or verify through the relevant criteria as to whether or not the selected function has achieved the objectives of the institution.

The progress of the relevant functions by the end of a certain duration, the reasons attributing thereto, and the effects arising / likely to arise therefrom, should be related to the main objectives of the performance audit, namely economy, efficiency, and productivity, thereby presenting the audit report in the following manner.

- (i) A brief introduction on the institution inspected and its objectives, results expected, and provisions and the other resources expected to be utilized.
- (ii) Uneconomic transactions (indicate the observations relating to : Whether the Public funds have been utilized economically. Whether the human, financial and physical resources have been utilized economically. Whether the functions have been steered by the management in accordance with proper management policies)
- (iii) Lack of efficiency (indicate the observations relating to : Whether the human, financial and physical resources have been utilized efficiently. Whether the functions have been executed on time as expected and at a higher standard under a minimum input)
- (iv) Non-productivity (indicate the observations on the effect caused finally due to failure in achieving the expected product / service / benefit)

03. An example that can be used as a guide is given below.

Institution :- Ministry of Disaster Management

Result Expected :- To ensure a secure environment suitable for living through minimization and avoidance of natural and man-made disasters by taking action productively.

(The information obtained from the annual estimate for the year 2016, have been altered hypothetically)

<u>Name of the Project</u>	<u>Estimate – 2016</u> Rs. Millions	<u>Targets</u>	<u>Primary Performance Indicator</u>
The programme for minimizing the risks of landslide.	230	Taking action to minimize the risks of landslide with respect to 10 schools and 10 hospitals located at highlands in the Central Province.	To complete the work of minimizing the risks of landslide with respect to 10 schools and 10 hospitals located at highlands in the Central Province.

The observations and data given below, are hypothetical.

- (i) It is necessary to be aware of : What are the plans prepared by the Ministry in order to achieve the aforesaid targets, and the proper actions to be taken accordingly ? What are the accepted criteria that can be made use of in evaluating those activities ? (It may look like as follows.)

<u>Activities</u>	<u>Criteria</u>
(a) Selection of Contractors to execute this activity	Procurement Procedures relating to selection of the contractors.
(b) Construction of rubble mounds around areas prone to landslides	<ul style="list-style-type: none"> ➤ Procurement Guidelines (all of the laws and rules governing constructions.) ➤ Guidelines formulated by the National Building Research Organization (NBRO)

- (c) Plantation of trees in the relevant areas
- Plants recommended by the Department of Forest Conservation to be suitable for minimizing landslides.
 - Planting 1,500 recommended plants.

- (ii) By taking those facts into consideration, an audit paragraph can be compiled in the following manner.

Out of the projects implemented by the Ministry of Disaster Management in the year 2016 in order to minimize or avoid the natural and man-made disasters and ensure a safe environment suitable for living through productive action, the Programme for mitigating landslides is one such project. A sum of Rs. 230 million had been allocated thereto. It was the target expected from this Project to take action to mitigate the possibility of landslides with respect to 10 schools and 10 hospitals located at highlands in the Central Province.

A sum of Rs. 220 million had been incurred on this project by the end of the year under review, and the Ministry had taken action to minimize the possibility of landslides with respect to only 06 schools and 07 hospitals located at highlands in the Central Province.

➤ Examples for Uneconomic Transactions

The activities of this Project had not been planned properly by the Ministry. The Guidelines provided by the National Building Research Organization and the Procurement Guidelines had not been followed. Hence, the contractor had not been properly evaluated prior to awarding the contract for constructing rubble mounds around the areas of schools and hospitals on the highlands. Furthermore, as the contractor had not obtained the rubble in required quantities, at the right price, size, and standard when constructing the rubble mounds around the said areas, some of the mounds had been cracked. As such, the Ministry had to incur an additional cost amounting to Rs. 23,000,000 to repair those cracks.

➤ Examples Relating to Inefficiency

The climatic data on the torrential rains and gale-force winds around the highlands in the Central Province had been collected by the Ministry. Accordingly, it should have been planned to complete the construction of all rubble mounds by the first week of November, 2016. Nevertheless, due to delays in following the Procurement Procedures, a sum of Rs. 850,000 had to be paid in addition to the agreed amount to minimize the damages that had been caused owing to construction of rubble mounds even during the rainy season.

➤ Examples Relating to Lack of Productivity

It was expected to mitigate the risks of landslides through this project. Instead of constructing rubble mounds around unsafe areas of the schools and hospitals highly prone to landslides, rubble mounds had been constructed under this project around areas of 02 schools and a hospital that had been located beyond the boundary declared by the National Building Research Organization not to be prone to landslides by incurring a sum of Rs. 15,000,000.

Moreover, it had been planned through this project to plant trees in the relevant areas to mitigate the risks of landslides in addition to constructing rubble mounds. Accordingly, 1200 plants had been obtained from the Department of Forest Conservation by incurring a sum of Rs. 300,000. Due to failure in verifying that the plants were the requested ones by physically examining them at the time of purchase, 400 out of those plants, had been the ones not recommended for the said task. Two hundred and fifty plants, so obtained had been distributed among schoolchildren to plant at their gardens whilst another 180 plants had perished due to not being planted on time. As such, only 370 of the recommended plants had been planted in the relevant areas.

➤ The Likely Impact

Accordingly, the risks of landslides at the highlands in the Central Province had not been mitigated as expected. Despite being planned by

the Ministry in the year 2016, action had not been taken by the Ministry to mitigate the risks of landslides with respect to the areas where 04 schools with 4,800 students and 930 teachers, and 03 hospitals with 3,000 inpatients and a staff of 148 including doctors had been located at. Furthermore, the schools and hospitals had been constructed without conformity to the proper standards, and hence, the risks of landslides had not been mitigated. It was further observed that the Tree Plantation Project implemented for mitigating the risks of landslides in the future, had not fulfilled the expected objectives as well.

(All of these audit observations are hypothetical. It is always necessary to present statistical / quantitative data in building up your observations.)



Gamini Wijesinghe
Auditor General