

## **Report of the Auditor General on Head 160 – Ministry of Mahaweli Development and Environment – Year 2017**

---

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 Mahaweli Development and Environment. 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 160 – Ministry of Mahaweli Development and Environment 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 20 July 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 Mahaweli Development and Environment for the year ended 31 December 2017 had been stated in detail in the Management Audit Report mentioned in the above 1.3 paragraph. Material and significant audit observations had been mentioned in the paragraph 2.1 to paragraph 2.17 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>Paragraph Reference to the report included the observation</b>
-----	-----	-----
Financial Regulations -----		
127 (1) (a)	All financial works should be planned so as to confirm that it is done with correctly and financial propriety.	Action plan bad not been prepared accurately 2.1 2.2
127 (1) (b)	A system should be provided for adequate controls over expenditure and collection of public revenue.	01. Deficiencies in asset management 2.6 02. Non – compliances 2.14
127 (2)	Existing items of expenditure, as well as proposals for new or increased expenditure in the departments under own control, are closely	01. Non execution of performance of the foreign funded projects 2.4.2 02. Internal Audit 2.15

	examined in the Ministry from the points of view of economy and efficiency.	03. Assets given to external parties	
			2.6 (d)
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 judgment to bear on them.	01. Remaining of idle and underutilized assets	2.6 (b)
		02. Use of assets owned to other institutions improperly	2.6 (d)
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.	01. Make into obligations exceeding the budget limit	2.7
		02. Deficiencies in General deposit accounts	2.11
		03. Deficiencies in General deposit Accounts	2.12
127 (5)	The considerable variations in between provisioned amount in estimates of Department and expenditure are closely examined by the ministry.	Unutilization of provisions made.	2.10 (a), (b)
127 (7)	Following of procedures that given by Financial regulation 103 to 108 in the incidents of incurring losses to the government due to delay, negligence, error or fraud of officers/ employees by the Accounting officers, imposing surcharges on officers/ employees for those losses as per financial regulation 156 (1), it is considered that the Accounting officers is free from the responsibilities	Guarantee deposits are not obtained from the officers engaged in financial matters	2.17

assigned to him, if arrangements are made for accountability Assist to the accounting officers by explaining and reasoning the accounts of the departments that borne responsibility by himself by presenting in front of committee of public Accounts is a duty of the chief financial officers

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

-----

### **2.1 Performance**

-----

#### **Planning**

-----

Action plan for year 2017 had been prepared as per Public Finance Circular No. 01/2014 on 17 February 2014. Accordingly, there were 15 main functions that should be implemented by the ministry in the year under review and, action plan had been prepared for obtaining expected results of 11 statutory institutions, 02 departments, 22 foreign projects and 12 local projects that established under the ministry. The details of the organizational structure of the entity, approved cadre and cadre employed presently had not been presented in the updated Action plan for the year under review.

### **2.2 Non – Performing activities**

-----

Following observations are made.

- a. It could not be confirmed that the targets to be achieved were accomplished as it had not been prepared the performance reports according to the functions performed in respect of each activities in the Annual Action Plan.
- b. Although the physical progress of the project of improving capacity for controlling access and spread of invasive alien species had been mentioned, the financial progress had not been mentioned.

## **2.3 Annual Performance Report**

-----

Although the performance report of the year under review should be table in the parliament by the ministry within 150 days ending the financial year as per Public Finance Circular No. 402 on 12 September 2002 that report had not been tabled in the parliament even by 31 May 2018.

## **2.4 Implemented Local and Foreign Funded Projects**

-----

### **2.4.1 Local Projects**

-----

Provisions of sum of Rs. 24,093.5 million had been made for 12 Projects implemented by using local funds by the ministry in the year under review and Rs. 21,510.22 million had been utilized out of it. Accordingly, Rs. 2,582.28 million or 10.72 per cent provision out of provisions made had been remained in balance.

### **2.4.2 Foreign Funded Projects**

-----

#### **Performance of Foreign funded Projects**

-----

22 Projects had been implemented by the ministry under foreign funded in the year under review. The sum of estimated costs was totaling to Rs. 24.573.03 million as per Projects and, Rs. 16,008.44 million had been utilized for projects in the year under review. Following observations are made in respect of those foreign funded Projects.

#### **(a). Project on Addressing Clement Change Impacts on Marginalized Agricultural Communities Living in the Mahaweli River Basin of Sri Lanka**

-----

Following observations are made.

- i. According to the agreement entered in between Ministry and world food programme on 11 August 2014 for the implementation of this Projects, the project duration was 03 years. But, the duration had extended up to August 2018 as its activities had not been implemented However, a considerable physical progress had not been achieved though it was ended 03 years.
- ii. 62 activities amounted to Rs. 194 million that included in Action plan of year 2017 had not been implemented within the year under review.

- iii. An amount of Rs. 44,724,708 that given from imprest for the implementation of the activities of the Project by the Treasury in the year under review had not been utilized.
  - iv. Rs. 312,776,228 had been saved out of the total net provision of Rs. 463,747,520 that made for the project within the year under review. Accordingly, the balance was 67 per cent from the total net provision.
- (b). Property, plant and equipment of Rs. 247,150 had been purchased by Ozone Project during the year under review and a fixed asset movement register in account had not been presented with the final financial statements presented to the audit.

**(c). Eco System Conservation and Managements Project**

-----

Following observations are made.

- i. The duration of the Project was from 01 July 2016 to 30 June 2021 as per Project Appraisal Report and although the activities of the Project should be implemented with effect from 26 July 2016, the activities of the Project had been commenced on since 01 December 2016.
  - ii. It had been mentioned that the action should be taken to provide required provision for the project from annual budgeted estimate for the year 2017 on words as per cabinet decision received on 12 March 2016. Even though, provisions of the year 2017 had not been made by the budget estimate and provision had been made by financial regulation 66 transfer.
  - iii. Although an action plan for the entire project period at the beginning of the project, it had been prepared in the year 2018.
  - iv. Action plan of 2017 had been amended and the details on the implementation of activities of the project in 2017 could not be verified to the audit as it had not been presented a progress report corresponding to that action plan to the audit.
- (d). The printing works of the National Action plan of Stockholm convention on Persistent Organic Pollutants (POPs) that scheduled to be completed in 2016 and other reports prepared related to that had not been completed. Even though, an amount of Rs.1,266,100 had been paid without confirming that reports were printed as per specification related to the printing at the end of the year under review.

- (e). 04 activities out of proposed activities of the project of environmentally sound management and disposal of polychlorinated biphenyls wastes and contaminated equipment with Sri Lanka had not been completed during the year under review as per action plan of 2017.
- (f). Net provision of Project on establishing background for the ratification of Minamata Convention on Mercury was Rs.3.97 million and the actual expenditure was Rs.1.79 million. Accordingly, under utilization was 55 per cent although it had been planned to print the laboratory guideline for schools, technical colleges and universities as per Action plan of 2017 this project, it had not been Implemented.
- (g). The total expenditure of Uma Oya Multipurpose Development Project at the end of the year under review was Rs. 62,060.31 million and the public had faced various difficulties due to the project activities and sudden water ingress occurred. A sum of Rs.896.72 million had been paid for that from local funds to those people and only an amount of Rs.744.54 million from it had been recovered from the contractor.
- (h). As per the curricular of streamlining the circulation of foreign resources of the secretary to the Ministry of Finance No. MOFP/ERP/2011/1 on 21 April 2011, any public institutions do not have an authority to make deals directly with the donor agency that provide direct foreign financial funds through national budget. As well, donor foreign funds should under public development priorities. However, it was observed to the audit that the following projects are implemented under direct financial funds.

<b>Name of the Project</b>	<b>Donor Agency</b>	<b>Total Project Amount</b>	<b>Expected Duration</b>
-----	-----	-----	-----
Implementation of the National Bio safety framework in accordance with Cartagena Protocol	GEF/FAO	USD 5,324,291	2017- 2020
Biodiversity Finance Initiative	GEF/UNDP	USD 530,000	2016 – 2018
6 <sup>th</sup> National Report	GEF/UNDP	USD 4,112,402	2017 – 2018
SWITCH – Asia Sustainable Consumption & Production National Policy Support component	EU	EURO 1,867,500	2015 - 2019

## **2.5 Implementation of Procurement Process**

-----

A procurement plan was not prepared by the ministry for 2017. As well, action had not been taken to establish a procurement branch or division for this ministry that consists of number of foreign projects and divisions. It had been done the requirements of each project by each division, some purchases by Accounts division, repair and vehicle maintenance works by transport division. Obtaining of estimates, calling bids, obtaining supply or services had been done with the participation of each division. Because of that there were incidents of taking actions contrary to the procurement guidelines and it was observed that there were incidents that the receivables and issuance of all goods had not been done through the stores.

## **2.6 Asset management**

-----

Following deficiencies were revealed at the sample audit testing in relation to the assets of the ministry.

### **(a). Documentation of Assets**

-----

A fixed asset registers for computers, accessories and software's had not been maintained as per Treasury Circular No. IAI/2002/02/ on 28 November 2002.

### **(b). Idle and Underutilized Assets**

-----

08 vehicles that was in the condition of use by repairing had been remained idle for more than 06 years without repairing.

### **(c). Assets Given to External Parties**

-----

02 vehicles amounted to Rs. 5.8 million and Rs. 19.90 million that owned to ministry had been given to Central Engineering Consultancy Bureau and the State Minister of it without proper assignment.



**(d). Use of Assets Owned to Other Institutions Improperly**  
-----

20 vehicles that owned to 07 other institutions had been used without vesting properly by the ministry.

**2.7 Commitments and Liabilities**  
-----

**Incurring Commitments exceeding Annual Budget Provisions**  
-----

The commitments of Rs.3.85 million had been incurred by exceeding Rs. 5.01 million from the provisions made of Rs.1.16 million for 10 expense objects without compliance with paragraph 02 (a) of State Accounts circular No.255/2017 on 27 April 2017.

**2.8 Unsolved Audit Paragraphs**  
-----

Action had not been taken even in the year under review to fill 121 vacancies included in paragraph 5.7 of the report of Auditor General for the year 2016 related to the Ministry.

**2.9 Management Weaknesses**  
-----

Following observations are made.

- (a). Although it was elapsed two years for the decision taken to give sufficient publicity to make aware the institutions under the ministry and other public institutions about the National Flower as per a cabinet decision on June 2015, the ministry had failed to do actions as such.
- (b). An agreement of rehabilitation of 14 small tanks had been entered with the Department of Agrarian Services during the year 2017 by the project on addressing climate change impacts on marginalized agricultural communities living in the Mahaweli River Basin and the rehabilitation works should be completed within 03 months. But, it had been failed to rehabilitate any tank by the project within that period of time.
- (c). Although it had been scheduled to print laboratory guidelines for schools, technical colleges and universities by the project on establishing background for the ratification of Minamata Convention on Mercury to the Action Plan of 2017, that activity had not been fulfilled.

- (d). It was observed that the expected objectives had not been achieved properly by presenting as they were without proper evaluation on the accuracy of the reports presented by the each division, it could not be come into accurate conclusion on the performance as the receiving of false information when giving information to the interested parties about this.
- (e). An air resource management programme had been commenced with the participation of all parties related to the Air Resource Management and Ozone unit as the presentation of research reports that the composition of the harmful gases were taken higher value more than the standard condensation in Kandy town and, only one discussion had been held during the year 2017. Although a cost of Rs. 110,658 for advertising in newspaper in order to obtain the ideas of public and scholars had been incurred, that expenditure was become a fruitless expense due to the inability of continuation the programme.
- (f). Only the amount of Rs. 20,000 had been incurred out of the provision of Rs. 5 million that released to the secretary to the Ministry of Provincial Councils and Local government by the Ministry to crate environmentally friendly roads for the selected provinces according the Parisara Mawatha Project during the year under review and the expected activity could not be fulfilled as the provisioned amount was released close to the end of the year.
- (g). A amount of Rs. 5,555,270 had been paid by the environment system conservation and Management Project for the holding a conference in Department of Forest Conservation from the Project funds.
- (h). 52 MS office Software's amounted to Rs. 1,828,358 that purchased during the year under review by Environment Systems conservation and Management Project had been stated as expenses instead of fixed assets in the financial statements.
- (i). Following management weakness are observed in Uma Oya multipurpose Development Project.
  - (i). Implementation of the project out of the Mahaweli Main Plan" a Feasibility study and environmental study was not done before implementing the project and the agreed facilities to the contractor as well as solution for these issues were not given timely had been reasoned for the present confiscatory condition of this project.
  - (ii). The selection of the contractor had been done without transparency on the unsolicited basis.
  - (iii). Although it could not be paid interests for the additional allowances, establishing allowance that paid for the value of development that done to the land when paying compensation for acquired lands to the government for the development activities,

an interest of Rs. 4,620,420 had been over paid for the lands acquired for the Uma Oya project by the Wallawaya Divisional Secretariat.

- (iv). An amount of Rs. 580,000 had been over paid for the lots No. 602,603,609 of lands when acquiring lands for the Uma Oya Multipurpose Development Project.

## 2.10 Utilization of Provisions made by Parliament for the Performing Functions

---

The details of provisions made for the Ministry, Utilization and savings and audit observations on them for the period of 05 years ending for 31 December 2017 as Follows.

Year	Expenditure category	Net provision	Utilization exceeds	Savings/ Exceeds	Savings/ exceeds as a percentage of net provision
		Rs. million	Rs. million	Rs. million	
2013	Recurrent	633	599	34	5.37
	Capital	1,478	761	717	48.51
	Total	2,111	1,360	751	35.57
2014	Recurrent	787	771	16	2.03
	Capital	1,862	1,093	769	41.30
	Total	2,649	1,864	785	29.63
2015	Recurrent	816	801	15	1.84
	Capital	35,071	27,920	7,151	20.39
	Total	35,887	28,721	7,166	19.97
2016	Recurrent	3,776	3,758	18	0.47
	Capital	61,771	38,557	23,214	37.58
	Total	65,547	42,315	23,232	35.44
2017	Recurrent	3,717	3,668	49	1.32
	Capital	50,796	39,154	11,642	22.92
	Total	54,513	42,822	11,691	21.45

Following observation are made in the regard.

### (a) Made Provisions Without Considering on the Proposed Time Frame for Implementation of Functions

---

Although the ministry had made total provisions required as per total cost estimates for the implementation of functions, the provisions of Rs. 3,387,741,258 or a range of 30 per cent to 99 per cent out of total provisions made had been saved due to the inability of utilization of entire provision after implementing the activities related to the feasibility studies and procurement process by the end of the year under review.

## **(b) Appropriation Account**

-----  
Following observations are made.

- (i). Provisions of Rs. 1,060 million out of the provisions of Rs.2,503 million that transferred to capital expenditure objects had been saved in the range of 28 per cent to 100 per cent as the transferring of provisions among expenditure objects without identifying requirement of provisions properly.
- (ii). Although it was mentioned as the reasons for the saving that the supplementary provisions of Rs.10 million that received for the construction of an underground waste fill for Waste Management of Gampaha District in the 100 per cent savings out of the supplementary provisions had been frozen by the Treasury, an acceptable written evidence had not been presented to the audit.
- (iii). Total provisions of Rs.10.33 million that taken for two expenditure objects, supplementary provision of Rs.102.3 million that taken for other two expenditure objects from the supplementary taken for the capital expenditure during the year under review had been saved ranging from the amount of 66 per cent to 94 per cent.

## **2.11 Imprest Accounts**

-----  
Cumulative outstanding balance of one imprest account under the ministry as at 31 December 2017 was Rs.0.26 million. Following observations are made in relation to the imprest account maintained by the ministry.

- (a). The unseen cash balance as at 31 December 2017 in the books of Treasury though realized and a sum of unsettled sub imprest were Rs.53.60 million and Rs. 261,361 respectively.
- (b). A sum of totaling to Rs. 8.38 million of ad hoc sub imprest had been issued to 114 non – executive directors at 478 incidents in contrary to the financial regulation 371 (2) that amended by Public Finance circular No.03/2015 on 14 July 2015.
- (c). Although ad hoc sub imprest received should be settled within 10 days after finishing work as per financial regulation 371 (5) that amended by above mentioned circular, a sum of Rs.742,289 of ad hoc sub imprests that given at 24 incidents had been settled with delay ranging from 01 month to 11 months finishing the work.

## 2.12 General Deposit Accounts

-----

The total of balances of 02 General Deposit Accounts as at 31 December 2017 under the ministry was Rs.56.88 million. Following observations are made in relation to that.

- (a) It should be inquired before credited those deposits to the public revenue with the view of preventing the requests made to regain the deposits after credited to the public revenue as possible extent as per financial regulation 571 (2). Although deposits had been credited to the public revenue by the ministry, it was not observed in audit that inquires had been made before as such.
- (b) Action had not been taken as per financial regulation 396 in relation to 06 cheques amounted to Rs. 69,431 that was to be paid by the ministry.

## 2.13 Operation of Bank Accounts

-----

Action had not been taken to identify the unidentified receipt of Rs. 3,396,150 as per bank reconciliation statement prepared as at 31 December 2017 for a bank account even by 17 April 2018.

## 2.14 Non Compliances

-----

### Non Compliance of Laws, Rules and Regulations

-----

Incidents of non – Compliances with laws, rules and regulations that observed in the sample audit tests are as follows;

Reference to the laws, rules & regulations	Amounts	Non – Compliance
-----	-----	-----
	Rs.	
<b>Financial regulations of Democratic socialist republic of Sri Lanka</b>		
(a) Financial regulation 104	-	Recovery of loss had been done from relevant insurance agency in respect of the vehicle accidents happened at 04 incidents. But, Full report had not been prepared in respect of that loss as per financial regulations.

- (b) Financial regulation 215 (1) and 2,301,125  
(3) Action had been taken to pay by 04 cheques amounting to Rs. 2,301,125 (two private presses) for 4 kinds of books that not received to the ministry even by 30 December 2017.
- (c) Financial regulation 751 -
- i. All receipt of ministry had not been done through stress and purchases and issues of printed books, leaflets and other equipments by calling bids through various divisions had not been entered in the store's inventory book.
  - ii. Inventory book of the Environment systems conservation and management project had not been updated.
- (d) Financial regulation 753 (1) -
- Although it should be kept the original copy to the officer who sends the goods, second copy to stores by preparing General 141 format when issuing goods, General 141 had not been used for the issuing. Although it had been kept notes for inventory goods issued by old ministry office to various public institutions, General 141 format had not been issued for those issuing.
- (e) Financial regulation 753 (2) -
- Although it should be kept the second copy by sending original copies (to payment vouchers) to the issuing officer by preparing General 219 with 02 copies by the receiving officer of those goods when goods were received, format 219 had not been written at the incidents that purchased beyond the finance division.

- (f) Financial regulation 754 - Although all receipts and issues of goods should be properly accounted and inventory book should be maintained updatedly by entering goods receipts and issues properly and balancing inventory books, it was observed 05 incidents that were not done as such.
- (g) Financial regulation 757 - Although a board of survey should be done, action had not been taken accordingly.
- (h) 4.2 Guideline of Procurement Guidelines - A proper procurement plan had not been prepared for the year under review by the Environment Systems Conservation and Management Project.
- (i) Public Finance Circular No.02/2015 on 10 July 2015 - Although it was mentioned that the disposals should be done, 04 vehicles that removed from running had been left to be decayed without taking actions to use by repairing or dispose in the period of 02 year to 11 years.
- (j) Public Expenditure Circular No.CSA/P1/40 on 28 February 2007 and Circular of secretary to the president No.SB/07/15 on 25 September 2015 384,681 - Although it was informed that private hotels should not be selected for holding of functions, conferences and workshops, in contrary to that, it had been paid to the private hotels by the Project of Environmentally Sound Management and Disposal of Polychlorinated Biphenyl Wastes and Contaminated Equipment.
- (k) Management Audit Circular No.02/2016 on 10 June 2016 - Although an internal auditor should be added to the Cadre of the project at the pre project evaluations step for the project that were USD 10 million or above, the post of the internal auditor had been remained vacant even by 13 July 2018 in the Environment Systems Conservation and Management Project.

## 2.15 Internal Audit

-----

It had been emphasized by Financial Regulation 133 that internal audit should be established in own department for the accomplishment of own duties and responsibilities stated in financial regulation 128 in own departments by Accounting officers. Although an internal audit unit was established in the ministry, a sufficient staff had not been assigned for that.

## 2.16 Human Resource Management

-----

### 2.16.1 Assigned Cadre, Actual Cadre and Expenditure on Personal Emoluments

-----

Approved, actual and vacant cadre details as at 31 December 2017 for the performing functions of the Ministry are as follows. The ministry had spent Rs.199.95 million for the expenditure object of personal emoluments for the year under review. According expenditure per one personnel was Rs. 649,182.

	<b>Employee Category</b> -----	<b>Approved Cadre</b> -----	<b>Actual Cadre</b> -----	<b>Number of vacancies</b> -----
(i)	Senior level	92	54	38
(ii)	Tertiary level	36	15	21
(iii)	Secondary	200	150	50
(iv)	Primary level	102	87	15
(v)	Casual/contract	02	02	-
		<b><u>432</u></b>	<b><u>308</u></b>	<b><u>124</u></b>

## 2.17 Keeping Security of Government Officers

-----

Officer who is administratively responsible for or who under delegation are entrusted with, the receipt or custody of public money, revenue, stamps or accepting goods or in custody of goods otherwise disbursement of public money or the issue of stamps or stores and those who certify vouchers or sing cheques on government account should be kept security in accordance with the 612 authority of public officers security ordinance for the faithful discharge of their duties as per financial regulation 880. However, action had not done in that manner in relation to the officers who should be kept security deposit in the ministry.