

## **Disaster Management Centre - 2017**

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The audit of financial statements of the Disaster Management Centre for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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.

### **1.2 Management's Responsibility for the Financial Statements**

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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**

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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**

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

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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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 2017 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**

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#### **2.2.1 Accounting Deficiencies**

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The following observations are made.

- (a) A sum of Rs. 9,185,679 paid to 04 District Secretariats to implement 12 disaster mitigation projects at an estimated cost of Rs.29, 091,561 which were not completed as at 31 December 2017 had been treated as capital expenses and shown under the Property, Plant and Equipment, instead of being shown under work-in-progress.
- (b) The balance of capital grant amounting to Rs.308, 559,783 received from the General Treasury shown under Reserves in the Statement of Financial Position had been shown as Rs.675, 361,071 in the Statement of Changes in Equity.

#### **2.2.2 Lack of Evidence for Audit**

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A detailed plan related to 02 items of work for renovation of drainage system and construction of culverts in a section of the Belgium Housing Scheme in Hambantota District expected to be implemented at an estimated cost of Rs.2, 060,785 had not been submitted to audit.

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

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

<b>Reference to Laws, Rules and Regulations etc.</b>	<b>Non-compliance</b>
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(a) <b>Sri Lanka Disaster Management Act, No. 13 of 2005</b> Paragraph – 05	According to the Act, at least 04 management board meetings should be held annually, only 02 meetings had been held during the year under review.

(b) **Government Procurement Guidelines**

(i) Guideline – 3.4.3

The suppliers had not been registered by the Centre regarding procurement, as required by the Procurement Guidelines.

(ii) Guideline – 5.3.11(a)

Bid security had not been produced for 09 projects with an estimated value of Rs.23,228,675 implemented in Hambanthota District.

(c) **Financial Regulations of the Democratic Socialist Republic of Sri Lanka**

Financial Regulation – 104 (3)

No preliminary reports had been submitted relevant to 17 motor vehicle accidents occurred during the year 2015 to 30 May 2018.

(d) **Internal Circular No.2017/01 of 21 February 2017 which had been issued by the Centre**

Paragraph - 03

Even though a project should be selected to adhere by minimizing the public protests and without doing time to time amendments, thus 16 projects with an estimated value of Rs.85,213,525 which was scheduled to be implemented within 08 Districts, could not be implemented due to public protests during the year 2017.

**3. Financial Review**  
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**3.1 Financial Results**  
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According to the financial statements submitted, the performance results of the Centre for the year under review was a deficit of Rs.62,963,156 as compared with a deficit of Rs.6,159,474 in the previous year thus, it indicated a drop off the financial results for the year under review by Rs.56,803,682. Even though the annual income had been increased by Rs. 77,935,871, the main reason attributed for the above decrease was the administration expenditure had been increased by Rs.138, 275,300.

When analyzing the financial results of the year under review and the previous 04 years, a deficit of Rs.9,452,720 was reported in 2013 and a surplus of Rs.2,616,061 was reported in 2014, thus another deficits had been reported from 2015, 2016 and 2017 as Rs.12,255,473, Rs.6,159,474 and Rs.62,963,156 respectively. However when adjusting the employee's remuneration and the depreciation of non-current assets for the financial results, the contribution of Rs.274,159,353 in 2013 had been increased in 2014 and decreased in 2015 and again it had been increased from 2016 to 2017 as Rs.261,166,505.

#### **4. Operating Review**

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##### **4.1 Performance**

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##### **4.1.1 Planning**

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The following observations are made.

- (a) The action to amend the existing law stipulated in the Sri Lanka Disaster Management Act, No.13 of 2005 initiated in the year 2008, had not been submitted to the Parliament even up to 31 December 2017 for approval purposes.
- (b) The National Plan for Disaster Management should be prepared according to the paragraph No. 08 (2) (a) of the Sri Lanka Disaster Management Act, No. 13 of 2005. For that purpose a sum of Rs. 02 million had been received to the Centre from the United Nations Development Programme in 2017. The activities for the preparation of a new plan for the period from 2018 – 2030 commenced on 07 March 2017, had not been completed as of 31 December 2017.
- (c) Even though a sum of Rs. 318,582 had been spent as at 31 December 2017 out of Rs. 1,300,000 granted by United Nations Development Programme in 2015 for the preparation of a Disaster Mitigation Plan under the internationally accepted Sendai Framework, thus there was no such plan prepared. Further, it was informed by the Centre in the previous year that the said plan was required to be prepared by the Line Ministry. However, no action had been taken to prepare such a plan until 31 December 2017.

##### **4.1.2 Activity Review**

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The following observations are made on the performance of Disaster Mitigation Projects implemented by the Centre.

- (a) Due to seasonal floods occurred in Colombo, Gampaha and Matara districts, 1,095, 10,408 and 4,596 persons had been affected respectively in 2015, whilst affecting the persons of 255,188, 138,045 and 6,583 in the respective districts in 2016. However, no allocations in the Budget Estimates had been made for 2017 for the above mentioned districts, as there was no proper assessment had been carried out in the respective districts.

Further, when compared with the above mentioned districts, only a minimum number of persons of 556 and 12,048 had been affected due to floods developed in Kurunegala District in 2015 and in 2016 respectively. However a sum of Rs.73, 913,285 representing 21 per cent of the total allocation amounting to Rs.354, 434,069 had been spent to implement 87 flood risk mitigation projects in Kurunegala District, representing 49 per cent of 176 flood mitigation projects scheduled to be implemented island wide during the year under review. However allocations in the range of 2.5 per cent to 8 per cent, out of the total allocation had been provided to implement the mitigation projects in Galle, Ratnapura and Kegalle Districts which were severally affected by the floods. In addition to that, allocations amounting to Rs.12,809,434 for 11 rehabilitation projects whilst another allocation of Rs.22, 006,835 to mitigate 12 rehabilitation projects on damaged roads due to heavy rains had been made and all such projects had been implemented only in Kurunegala District.

- (b) A sum of Rs. 480 million had been allocated through the Budgetary Estimates for the year under review to mitigate the risks on main disasters under 05 categories such as floods, droughts, earth slips, animal hazards and emergency disasters. According to the information made available to audit, 68 and 58 deaths had been recorded and 2,043 and 6,947 persons had been affected in 2016 and 2017 respectively due to animal attacks. However a sum of Rs. 1.78 million representing Rs.254 per person had only been allocated thereon during the year under review. Therefore, the Centre had not properly measured the risks of disaster on animal attacks by giving adequate weight age thereon was observed.
- (c) According to the directions issued by the Centre, the reports on completion of works are required to be sent to the Centre by the District Secretaries immediately after completion of the works under the Projects and the final payments are made based on the respective reports. However, a sum of Rs.13, 507,644 had been paid to 08 projects without the completion reports even at the date of the audit carried out on 17 February 2018.
- (d) An advance amounting to Rs.4, 512,287 had been made to the District Secretaries of Anuradhapura, Badulla, Nuwara Eliya, Colombo and Kurunegala, to implement 07 Projects, through the said District Secretariats, at an estimated cost of Rs.42, 185,609 and the respective projects had been abandoned subsequently due to various reasons. However, the advances had been returned to the Centre only after a delay period of 1 1/2 months to 8 1/2 months, from the date of abandonment of the said projects.
- (e) The following observations are made on the projects which had been planned to implement during the year under review.

- (i) According to the Procurement Plan submitted to the audit a sum of Rs.1.2 million had been allocated under capital votes, to procure 02 Highbred Houses for the Emergency Operations Division. However the respective procurement had been cancelled by an order issued by the Director General, due to the delays in calling quotations thereon.
- (ii) According to the Procurement Plan, it was planned to procure 125 boat engines on allocation made by the Budget in 2017 to respond the emergency disasters due to floods. However, it was not done due to the difficulties arisen in the evaluation of bids and the procurement had been cancelled on 08 December 2017 by the order issued by the Director General.

#### **4.2 Management Activities**

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The following observations are made.

- (a) Even though the Head Office Building of the Centre had been constructed at a cost of Rs.1,034,399,368 in 2010 in a land belongs to the Department of Meteorology, action had not been taken to transfer the ownership of the respective land and building to the Centre even at the end of the year under review.
- (b) The Centre had received 18 motor cycles donated by the United Nations Development Programme and other Non- Governmental Organizations; which comprise of 07 motor cycles received during 2005 and 2006, 02 motor cycles received in 2015 and 09 motor cycles of which the registration certificates not presented. However no actions had been taken to determine the value of such assets and bring it to account. Further, no follow up action had been taken by the Centre to assess the running condition of the motor cycles and the custodian parties thereon. There is a possibility to misuse of those assets and faced problems in the future existence of the respective assets.
- (c) It was informed in written form on 23 may 2018 by the supplier of 02 motor vehicles on unilateral violation of the conditions stipulated in the paragraph No.7(c) of the operating lease agreement made on 11 December 2017 for 05 year period and claims a penalty of Rs. 3,293,941. The provision of allocations for this procurement had not been made in the Annual Budget Estimate -2017 and in the Annual Action Plan. Further it was observed that, those vehicles had been procured to allocate for the two posts which had been remained vacant from 23 February 2016 to 30 June 2018 and had not take actions to fill those vacancies.
- (d) Even though a sum of Rs.123 million had been allocated in the Annual Budget Estimate - 2015 and supplementary provision of Rs.50 million made in 2017 for the construction of a Training Centre with all facilities for the Disaster Management Centre, the construction works had not been functioned until 31 December 2017 due to the difficulties faced on finding a proper land.

### **4.3 Idle and Underutilized Assets**

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Equipment under 10 categories to respond to emergency disaster situations, procured at a cost of Rs. 7,166,319 and 09 items of assets valued at Rs.6, 264,973 and a stock of books and videos received as donations to the Centre were remained in the stores without being utilized from 01 year to 03 ½ years. Further, 02 tires valued at Rs.110,100 using for excavators had remained in the stores without being utilized nearly for 08 years.

### **4.4 Human Resource Management**

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Even though the posts of Director Finance and Director Human Resources of the Centre had remained vacant since 25 August 2016, and a suitable person had been recommended for the post of the Director Finance at the interview held on 05 June 2018, the respective vacancy had not been filled by the Centre. However, the officers had been appointed to cover-up the duties given by the Letter No. MDM/AD/05/DMC/NR(D)/VOL-III-2017 of the Secretary of the Ministry of Disaster Management dated 18 July 2018 and 26 July 2018 respectively without the approval of the Public Service Commission and the Interim Committee of the Centre.

## **5. Sustainable Development**

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### **5.1 Achieving of Goals through sustainable Development**

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Even though every government institution had to adhere to the “Agenda of the United Nations for the year 2030 on Sustainable Development”, the Disaster Management Centre had not been aware about the scope of duties involved which required to be carried out during the year under review.

## **6. Accountability and Good Governance**

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### **6.1 Procurement and Contract Administration**

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#### **6.1.1 Procurement**

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It was observed that the Procurement Plan prepared and submitted by the Centre was not in accordance with the recommendations stipulated in the Government Procurement Guidelines and the deficiencies observed in implementing the procurement process are shown below.

- (a) Without giving proper attention to storing facilities, plans for distributing methodology and environmental factors in detention of goods, the allocations amounting to Rs.13 million had been made in the amended Annual Procurement Plan to procure 100 Catamarans, as an emergency procurement. However, action had been made by the Centre to take over only 10 Catamarans as at 31 December 2017. Further it was revealed in audit that, other 90 Catamarans valued at Rs. 11,160,000 had remained in the supplier’s custody as at that date.

- (b) The bids had been submitted during the year under review for rehabilitation and maintenance of 77 Tsunami Early Warning Towers using different items in different quantities and without submitting quotations for certain items. As the Technical Evaluation Committee had evaluated the bids based on the total value, the contract had been awarded at a higher value of Rs.41, 993,083 over the value of the lowest bid. Further, mathematical errors contained in the bid document had not been corrected by the Technical Evaluation Committee.
- (c) Bids had been called by the Centre during the year under review to procure 75 tractor mounted water bowsers and spent a sum of Rs.1, 919,900 per unit coupled with the tractor and the bowser and meanwhile the National Disaster Relief Services Centre had called bids for tractor and the bowser separately and spent only a sum of Rs.1,749,000 per unit . According to that the Centre had over paid a sum of Rs.170, 900 per one unit and an additional payment of Rs.12, 817,500 to procure 75 tractor mounted drinking water browsers. Furthermore, according to the agreement, the procurement should be completed before 03 April 2017 thus only 55 tractor mounted drinking water bowsers had been received as at that date.
- (d) Even though 152 boats procured at a cost of Rs.36, 348,392 in the previous year and the year under review could not be utilized for the intended purposes as the engines for respective boats were not procured. Thus the Centre had to be paid Rs.600, 000 to an outside party to hire the boats during the emergency flood situations occurred in May 2017. Further, 42 boat engines had been procured on June 2017 at a cost of Rs.18.48 million as an emergency procurement, even though there was no emergency situation. Out of that, 12 boat engines had been distributed and other 30 boat engines had remained in the stores without taking action to distribute upto 31 December 2017.
- (e) A computer software system and equipment had been procured at a cost of Rs.5,806,862 in 2016 for the purpose of analyzing of Multi Hazard Risk. Further, a sum of Rs. 205,200 had been spent out of the allocations made in 2017 to provide trainings thereon. It was observed that a sum of Rs.53 million had been transferred to the National Building Research Organization, out of the allocations made in 2017 for the above task with the concurrence of the General Treasury. Hence, the national requirement for the purpose of Multi Hazard Risks had not been considered by the Centre.

### **6.1.2 Deficiencies in Contract Management**

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A sum of Rs.413, 053,476 had been remitted to the District Secretariats during the year under review to implement disaster mitigation projects. The following observations are made on the sample tests carried out thereon.

- (a) The following observations are made on the flood mitigation works carried out in Hambanthota District.



- (i) Even though a sum of Rs.04 million had been spent to rehabilitate the Galewela Tank in Kepttiyawa North Division in Hambantota District, the dam of the tank was not protected adequately as turfing works at the anicuts constructed had not been properly done after compacting of soil and washed off.
  - (ii) The contracts valued at Rs.3, 528,725 under 05 items of work had been awarded to a construction firm under the project implemented by the District Secretariat in Hambantota to rehabilitate of Disaage Wewa in Angunakolapalessa . Out of that, 02 items of works valued at Rs.2,614,158 had been completed and the balance works under 03 items had not been carried out. A sum of Rs. 2,371,968 had been paid to the contractor to remove 5,112 cubic metres of silt using machines and transport to a place which ¼ mile away from the site. Further it was observed that the silt had not been removed in order to increase the capacity of the tank and the removed silt had been dumped on both sides of the tank.
- (b) The following observations are made in accordance with the flood mitigation works implemented in Nuwara Eliya District.
- (i) Even though a section of 77 metres of the canal running through Seetha Eliya village affiliated with Nuwara Eliya Divisional Secretariat had been widened at a cost of Rs.1, 838,170, it could not be used for intended purposes as the balance section of 30 metres of the canal had not been completed.
  - (ii) A request had been made by the residents, from the Divisional Secretary to improve the internal road of Rosa Uyana, Katumana in Nuwara Eliya Divisional Secretariat by paving concrete and improving the drainage system and an estimate had been made at a cost of Rs.1,889,207 thereon. However, the works for carpeting of road only had been handed over to the Road Development Authority at an estimated cost of Rs.2,656,000.
- (c) The construction works of 06 drinking water wells in Kurunegala District had been completed at a cost of Rs 1,443,972 by November 2017 had not been used for intended purposes even as at the date of the audit on 30 May 2018.
- (d) The contract on rehabilitation works of Karandagahamada anicut, Meegahakiula in Badulla District, awarded at Rs.6, 788,416, had been completed on 17 May 2017 at a cost of Rs.5, 713,609. However, the site inspection carried out on 14 May 2018 had revealed, leakages at 02 places which had been rehabilitated under the contract. Action had not been taken to rectify those defects even by 02 August 2018.
- (e) Even though a sum of Rs.10, 776,598 spent in 2016 to reconstruction of culverts system to mitigate the flood risk at Nawalapitiya town in Kandy District, it was observed in the physical audit verification made in 2018, that the road and surrounding area was affected due to floods during rainy period.

- (f) The following observations are made in the audit of Akurana Flood Mitigation Project implemented since 2014 at an estimated cost of Rs.32, 900,000.
- (i) The contract work on removal of mud in Pinga oya and Wahagala oya in Akurana had been awarded to a contractor and the said contract agreement had not been registered under the Public Contracts Act No.03 of 1987.
  - (ii) No approvals had been obtained under the Mines and Minerals Act, No.35 of 1992 to mine and transport 17.116 cubic meters of mud within the radius of 20 kilo metres of the river basins.
  - (iii) According to the agreement made with a contractor to transport 3,000 cubic meters of silt/ soil at a value of Rs.4,850,000 (without taxes). However a sum of Rs.2, 238,553 had been paid beyond the agreed amount, by submitting the bills for Rs.7, 088,553(without taxes) saying that, 4,416.78 cubic meters of silt/ soil had been actually removed.

### **6.1.3 Delayed Projects**

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According to the agreements, 09 projects implemented in Ehetuwewa District Secretariat in Kurunegala District, at an estimated cost of Rs.18, 980,088 required to be completed by 30 November 2017 had not been completed and handed over up to 26 February 2018 due to the difficulty of finding boulders with proper standards.

### **6.2 Tabling of Annual Reports**

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The annual reports for the years of 2014, 2015 and 2016 had not been tabled in Parliament as at 19 June 2018 by the Centre.

### **6.3 Audit Observations not solved**

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Details regarding the legal case filed at the District Court in Batticaloa on 07 August 2014 against the Centre by the affected party, on the death of a person by a road accident with a vehicle owned by the Centre on 16 August 2012 had not been disclosed in the financial statements.

### **7. Systems and Control**

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

**Area of Systems and Control**

**Observations**

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(a) Procurement

(i) Procurement of motor vehicles on operating lease without the approval of the Secretary of the Ministry.

(ii) The performance bonds and bid securities not obtained and the evaluations done based on the observations which had not been included in the bid documents.

(iii) Procurements were made under emergency situations and unable to utilize during emergency situations.

(b) Action Plan

A comprehensive Action plan had not been prepared to cover all the activities implemented by the Centre.

(c) Disaster Mitigation Projects

Changes made on the projects from time to time.