

## **Report of the Auditor General on Head 104 – Ministry of National Policy and Economic Affairs**

---

The Appropriation Account and the Reconciliation Statements of the Head and subject number in the first schedule and third schedule of the Amended Appropriation Act No. 24 of 2016 as amended by the Appropriation (Amended) Act No. 32 of 2017 had been presented to the audit by Ministry of National Policy and Economic Affairs . The financial and physical performance indicated from that account and reconciliation statement was audited in pursuance of provisions in 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**

---

As per Financial Regulation 124 of Financial Regulations of the Democratic Socialist Republic of Sri Lanka, 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 the supervision of all the financial operations of government. The Chief Financial Officers have been appointed for performing those duties as per Financial Regulation 124 (2) . In accordance with the Financial Regulation 125(1) (a), the Head of Department is the Accounting Officer in respect of all the financial transactions of his Department and Revenue Accounting Officer is appointed by the Treasury. This responsibility includes the maintenance of accounts and the Reconciliation Statements that presented by performing own duties within the limits imposed by the 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, preparation and planning, implementation and maintenance of internal controls in relation to present fairly.

### **1.3 Scope of Audit**

---

The audit of planning in respect of financial and physical performance, management of public income, public expenditure, human and physical resources, using of internal control provisions, compliance with laws, rules and regulations and maintenance of books, documents, reports and reconciliation statements by updating, preparation and presentation of accounts timely, issuing performance reports based on performance indicators to the related parties of the Head 104 - Ministry of National Policy and Economic Affairs for the year ended 31 December 2017 was carried out in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review had been issued to the Secretary to the Ministry on 23 August 2018. The audit observations, comments and findings were based on a review of the plans, accounts, reconciliations and performance reports presented to audit and substantive tests of samples of transactions. That review and the scope and extent of tests were such as to enable as wide audit coverage as possible within the limitations of staff, other resources and time available to me.

## 1.4 Audit Observation

Audit observations revealed at the audit carried out of Ministry of National Policy and Economic Affairs for the year ended 31 December 2017 had been stated in detail in the Management Audit Report mentioned in the above 1.3 Paragraph. The material and significant audit observations had been mentioned in the Paragraph 2.1 to Paragraph 2. 10 of this report out of those observations. Except for the audit observations that revealed when performing the provisions of Financial Regulation 127 of Financial Regulations of the Democratic Socialist Republic of Sri Lanka so as to confirm the sufficiency of financial administration stated in the following note by summarizing, it was observed that the own accountability as the Chief Financial Officer had been accomplished in satisfactorily.

<b>Accountability of Chief Accounting Officer as per Financial Regulation 127</b>	<b>Non-compliance of those provisions by Chief Accounting Officer</b>	<b>Reference to the Paragraph of the report which included the Observation</b>	
Financial Regulations			
127 (1) (a)	All financial works should be planned so as to confirm that the works are in correctness and financial propriety.	1. Action Plan had not been prepared accurately. 2. Planning of Procurements. 3. Deficiencies in Internal Audit. 4. Non- utilization of provision made available.	2.1.1  2.3 2.8  2.5
127 (2)	Existing items of expenditure, as well as proposals for new or increased expenditure in the departments under own control, are closely examined in the Ministry from the points of view of economy and efficiency.	1. Not obtaining expected objectives 2. Shortcomings in Foreign Funded Projects	2.1.2 2.2

127 (3)	A way of all cases of doubt or difficulty is referred to him so that he may bring his own administrative experience and judgement to bear on them.	<ol style="list-style-type: none"> <li>1. Weaknesses in vehicle utilization</li> <li>2. Existing in Idle and underutilized Assets</li> <li>3. Improper use of assets not acquired.</li> </ol>	<p>2.4</p> <p>2.4(b)</p> <p>2.4(d)</p>
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.	Deficiencies in General Deposit Account	2.7
127 (6)	The collection of Revenue or other Government dues for which Accounting Officers are responsible is closely watched and examined by the Ministry.	Deficiencies in Advance Account to Public Officers	2.6
127 (7)	The procedure laid down in Financial Regulations 103 to 108 is followed by the Accounting Officers, in case of losses caused to Government by the delays, negligence, fault or fraud on the part of officers/employees and surcharges are imposed on the officers/ employees responsible for such losses, in terms of Financial Regulations. 156 (1) . It is also a duty of the Chief Accounting Officer to	Government Officers Required to give Security	2.10

appear before the Committee on Public Accounts and to assist it along with his Accounting Officer in explaining and justifying the accounts of the departments for which he is responsible.

## **2. Material and Significant Audit Observations**

-----

### **2.1 Performance**

-----

#### **2.1.1 Planning**

-----

Twenty one key functions that had to be performed by the Ministry during the year under review were available and the following shortcomings were observed in respect of the Action Plan prepared to obtain the expected outcomes from 17 Statutory Bodies established under the Ministry.

- (a) Even though it had been shown 21 expected key functions in the Action Plan of the Ministry, the Action Plan had not been prepared in accordance with those activities. Therefore, it was impossible to make comments in respect of the progress of the key functions of the Ministry in audit.
  
- (b) The Revised Action Plan as at 30 December 2017 was submitted to audit on 09 January 2018 . It had not been considered the amendments made by the Extraordinary Gazette No. 2022/34 dated 09 June 2017 whilst noting the key functions of that revised Action Plan.

#### **2.1.2 Not Performing the Activities**

-----

##### **Not Obtaining Desired Output Level**

-----

The following observations are made.

- (i) A sum of Rs. 200 million that had been made available from the Budget Estimate 2017 for the Financial City Project and a sum of Rs. 71.34 million had been provided to an Institution in the year 2016 for the performing of duties identified under that Project. A sum of Rs. 48.94 million had been saved by spending only a sum of Rs. 22.37 million in the year under review as per the information furnished to audit. However, a sum of Rs. 100 million had been given to the above Institution in the month of December 2017 by the Ministry for the expenses of the year 2018.

- (ii) The provision amounted to Rs. 3,555.10 million had been made available through the Supplementary Provision for the cash payment to the Private Financial Institutions for the year under review and a sum of Rs. 2,500 million had been utilized by 31 December 2017 . Even though it had been targeted under the phase three to pay cash to 472 depositors who bear more than Rs. 10 million , only 412 depositors had been paid their deposits . However, a sum of Rs. 7,489.9 million had been released in the years 2015, 2016 and 2017 under phase three it was observed to audit that only a sum of Rs. 7,342.7 million out of that had been paid for depositors even by 04 June 2018 .

## 2.2 Foreign Funded Projects Implemented

-----

- (a) According to the Decision of the Cabinet of Ministers No. අම/ 16/ 1810/ 702/ 061 of 28 September 2016 the approval had been provided for the establishment of a Central Programme Management Unit and the occupying of Mackenzie and Company of the United States and to pay a clearance of US \$ 2.3 million for that . Similarly, a sum of Rs. 466.45 million had been incurred during the year under review for the Enable Accelerated Economic Transformation Programme carried out through that. Further, a Development Agency should be established in accordance with the Agreement that Institution had not been legally established. Therefore, it could not be able to the Agency to perform its functions.

### (b) Implementation of Budget Proposals 2017

-----

Five proposals had been submitted by this Ministry to implement under the Budget Proposals 2017 and the provision amounted to Rs. 22,300 million had been made available for this. The following observations are made in this connection.

- (i) Due to it had been informed by the Treasury as not to use a sum of Rs. 10,000 million provided for the establishment of Sri Lanka EXIM Bank for obtaining required funds for rehabilitation of the properties whereas the damage caused by bad weather conditions and freezing of the provisions amounted to Rs. 300 million provided for the establishment of a special fund to empower local leaders by the Department of National Budget , those two proposals had not been implemented.
- (ii) The Provision amounted to Rs. 7,000 million for providing interest free loans to selected youth entrepreneurs by granting Rs. One million for each Grama Sevaka Divisions under the Budget Proposal , instead of this project, it had been applied for the implementation of the Rural Infrastructure Development Programme and it had been utilized only a sum of Rs. 5766.8 million by 31 December 2017 .

- (iii) A sum of Rs. 900 million had been released for the disaster relief activities by the Department of National Budget out of a sum of Rs. 1,000 million which was available for Export Expansion, Tourism and Direct Foreign Investment. After that, out of the provision amounted to Rs. 100 million it had been utilized a sum of Rs. 17 million by 31 December 2017 .

## 2.3 Obtaining Supplies and Services through the Procurement Process

-----

### Planning of Procurements

-----

Although a Procurement Plan for the year 2017 had been prepared by the Ministry, it was observed that it had not been performed in accordance with Government Procurement Guidelines 4.2.1 (b) (c) and (e) . Furthermore, it was not confirmed that the Procurement Plan was approved by the Secretary of the Ministry.

- (a) Although it should be shown the type of procurement as goods, works and services, indicating the value of each type and item separately as the first matter of the Procurement Plan , it had not been so done and only the provisions allocated for each Object had been shown from the Annual Estimate.
- (b) Although the scheduled bid announcement date must be specified whilst preparation of the Procurement Plan there was no reference to such a date as mentioned and it had been mentioned as the first quarter. Similarly, even though the date of procurement due to be completed should be mentioned , it had been shown as fourth quarter. Accordingly, it was impossible to compare with the Plan after actually achieve the procurement activities due to the fact that the Procurement Plan was not prepared accurately and could not be able to made use of a control system.
- (c) Although the Procurement Plan should be amended as per the changes occurred in the Ministry during the year and re-submitted, The Ministry has not amended and re-submitted the Procurement Plan .

## 2.4 Assets Management

-----

### (a) Vehicle Utilization

-----

The following observations are made in this connection .

- (i) Six vehicles mentioned that had been allocated as assigned vehicles out of the vehicles belonging to the Ministry had been assigned to the Members of the Parliament and a sum of Rs. 1,123,112 had been spent for those vehicles in the year under review.

- (ii) It was observed that 03 vehicles which are being used as assigned vehicles out of the vehicles belonging to the Ministry had owned to the Youth Services Council.

**(b) Idle and Under- utilized Assets**  
-----

- (i) According to the provisions of Paragraph 02 of the Assets Management Circular No. 01/ 2018 dated 19 March 2018 and the Paragraph 02 of Public Finance Circular No. 02/ 2015 dated 01 July 2015, it is the responsibility of all the Chief Accounting Officers / Accounting Officers to complete the disposal of the vesicles which had been identified as disposable within 03 months from the date of circulation. Three motorcycles that had been brought from the former Ministry of Economic Development or since the year 2015, it was then removed from running and at present a three-wheeler belonging to the National Leadership Development a car belonging to Small Enterprises Development Centre and a van had been removed from driven from the year 2015 it was observed in audit that the actions had not been taken in respect of those vehicles even by 31 March 2018 .
- (ii) A Pajero vehicle belonging to the National Leadership Development Center had been removed from running from the year 2015. It was observed that there were no Registration Certificate and the Revenue License of this vehicle and due to the registration of another vehicle under this number the vehicle could not be able to drive. Even though nearly 03 years had elapsed since the year 2015, the necessary legal steps had not been taken in this regard.

**(c) Informal Use of Irregular Assets**  
-----

Although every government owned vehicle used by every government organization must be registered in its own name in terms of Paragraph 02 of Assets Management Circular No. 02/ 2017 dated 21 December 2017 , actions had not been taken to register 79 vehicles belonging to the Ministry by its name .

**2.5 Utilization of Provision made by Parliament for the Execution of Activities**  
-----

This Ministry had been established by the Gazette Extraordinary No. 1933/ 13 of 21 September 2015 . The particulars relating to the provision made to the Ministry and utilization and savings for the 03 years period ended 31 December 2017 and the audit observations in respect of that are given below.

Year	Category of Expenditure	Net Provision	Utilization	Savings	Savings as a percentage of Net Provision
-----	-----	-----	-----	-----	-----
		Rs. Million	Rs. Million	Rs. Million	
2015	Recurrent	2,120.7	1,925.4	195.3	9.2
	Capital	13,261.6	10,900.7	2,360.9	17.8
	<b>Total</b>	<b>15,382.3</b>	<b>12,826.1</b>	<b>2,556.2</b>	<b>16.6</b>
2016	Recurrent	2,025.4	1,938.0	87.4	4.3
	Capital	31,193.6	20,856.2	10,337.4	33.1
	<b>Total</b>	<b>33,219.0</b>	<b>22,794.2</b>	<b>10,424.8</b>	<b>31.3</b>
2017	Recurrent	2,226.1	2,100.9	125.2	5.6
	Capital	47,818.9	25,137.3	22,681.6	47.4
	<b>Total</b>	<b>50,045.0</b>	<b>27,238.2</b>	<b>22,806.8</b>	<b>45.57</b>

#### **Non- utilization of the provision made available**

The following observations are made in this connection .

- (a) The total Budgetary Allocations of five Capital Objects made available by the Budget Estimates totalled to Rs. 2,200,000 had been saved without utilization .
- (b) The provisions relating to two Capital Objects amounted to Rs. 10,300 made available by additional provisions as Rs. 10,000 million and Rs. 300 million on the dates of 20 January 2017 and 24 March 2107, had been totally saved due to freezing of the financial provision by the Department of National Budget for those two proposals.
- (c) Out of the provision made available for 03 recurrent expenditure objects amounted to Rs. 1,200,000 , a sum of Rs. 320,000 or 100 per cent had been saved without utilization at the end of the year even transferred a sum of Rs. 880,000 to other expenditure object under Financial Regulation 66 .
- (d) The savings had been shown ranging from 50 per cent to 99 per cent out of the total net provisions of 10 capital expenditure objects and 10 recurrent expenditure objects.



- (e) A sum of Rs. 3,000,000 has been allocated by the Budget Estimate for four Objects and that total provision had been transferred to other object by Financial Regulation 66 .

## 2.6 Advances to Public Officers' Account

### Limits Authorized by Parliament

The limits authorized by the Parliament for the advances to Public Officers Account of the Ministry Item No. 10401 and the actual amounts are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million
35	33	12	14	100	69.2

The following observation is made in this regard.

### Not recovering of outstanding loan balances

As per the Reconciliation Statement presented to audit, the aggregate outstanding balances as at that date was a sum of Rs. 2,781,358 except the officers who had station transferred and the loan balances amounted to Rs. 2,687,305 remained ranging for more than 05 years period had remained within that loan balances and the Ministry had failed to recover the those outstanding balances.

## 2.7 General Deposit Account

The total of the balances of three General Deposit Accounts under the Ministry as at 31 December 2017 was Rs. 81,407,558 .

- (a) Actions had not been taken in respect of deposits exceeding 2 years under two General Deposit Accounts as at 31 December 2017 in terms of Financial Regulation 571 .

(b) Even though if there is any balance in deposit accounts should be brought under respective revenue items have to be taken under the first week of the month without having to be retained, collection of revenue accounts or in deposit accounts the balance may have to be taken under the first week of the month in terms of Fiscal Policy Circular No. 01/ 2015 (04) (c) of 20 July 2015 , it was observed that a sum of Rs. 1,546,851 had remained in the Deposit Account 6000-0-0-13-99 even by 31 December 2017 out of the income earned from 2017 by the facility for external programmes at the Embilipitiya National Centre for Leadership Development.

## 2.8 Internal Audit

-----

According to the Internal Audit Plan approved for the year 2017 Even though it had been planned to implement 16 key functions relating to this Ministry, 03 functions out of them or the activities such as staff training, salaries and wages, and procurement activities had not been fulfilled.

## 2.9 Human Resources Management

-----

### Approved Cadre, Actual Cadre and Expenditure for Personal Emoluments

-----

(a) The particulars in respect of the Approved Cadre, Actual Cadre and the Vacancies as at 31 December 2017 of the above Ministry are given below. The Ministry had incurred a sum of Rs. 270 million for the Object of personal emoluments for the year under review. Accordingly, the Annual Per Capita expenditure on personal emoluments had been Rs. 525,060 .

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
	-----	-----	-----	-----
(i)	Senior Level	83	63	20
(ii)	Tertiary Level	155	91	64
(iii)	Secondary Level	256	236	20
(iv)	Primary Level	137	122	15
(v)	Other	6	3	3
	<b>Total</b>	<b>637</b>	<b>515</b>	<b>122</b>
		===	===	====

The following observations are made.

**(b) Training of Staff**  
-----

- (i) Even though the Staff training requirements had been carried out under five main activities according to Revised Action Plan – 2017, Performance Indicators or the number of training programmes, number of officers who trains were not described in order to perform Performance Appraisal. There was no procedure to identify Eve training requirements a detailed plan had not been prepared according to the identified training needs.
- (ii) The provisions amounted to Rs. 12.6 million had been made available by the Ministry through the Budget Estimates of 2017 for staff training requirements and a sum of Rs. 2,546,360 had been incurred from 31 December 2017 . Accordingly, it was observed that the financial progress was 20 per cent.
- (iii) Further, the actual staff of the Ministry was 515 and out of that the number of staff members who had participated in local and overseas training programs were 127 , thus it was observed that there were 388 staff members who did not have any training opportunities during the year under review.

**2.10 Keeping of Securities by Government Officers**  
-----

The Security which should required to be given by the officers in terms of Financial Regulation 880 had not been kept.