Disaster Management Centre – 2016

The audit of financial statements of the Disaster Management Centre for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 18 of the Sri Lanka Disaster Management Act, No. 13 of 2005. My comments and observations which I consider should be published with the Annual Report of the Centre in terms of Section 14(2)(c) of the Finance Act appear in this report. A detailed Report in terms of Section 13(7)(a) of the Finance Act will be issued in due course.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Centre's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Centre's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management as well as evaluating the overall presentation of financial statements. Sub - sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Disaster Management Centre as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

According to the requirement stipulated in the Sri Lanka Public Sector Accounting Standard 07, the provisions for depreciation of an asset required to be commenced at the time of the asset is remained ready to use. However, the Centre had adopted a policy on not to provide depreciation on the value of assets which procured during the year, and to provide depreciate fully for the year of assets disposed, contrary to the above mentioned requirement. However, the Centre had applied before 2013 a policy to provide depreciation from the year of assets procured.

2.2.2 Receivable and Payable Accounts

An action had not been taken to recover sums of Rs. 256,589 and Rs. 165,645, from an officer who resigned on 10 May 2010 and other officer who used an office vehicle without authority and met with an accident respectively.

2.2.3 Lack of Evidence for Audit

The following observations are made.

(a) It was observed in audit that the details on utilization of funds remitted by the Centre to the District Secretaries to implement the disaster risk mitigation projects and the physical progress thereon were not reported in timely manner. Although 48 mitigation projects had been implemented during the year under review at a cost of Rs.142,104,047, the completion reports thereon had not been submitted. Therefore, the physical progress and effectiveness of such projects could not be determined in audit.

(b) The physical verification reports and other supporting documents in respect of to a Backhoe Loader shown at a cost of Rs.5,475,000 in the financial statements of the Centre under the Non-Current Assets had not been made available for audit .

(c) It was observed in audit that insurance premiums had been paid under different assessments for a fleet of 30 motor vehicles even though the respective motor vehicles had a similar assessment individually . Further, the basis in computing the insurance premium amounting to Rs.2,284,431 paid during the year under review for 38 motor vehicles had not been explained for audit.

(d) The physical verification reports of assets belonging to the Head Office of the Disaster Management Centre had not been made available for audit.

2.3 Non- compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non- compliances were observed in audit.

	Reference to Laws, Rules and Regulations etc.	Non-compliance
(a)	Sri Lanka Disaster Management Act, No. 13 of 2005 Paragraph – 05	According to the Act , at least 04 meetings should be held annually, However, only 10 meetings had been held during the period of 11 years from the date of inauguration of the activities of the Disaster Management Centre of 12 October 2005 up to 31 December 2016.
(b)	**Financial Regulations of the Democratic Socialist Republic of Sri Lanka**	
	(i) Financial Regulations -395 (d)	Monthly bank reconciliation statements should be prepared before the 15 day of the following month. However, the Centre had failed to prepare its bank reconciliation statements on time, for the period from July to November 2016. However, the bank reconciliation for the month of December 2016 had been prepared only on 22 March 2017.
	(ii) Financial Regulations – 104	Even though 09 motor vehicles had met with accidents in 11 instances during the year under review, no preliminary reports on investigations or final report had been prepared and submitted.

(c) **Government Procurement Guideline**

(i) Guideline – 3.4.3	The suppliers to procure the items had not been registered by the Centre, as required by the Procurement Guideline.
(ii) Guideline – 4.2.1(b)	The required procurements for the minimum of 03 years should be included in the Main Procurement Plan. However, the needs of procurement for the year under review of the Centre had been included in the Procurement plan.
(iii) Procurement Manual Supplement No.28 of 04 July 2014	Even though the approval of the Chief Accounting Officer should be taken personally for the repairs of motor vehicles over a cost of Rs.200, 000, the approval had not been taken to repair 04 motor vehicles at a total cost of Rs.1,643,434.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the final result of Centre for the year ended 31 December 2016 had resulted in a deficit of Rs.6,159,474 as compared with the corresponding deficit of Rs.12,255,473 for the preceding year, thus indicating an improvement of Rs.6,095,999 in the financial result in the year under review as compared with the preceding year. Even though the proceeds from other Income had been decreased by a sum of Rs.11,634,074, the increase of the income from Government Recurrent provisions by a sum of Rs.27,880,486 had been the main reasons for the above improvement.

In analyzing financial results of 04 preceding years and in the year under review, a surplus had been indicated in the year 2014 and deficits had been indicated in other 04 years. However, after adjusting employees' remuneration and depreciation on non-current assets, the contribution amounting to Rs.272,154,844 in the year 2012 a sum of Rs.238,364,189 had been with fluctuation in the year 2016.

3.2 Legal cases raised against the Centre

Even though a legal case had been filed against the Centre at the District Court – Batticaloa on 07 August 2014 to claim compensation for the death of a person met with an accident of a vehicle owned to the Centre on 16 August 2012, the necessary information relevant to the case had not been disclosed in the financial statements.

4. Operating Review

4.1 Performance

The following observations are made.

(a) According to the Sri Lanka Disaster Management Act, No. 13 of 2005, actions are required to be taken by the Centre to mitigate 21 main risks areas, only 04 risks area had been prioritized since 2012 up to 2016. Out of the total amount of Rs.1,749.42 million spent during the respective period for disaster risk mitigation activities, 63 per cent of funds had been spent for the mitigation of flood risks , whilst spending 22 per cent for the risks on drought mitigation. Further, 08 per cent of funds had been used to mitigate risks on landslides and only balance 07 per cent of funds had been used for the mitigation of other 18 risk areas stated in the Act.

(b) Even though the Disaster Management Plans in district, divisional and rural levels required to be prepared and submitted annually by the Preparedness Planning Division , it was observed that the respective plans prepared for 13 districts was remained older than 03 years.. Further, according to the plans of Grama Niladhari Divisions with high disaster risks could not be properly identified. The practicability of the District Preparedness Plan, Emergency Operations Plan and the Rehabilitation Plan which are the integral components of the District Plan could not be determined as a process to be implemented in accurate manner, since there is no way to identify mechanism applied to assess the risk thereon.

(c) An allocation amounting to Rs 68,000,000 had been made for 2016 to implement a Project called "Development of Multi Hazard Risk Profile Project for Sri Lanka" scheduled to be implemented at an estimated cost of Rs.247,000,000 under the provisions made by the General Treasury . Out of that a sum of Rs.10,804,000 had been utilized to procure system software and computer accessories during the year under review and no other action taken to implement the activities of the Project. Further, neither Action Plan nor a progress report had not been submitted.

(d) The Dambulla Flood Mitigation Project had been implemented by the Centre as a Major Project and the following observations are made thereon .

- A sum of Rs. 42 million had been allocated under this Project for 07 works implemented for widening of Thammenna Ela and bank reconstruction purposes. However, the necessity and the effectiveness of the Project could not be determined as there was no evidence received on a feasibility study carried out thereon.

- According to the paragraph 4.3.1 of the Procurement Guideline, a total cost estimate is required to be prepared for all 07 works implemented under the Project. However. the estimates had been prepared part by part.

- The physical inspection had been made, on 03 works, out of 07 works implemented by the Project and it was revealed that the gabion walls were not properly bound and fixed due to usage of metals which not in appropriate sizes. However, a sum of Rs.5,459,000 had been paid thereon. Further, a sum of Rs. 342,498 had been paid to embark wall area and it was observed that the area had been filled with soil instead using gravel, as specified.

(e) The Small and Medium Scale Projects are implemented by the District Secretariats to mitigate disasters in the provincial level and the following observations are made thereon

- A project proposal in proper manner is required to be prepared before allocating financial resources. However, the allocations had been remitted to the respective District Secretariats to implement 31 projects in 08 districts at an estimated cost of Rs.121,945,689 without being prepared such plans.

- Further, allocations in the range from 15 per cent to 66 per cent had remained unutilized, as the estimates for works had not been duly prepared by the Divisional Secretariats.

- After the completion of works, the balance of the funds remitted to the District Secretariats is required to be transferred to the Centre by 31 December 2016. However, action had not been taken to recover the savings amounting to Rs.8,889,449 from the respective Secretariats on 31 projects implemented in Anuradhapura, Ratnapura and Kurunegala districts. Further, various methods had been applied by the District Secretariats to calculate the administration cost on implementation of the projects.

4.2 Management Activities

The following observations are made.

(a) The Disaster Management Centre had been empowered under the Section 18 of the Disaster Management Act, No.13 of 2005. Further, the amendments of the provisions of the Act also had been forwarded by the Ministry of Disaster Management to the Department of Legal Draftsman and then to the Attorney General's Department. The amended Act had been returned to the Ministry of Disaster Management on 22 June 2017 for their observations.

(b) Even though the Head Office Building of the Centre had been constructed in a land belongs to the Department of Meteorology in 2010 at a cost of Rs.1,034,399,368 , action had not been taken to transfer the ownership of the land and bring the value of land and building to account.

(c) Action had not been taken to determine the value of 18 motor cycles received from the United Nations Development Programme and other Non- Governmental Organizations. Further, no follow up action had been made to assess the running condition of the motor cycles and the custodian parties thereon. According to the auditor's point of view, there is a possibility to misuse of the assets and problems of the future existence of the respective assets.

4.3 Controls over Assets

The following observations are made.

(a) An agreement had been signed on 14 March 2014 with District Secretariat of Monaragala to transfer a Water Bowser procured at a cost of Rs.5,000,000 under the "Capacity Building on Emergency Response". Even though the bowser had been handed over to the District Secretariat, the legal ownership had not been transferred up to 23 June 2017.

(b) The approval of the Centre had not been granted by the Centre even up to February 2017 to dispose 62 Inventory items at District Disaster Management Coordinating Units which recommended to dispose by the Reports on Physical Verification since 2008.

4.4 Financial Management

The following observations are made.

(a) According to the verification, it was confirmed that the cash book balance as at 31 December of the year under review amounted to Rs.18,023,370. However, 162 cheques valued at Rs.67,231,890 and 45 receipts valued at Rs. 79,562,441 had been accounted since 01 January 2017, as the payments and receipts made in 2016. Therefore, the closing balance of the cash book for the year under review had been shown as Rs.30,353,922 in the financial statements. It was observed that the action had been taken by the officers the open up computerized accounting system even after the closing date of the financial year and record the transactions

(b) Out of the allocations of Rs.770,500,000 and Rs.12,500,000 made for capital and recurrent expenditure respectively, only sums of Rs.504,670,000 and Rs.1,500,000 representing 65 per cent and 12 per cent respectively on the Estimate had been released by the General Treasury. Therefore, it is evidenced that the Centre had not taken action to get released funds from the General Treasury to meet the capital and recurrent expenditure on the activities scheduled to be done during the year under review.

(c) A sum of Rs.2,000,000 had been received to the Centre as a donation from a private institution on 13 March 2015 and out of that a sum of Rs.1,000,000 remained unutilized even up to 31 December 2016.

(d) A grant amounting Rs.1,300,000 had been received to the Centre from the United Nations Development Programme in 2015 to prepare a plan called "The Sendai Framework" for the period from 2015 to 2030 to mitigate all types of disasters. Out of that, a sum of Rs. 318,583 had been spent up to 31 December 2016 for various purposes. However, no action had been taken by the Centre to complete the above mentioned plan.

(e) A Grant amounting to Rs.1,500,000 had been received on 07 July 2015 from the United Nations Development Programme to prepare the Institutional Disaster Management Plan and out of that a sum of Rs.396,000 had been spent up to the 19 May 2017. However, no such a plan had been prepared.

4.5 Idle and Underutilized Assets

A stock of identification jackets for the use of employees who assigned to the disaster relief services had been procured in July and October 2014 from the allocation made under the Emergency Requirements of the Centre. Out of that 2,997 pieces of jackets valued at Rs 1,483,515 were remained in the stores as at 31 December 2016 and only 351 pieces of jackets had been used during the year under review. In addition to that a stock of 2000 identification jackets had been procured in January 2015 at a cost of Rs.990,000, out of cash donations received from the United Nations Development Programme, The respective stock of jackets had remained in the stores without being utilized until the 31 December 2016.

4.6 Un-economic Transactions

Even though the selected suppliers had agreed to supply 70 Boats and 72 Chain Saws valued at Rs.17,081,640 by 28 November 2016, the respective order had been completed only on 14 December and 31 December 2016. In the meantime the rates of the Value Added Tax had been changed and as a result, a sum of Rs.616, 960 had been paid additionally, as Value Added Tax.

4.7 Procurement and Contract Process

The following observations were made.

(a) The physical verification had been carried out on construction of drinking water wells under the Disaster Mitigation Risk Reduction Project implemented by Kurunegala District Disaster Management Coordinating Unit The following observations were made.

i. Even though the construction works of a drinking water well required to be completed within one month period, according to the contract agreement signed on 30 November 2016, the respective works had not been completed even up to 26 January 2017. However, the report submitted by the Community Based Organization of the contract undertaken had erroneously stated that the works had been completed as at the scheduled date. .

ii. Even though 05 drinking water wells at an estimated cost of Rs.4,033,835 had been constructed within the area of Divisional Secretariat of Pannala, the action had not been taken even as at the date of inspection of 26 January 2017 to clean up the wells as enable to suit the water for drinking purposes .

(b) The Centre had entered into an agreement with a private company on 16 December 2016 for the purpose of rehabilitation and maintenance on 77 Tsunami Towers at a cost of Rs. 134,746,419 including Value Added Tax, and an advance of Rs.8,345,898 had also been paid on 21 December 2016 thereon. Even though, the work had to be completed within 90 days according to the agreement, it had not been completed until 30 June 2017.

The Director General had informed me that the delays on rehabilitation of Pre Hazard Warning Towers even after lapse of 06 months from the date of agreement had been occurred due to bad weather condition, delays in receiving of the technical equipment and the time taken to visits by the officers of the Signals Corps of Sri Lanka Army to check each and every tower.

(c) According to the Procurement Plan of 21 December 2016, an allocation amounting to Rs.54.8 million had been made under the procurement on emergency situation and the newspaper advertisements at a cost of Rs.941,794 had been made to procure the items of goods under 19 categories therein. However, 1,213 items of goods belongs to 04 categories valued at Rs.12.859 million had been cancelled by the Centre. Even though the contract had been awarded on 22 December 2016 to procure 55 Chain Blocks at a cost of Rs. 4,243,250 without tax, such goods had not been supplied even as at 23 March 2017.

(d) Since there was no attention made on the fundamental matters included in the site study report dated October 2014, submitted by the Engineering Faculty of the University of Peradeniya prior to preparation of the estimates for Akurana Flood Mitigation Project, provisions had not been made to remove unauthorized constructions at the narrow sections of the road and widen the respective sections . Under this Project, a sum of Rs. 18,122,900 had been paid to remove 12,700 cubic meters of mud and the certification thereon had been made by a temporary supervisor. Even though 486.76 cubic meters of mud had been removed and a sum of Rs. 694,606 was required to be paid, a sum of Rs.17,428,294 had been overpaid to the respective contractor. Further, according to the agreement, the works required to be completed by 14 November 2015 had not been completed even as at 29 February 2016 and no approvals had been granted to extend the period of the contract. Further, the penalties on delays amounting to Rs. 4,700 per day had not been charged.

(e) Since the earth filling behind the concrete wall which had been built at a cost of Rs.1,569,490 to protect of Sri Anandaramaya of Kehelella in Badulla District had not been properly tamped and leveled. It was revealed that, a risk of accumulation of water behind the wall which flows directly from the upper areas.

4.8 Human Resource Management

The following observations are made.

(a) The approved cadre of the Centre consisted with 344 posts. The vacancies of 114 officials of 17 posts had remained unfilled as at 31 December 2016. Even though a sum of Rs.806,269 had been spent for newspaper advertisements and interviews etc. to fill 62 vacancies in 15 posts, the Centre had failed to fill 46 vacancies of 09 posts as at 30 June 2017. Further, the internal memos had been issued to call applications to recruit 04 Drivers and 25 Office Assistants, the vacancies of 04 Drivers had remained unfilled.

(b) Even though the paragraph 13.3 of Chapter 11 of the Establishment Code, an acting appointment should be made on temporary basis up to making the appointments on permanent basis. If it is necessary, the recruitment of a full time officer for the permanent post should be made immediately. However, a sum of Rs.658, 558 had been paid for 05 officers who had been working as acting basis for 04 posts of Deputy Director and a post of an Additional Director.

5. Accountability and Good Governance

5.1 Presentation of the Financial Statements

According to the paragraph No. 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the draft annual reports and financial statements related to each and every Government Corporation required to be submitted to the Auditor General within 60 days after the financial year. Even though the financial statements for the year ended 31 December 2016 had been submitted by the Centre on 01 March 2017 the revised financial statements had been submitted on 09 May 2017 with delays.

5.2 Procurement Plan

It was observed that the Procurement Plan prepared for the year under review had been revised on 27 December 2016 and as a result, the expected outcome thereon could not be achieved. According to the revised plan, total allocation for the year under review amounted to Rs. 100.1 million and out of that a sum of Rs.25.3 million had been allocated to procure items in recurrent nature. Further a sum of Rs. 54.8 million had been allocated to procure emergency items whilst allocating balance Rs.20 million to procure capital equipment. However, a sum of Rs.74 million representing 98.93 per cent of the allocation had been released from the General Treasury only in December 2016 and therefore, the allocation made for the above mentioned procurements could not be utilized by the Centre in a proper manner.

5.3 Action Plan

The following observations are made.

(a) According to the Action Plan for 2016, it was scheduled to implement 37 disaster mitigation projects and a sum of Rs.511,853,709 had been allocated thereon. According to the Progress reports, it was shown as 157 such projects with the corresponding value of Rs. 713,849,427 .However, the Centre had stated that the action plan had been altered considering the situation prevailed at the time of the project implementation.

(b) At the time of preparation of the Annual Action Plan and requesting funds thereon , it is required to prepare feasibility study in order to explore the possibility to implement the activities of the project and potential benefits thereon. It was observed that 21 projects could not be implemented due to various reasons even though a sum of Rs. 76,685,049 had been allocated thereon.

6. Systems and Control

Weaknesses on systems and controls observed during the course of audit had been brought to the attention of the Director General of the Centre from time to time. Special attention is needed in respect of the following areas of control.

Area of Systems and Control	Observations
(a) Stores Management	(i) Inventory items could not be identified separately in the stores as same inventory book had been used to record the items which were used by the office as well as items retained for distribution purposes.
	(ii) Recording of entries related to 23 inventory items after closing of the audited inventory book on 07 January 2017.
	(iii) Recording of different dates in the inventory book on 3,352 inventory items under 03 categories of goods received on 31 December 2016 as per Goods Received Notes.
	(iv) Delays in supplying of 3,313 inventory items under 05 categories of goods with the range of 14 to 36 days from date agreed to be supplied.
	(v) Information had not been provided in the Physical Verification Reports related to 03 vehicles assigned to 03 district offices.

(b) Accounting	(i)	Action not taken to settle the deposits payable and continuing to show such balances in the accounts.
	(ii)	Frailer in computing and accounting the expenditure in accurate manner.
(c) Acquisition of Assets		Action not taken to vest the ownership of 31 vehicles out of 39 vehicles used by the Centre.