

Head 147 - Report of the Auditor General on the Ministry of Regional Development – Year 2017

The Appropriation Account, and Reconciliation Statement relating to Head and Item 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 Regional Development. The financial and physical performance reflected by those accounts and 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 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 Scope of Audit

The audit of the Ministry of Regional Development – Head 147 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 17 July 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 Regional Development for the year ended 31 December 2017 revealed in audit, appear in the 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 2.11 of this report. It was observed that the accountability as 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 of the Financial Regulation 127 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

Accountability of the Accounting Officers in terms of Financial Regulation 127	Non-compliance of the Accounting Officer to the Provision	Reference to the Paragraph of the report Containing Observations
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Financial Regulations

127 (1) (a)	Planning the financial work so that the business is transacted with correctness and financial propriety.	1. Failure to maintain Books and Registers. 2. Deficiencies in the internal audit. 3. Failure to prepare the budget estimate in a realistic manner.	2.8 2.9 2.5 (a)
127 (1) (b)	A system should be evolved providing adequate controls over expenditure and the collection of revenues.	Failure to properly maintain Audit and Management Committees.	2.10
127 (2)	Existing items of expenditure , as well as proposals for new or increased expenditure in the Department under his control, are closely examined in the Ministry from the point of view of economy and efficiency.	1. Activities in contradistinction to main functions. 2. Projects failing to achieve progress despite the release of funds. 3. Internal Audit. 4. Delays in achieving the Sustainable Development Goals.	2.3.1 (a) 2.3.1 (d) 2.9 2.3.2

127 (4)	Appropriation Accounts are duly rendered by each of his Accounting Officers, and examined at the Ministry before he signs them; and that important differences in the Estimates and the actual expenditure are critically investigated by him.	1. Failure to submit Annual Performance Reports. 2. Deficiencies in maintaining bank accounts.	2.3.3 2.7
127 (5)	Important variations between departmental Estimates and expenditure receive critical examination at the Ministry.	Failure to utilize the provision made.	2.5 (b)

2. Material and Significant Audit Observations

2.1 Main Functions of the Ministry

- a) Formulation, taking follow-up action and evaluation of policies, programmes, and projects relating to regional development, and National Agricultural Crop Diversification and settlement Authority (Hadabima).
- b) Coordination of economic & social development programmes and projects suitable for strengthening the regional economy including the promotion of regional industries.
- c) Implementation of special development programmes in the districts of Nuwara Eliya, Kandy, Matale, Badulla, Trincomalee, Batticaloa, Ampara, Anuradhapura, and Polonnaruwa.

2.2 Institutions Under Purview of the Ministry and Their Functions

The institutions established under purview of the Ministry, and the functions thereof, are as follows.

Institutions Under Purview of the Ministry	Authority of Establishment	Functions
National Agricultural Crop Diversification and settlement Authority (Hadabima)	Gazette, No. 07 1958/7, dated March 2016.	<ul style="list-style-type: none"> (i.) Management of land and human resources for the minimization of foreign exchange on food imports by enhancing the national agro-products. (ii.) Contribution to the national agro-economy by enhancing the productivity of targeted lands using state-of-the-art technology. (iii.) Contribution towards a “Green Sri Lanka” through the sustainable management of natural resources such as, soil, water, and plants.

2.3 Performance

2.3.1 Failure to Discharge Functions

The following observations are made.

a) Activities Contrary to Key Functions (Deviation from Objectives, etc.)

Instances were observed in which the Ministry had deviated from the functions relating to the objectives. Some of such instances observed in audit test checks, are given below.

The following matters were observed in the examination carried out on the utilization of the sum of Rs. 100 million granted for infrastructure development in order to promote investment in the 09 districts of Eastern and Central Provinces in accordance with the budget proposal presented by the Ministry of Regional Development in the year 2017.

- (i.) Of the provision amounting to Rs. 99.86 million released to the Ministry, 18 projects that had not related to the objectives, valued at Rs. 94.2 million had been approved by the Department of National Planning. Nevertheless, 07 projects valued at Rs. 36 million had not been implemented due to reasons such as, failure to prepare estimates & plans properly, non-presentation of a properly approved estimate on projects, failure to verify the true feasibility of projects, and failure to settle the actual ownership of lands.

- (ii.) A sum of Rs. 22 million had been spent on 11 projects valued at Rs. 58.2 million though, the Ministry had not taken follow-up action thereon even up to 17 July 2018.
 - (iii.) Provision amounting to Rs. 100 million had been made to develop infrastructure in view of investment promotion in the 09 districts of the Eastern and Central Provinces. Nevertheless, a sum of Rs. 22,667,964 had been spent on water schemes, and concreting the roads in the districts external thereto, such as, Gampaha, Colombo, Ratnapura, and Kurunegala.
- b) The Ministry of Regional Development had spent a sum of Rs. 61,289,879 in the year 2017 on 05 projects implemented with respect to Regional Development & National Agricultural Crop Diversification and settlement Authority (Hadabima). The follow-up action and evaluation relating to those projects had not been done by the Ministry even up to 17 July 2018.
 - c) The Ministry had spent a total of Rs. 14,169,471 in the year 2017 comprising sums of Rs. 10,478,241 and Rs. 3,691,230 spent on social and cultural programme, and regional livelihood development programme respectively. The projects relating thereto had been confined only to the Divisional Secretariats of Kelaniya and Biyagama.
 - d) Projects without progress despite the release of funds

 Although provision amounting to Rs. 14.82 million had been released to 04 regional offices in the year 2017, no financial or physical progress whatsoever had been achieved from the 04 projects.

2.3.2 Achievement of Sustainable Development Goals

 Every Government institution should comply with the 2030 Agenda for Sustainable Development adopted by the United Nations. The Audit was informed that the Ministry of Regional Development had conformed to the activities under their scope relating to the year under review. Although poverty alleviation, and elimination of hunger had been identified as sustainable development goals, the identification of milestones in reaching those goals and targets, and the indicators to measure the progress thereof, had not been completed even up to 17 July 2018.

2.3.3 Annual Performance Report

 The Performance Report relating to the year under review should be tabled in Parliament by the Ministry within 150 days from the closure of financial year in terms of the Public Finance Circular, No. 402, dated 12 September 2002. However, the said report had not been tabled in Parliament even up to 05 June 2018.

2.4 Assets Management

a) Utilization of Vehicles

The Ministry owned 20 vehicles by the end of the year under review. Those vehicles had been run for 119,963 Km, and a total of Rs. 18,221,197 had been spent on those vehicles comprising sums of Rs. 1,051,982, Rs. 668,747, Rs. 14,742,695, and Rs. 1,757,773 for fuel & lubricants, servicing, repairs, and insurance respectively. Accordingly, the Ministry had spent a sum of Rs. 151.89 per Kilometer excluding salaries and allowances of drivers.

b) Expenditure on the Maintenance of Offices

The office of the Ministry is being maintained in a building obtained on an annual rental of Rs. 132,925,077. The fees for cleaning and security services of the building amounted to Rs. 1,513,907, and Rs. 2,495,591 respectively per annum. Thus, the total expenditure on the building amounted to Rs. 136,934,575. As the actual cadre had been 100, the expenditure per person in regard to the maintenance of the office, amounted to Rs. 1,369,346.

2.5 Utilization of Provision Made by Parliament for Discharging Functions

Information relating to the utilization and saving of provision made for the Ministry during the period of 02 years ended as at 31 December 2017, along with the audit observations thereon, are as follows.

<u>Year</u>	<u>Type of Expenditure</u>	<u>Net Provision</u> Rs. Million	<u>Utilization</u> Rs. Million	<u>Saving</u> Rs. Million	<u>Saving as a Percentage of the Net Provision</u>
2016	Recurrent	469.93	421.16	48.77	10.38
	Capital	164.50	119.44	45.06	27.39
	Total	634.43	540.60	93.83	14.79
2017	Recurrent	340.04	282.79	57.25	16.83
	Capital	318.42	153.36	165.06	51.83
	Total	658.46	436.15	222.31	33.76

The following observations are made in this connection.

a) Failure to Prepare the Budget Estimates Realistically

The following deficiencies had occurred as the budget estimate relating to the provision for discharging the functions of the Ministry, had not been prepared in a realistic manner.

- (i.) A sum of Rs. 88,972,912 representing 69 per cent of the provision worth Rs. 128,025,000 granted under 04 Objects to strengthen the regional development through developing the industries in Sri Lanka, had been saved. The said value ranged between 52 per cent – 92 per cent of those Objects. Reasons given in that connection included : preparation of overestimates, failure to utilize the provision according to a plan, and failure to obtain imprests by managing time.
- (ii.) Of the provision amounting to Rs. 200,000 made for an Object, a sum of Rs. 197,095 or 98 per cent, had been saved. Obtaining provision without identifying the requirement, had been given as the reason thereto.

b) Appropriation Account

Failure to Utilize the Provision made

The total net provision of Rs. 50,000 made for an Object had totally been saved with no utilization whatsoever been made.

2.6 Advances to Public Officers Account

Limits Authorized by Parliament

The actual values and limits authorized by Parliament for the Advances to Public Officers Account under Item Code 14701 relating to the Ministry , are as follows.

Expenditure		Receipts		Debit Balance	
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
6	5.7	0.7	2.4	9	3.6

2.7 Operating Bank Accounts

An unidentified balance of Rs. 91,080 had existed as at 31 December of the year under review between the balances of cash book and bank statement relating to a bank account. Action had not been taken even up to 17 July 2018 to identify and settle that balance.

2.8 Failure to Maintain Books and Registers

The Ministry had not maintained the following Registers, and it was observed in the audit test checks that certain Registers had not been maintained properly and up-to-date.

Name of Register -----	Relevant Regulation -----	Observation -----
Register of Fixed Assets	Treasury Circular, No. 842, dated 19 December 1978, and Appendix II of the Financial Regulation 502 (2).	Not maintained.
Register of Fixed Assets for the Computers, Accessories and Software.	Treasury Circular, No. IAI/2002/02, dated 28 November 2002.	Not been updated.

2.9 Internal Audit

Financial Regulation 133 stressed that the Accounting Officers should establish Internal Audit Units at their Departments to exercise the functions and responsibilities mentioned in Financial Regulation 128. However, no Internal Audit Unit had been established in this Ministry.

2.10 Audit and Management Committee

An Audit and Management Committee had been established, but only 02 meetings had been held by the end of the year under review although 04 meetings should have been held each for a quarter.

2.11 Human Resource Management

Approved Cadre, Actual Cadre, and Expenditure on Personnel Emoluments

Approved cadre, actual cadre, and vacancies as at 31 December 2017 in regard to the execution of duties mentioned in Paragraph 2.1 above, are given below. The Ministry had spent a sum of Rs. 36,002,844 on personnel emoluments for the year under review. Thus, the expenditure per person amounted to Rs. 29,366.

Category of Employee -----	Approved Cadre -----	Actual Cadre -----	No. of Vacancies -----
(i.) Senior Level	15	08	07
(ii.) Tertiary Level	03	03	-
(iii.) Secondary Level	41	21	20
(iv.) Primary Level	22	20	02
(v.) Casual/ Contract	<u>66</u>	<u>48</u>	<u>18</u>
Total	<u>147</u>	<u>100</u>	<u>47</u>