

Head 24 - National Procurement Commission

1. Financial Statements

1.1 Unqualified Opinion

The audit of the financial statement of the National Procurement Commission for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance and cash flow statement for the year then ended, 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 provisions of the National Audit Act, No. 19 of 2018. The summary report including my comments and observations on the financial statements of the National Procurement Commission was issued to the Chief Accounting Officer on 31 May 2019 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 of 2018 and the Annual Detailed Management Audit Report of the Commission in terms of Section 11 (2) of the National Audit Act was issued to the Chief Accounting Officer on 30 May 2019. This report will be tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, the financial statements give a true and fair view of the financial position of the National Procurement Commission as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Unqualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Chief Accounting Officer and Accounting Officer for the Financial Statements

Chief Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as Chief Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Commission is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

As per Sub-section 38 (1) (c) of the National Audit Act, the Chief Accounting Officer shall ensure that effective internal control system for the financial control of the Commission exists and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue the summary report of the Auditor General that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Commission's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5. Report on Other Legal Requirements

I express the following matters in accordance with Section 6 (d) of National Audit Act, No. 19 of 2018.

Since there was no need for the preparation of financial statements for the preceding year, the financial statements of the year under review could not be compared with the preceding year. Further, owing to the same reason, recommendations on the financial statements of the preceding year had also not been made in this report.

1.6 Comments on Financial Statements

1.6.1 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with the provisions in laws, rules and regulations observed in audit test checks are analyzed below.

Observation	Recommendation	Comments of the Chief Accounting Officer
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Reference to Laws, Rules and Regulations	Non-compliance		
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(a) Article 156(c)(2) of the Constitution of the Democratic Socialist Republic of Sri Lanka	It shall be the function of the Commission to monitor and report to the appropriate authorities on whether all qualified bidders are afforded an equal opportunity to participate in the bidding process and report on whether members of procurement Committees and Technical Evaluation Committees relating to the procurements are suitably qualified. Nevertheless, the said functions had been performed only in respect of the complaints received.	Action should be taken in terms of the Constitution.	The reason therefor was the inadequacy of existing staff and it is expected to introduce an online methodology for investigation and a minimum level of qualification that should be acquired to be a member of bid evaluation committee.
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(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
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i.) Financial	A building had been obtained on	Action should be	I agree.
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Regulation 835(2)(g)	rent basis exceeding the provisions of current year and provisions had been made by the supplementary estimates.	taken in terms of the Financial Regulations.
ii. Financial Regulation 835(3)	A copy of the agreement entered in to by the Commission with the owner of building had not been forwarded to the Auditor General.	-do- I regret to inform that it was a delay in the office.
(c) Public Administration Circular No.02/2018 of 24 January 2018	Annual performance agreements had not been duly signed in respect of the entire staff of the Commission and a proper methodology to identify the gap between the skills of the present staff and the skills that should be acquired by the staff, had also not been formulated. Even though all members of staff should be assured of training opportunities not less than 12 hours per year in terms of provisions, training opportunities had been provided to only 06 members of the permanent staff comprised of 27 members of the Commission as at 31 December 2018.	Proper course of action should be taken for the human resource management. I agree. As the Commission was newly established, these activities have been neglected. It is informed that action will be taken accordingly in due course and steps have been taken to identify the training requirements of officers.

2. Financial Review

2.1 Management of Expenditure

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(a) The difference between the initial expenditure estimate and the revised expenditure estimate pertaining to 05 Objects ranged from 50 per cent to 332 per cent as a percentage of the initial	Estimates should be prepared as accurately as possible.	The reasons for the said difference had been the non-availability of provision for electricity and water, cancellation of the circular on operating lease in the year 2018, non-availability of adequate provision for the payment of rentals, lack of

expenditure estimate.

provision for the renovation work carried out at the new building in Battaramulla and for the installation of telephone systems, failure to conduct training workshops due to the delay in passing the new procurement guidelines in Parliament etc.

- (b) The net provision of 11 -do- Objects totalled Rs.15,642,000 and the expenditure amounted to Rs.7,306,643, thus the savings totalled Rs.8,335,357. These savings ranged from 32 per cent to 100 per cent as compared to the net provision of Objects.

These provisions had been saved due to the failure to perform the functions of the Commission as expected during the year 2018.

3. Operating Review

3.1 Vision and Mission

The following observation is made.

Audit Observation

Approval of Parliament was not possible to be obtained even by May 2019 for the guidelines on goods, works and services, information systems and selection of consultants, submitted pertaining to the mission of the Commission.

Recommendation

The legal frame which gives powers to accomplish the relevant mission should be formulated.

Comments of the Chief Accounting Officer

I wish to inform that the reason for delay of the said process was unavoidable circumstances pertaining to the Procurement Commission.

3.2 Planning

The following observation is made.

Audit Observation

Information on internal audit plan,

Recommendation

Information to be

Comments of the Chief Accounting Officer

As an internal auditor has

annual procurement plan, plan of imprest requirements for annual activities, organization structure and the particulars of staff which should be included in the Action Plan prepared as per the Public Finance Circular No.2014/01 of 17 February 2014, had not been included.

included as per the Circular should be included in the Action Plan.

not been approved for the Commission, no internal audit was being carried out and copies of the documents such as annual procurement plan, plan of imprest requirements for annual activities, organization structure and the particulars of staff have been attached.

3.3 Failure to perform the Functions

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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The following functions stated in the Action Plan could not be successfully performed during the year under review.		
(a) Preparation of a scheme of Recruitment for the Executive Grade.	The functions planned should be performed within the due time frame.	The scheme of Recruitment for the post of Legal Officer has been submitted to the Secretary of the Public Service Commission.
(b) Collection of Action Plans and Procurement Plans from all Ministries for the year 2018.	-do-	I agree. Action Plans have been presented by 43 out of 54 Ministries. The progress of other Ministries was at a weak level.
(c) Examine whether the Procurement Plan complies with the Action Plan	-do-	I agree. It has been examined whether the activities of 13 institutions under 07 selected Ministries were complied with the Procurement Plan. It was a difficult task due to the limited staff and will be expanded in due course.
(d) Out of 151 complaints on procurement activities	-do -	I agree.

received during the year 2018, sixty seven complaints had been inquired and issued the reports thereon while investigations on 10 complaints were concluded though reports had not been issued. Twenty seven complaints had been limited to only calling for information.

(e) Detailed examination of -do- certain procurement processes on the decision of Commission.

I agree. The said process is expected to be implemented by the visiting consultants. The cabinet approval has been received for provision required and provision will be made in due course according to requirements.

3.4 Asset Management

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(a) Action had not been taken to separately identify and enter the goods in the Inventory and Register of Consumables.	Asset management should be facilitated through the identification of relevant categories of goods separately.	Action has been taken to update.
(b) Action had not been taken to issue Goods Received Notes (GRN) so as to confirm that the relevant goods were received before making payments for goods.	Arrangements should be made to confirm that the relevant goods were received before making payments for goods.	Relevant vouchers are being submitted for payments only after receiving all goods purchased and entering them in the Inventory / Register of Consumables. In addition, Goods Received Notes (GRN) are also being issued for receipts.

3.5 Management Weaknesses

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(a) Even though the monthly rental of the office of Commission functioned at the Bandaranaike Memorial International Conference Hall up to 31 July 2018 amounted to Rs.931,834, the monthly rental of the new office building located in Battaramulla had been Rs.2,028,600. As the office was shifted to the new building, an additional expenditure of Rs.1,885,496 which was not incurred in respect of old office had to be incurred on electricity, cleaning services, water and security purposes for a period of 05 months from August to December 2018.	Action should be taken to maintain a high level of performance as compared to the expenditure incurred.	It had been established in an extent of 2,231 square feet in six places of two buildings of the premises of Bandaranaike Memorial International Conference Hall and the monthly rental therefor had been Rs.375.00 per one square feet.(excluding tax) It was not adequate enough even for the then staff and I wish to inform that even the Chairman of the Commission had to use the common washrooms and water taps. Due to the lack of accommodation facilities, seminars had to be conducted in buildings outside and the vacancies of staff could not be filled. Further, various difficulties were experienced in the functioning of office.
(b) According to the newspaper advertisement dated 29 September 2017 published for renting the said building, the space required had been stated as 6000 square feet while it was stated as 8500-10500 in the advertisement published in January 2018. Further, the Commission had enquired the Urban Development Authority about a space between 1500-2000 square feet. However, the extent of building already obtained on rent basis was 13400	-do-	It was considered that the extent of building should be approximately 8500-10500 square feet and the parking facility should be at least for 10 vehicles. The entire building has been obtained on rent considering the issues in using floors separately and the fairness of rental.

square feet while the approved cadre and actual cadre had been 50 and 27 respectively. Nevertheless, the Commission had obtained the building with an extent of 13400 square feet for 12000 square feet on rent basis at a monthly payment of Rs.147 per square feet (excluding VAT).

- (c) According to the Valuation Report issued in respect of the new building by the Department of Valuation, the monthly rental amounted to Rs.1,600,000 and the monthly rental paid exceeding this valuation had been Rs.164,000. Accordingly, it was observed that an amount of Rs.1,968,000 had to be overpaid per year.
- Rentals should be paid based on the valuation reports issued by the Department of Valuation.
- I accept that there is a difference between the assessed value of new building and the quotations submitted by the owner of buildings. The required provision were made disregarding the said rental after taking into account the importance of location of the building and the rentals of nearby offices.
- (d) Even though there were two drivers in the permanent cadre of the Commission in the year 2018, only one motor vehicle was owned by the Commission. Nevertheless, monthly allowances totalling Rs.311,456 for the period from April to December 2018 and overtime allowances amounting to Rs.18,072 for the months of May, June and July in 2018 had been paid to a driver not included in the permanent cadre, for running a motor vehicle not belonging to the Commission. Salaries and overtime allowances for the same period had also been paid to a driver in the permanent staff who has no vehicle to run by that time. Even though allowances and overtime had been paid to the driver for
- Action should be taken to make the maximum use of existing resources of cadre and avoid the expenditure not essential. The illegal payments made to the officers not entitled should be recovered from them to the Government.
- The number of motor vehicles owned by the Commission up to 01 August 2018 stood at one and there were two drivers in the permanent cadre. One driver was assigned to the chairman and other driver was employed when the driver assigned was on leave. The driver who was recruited on contract basis on the approval to run the private vehicle due to the non-availability of any other vehicle, had been employed in the service temporally. The Secretary General has undergone a heart surgery and as such leave from 30 April to 30 July 2018 has been approved by the relevant medical officer. However, I inform that the Secretary

the months of May and June 2018, it was reported that the officer who used the said vehicle was on leave and had not reported for duty during the same period.

General has reported for duty again on 22 May 2018.

- (e) It was observed that the sum of Rs.7,338,205 had been spent under capital Object 024-01-01-2001(Rehabilitation and Improvement of Buildings) in 06 instances on partitioning, fixing telephones etc. in the building where the office of Commission is situated and obtained on rent basis. Nevertheless, the Government assets have not been improved through the said expenditure incurred on a building obtained on rent basis, thus it was questionable to consider as a capital expenditure. Further, it was not observed that the said activities were carried out with a minimum cost.
- Only the essential activities should be carried out economically with a minimum cost due to the lack of improvement in assets.
- The said expenditure include the expenses on the installation of an internal telephone system required for the entire building and fixing loops and networking so as to provide maximum external telephone facilities expanding office purposes to every floor and also the expenditure for partitioning the 05th and 4th floors properly. The said expenditure could not be considered as an expenditure incurred solely on partitioning offices.

4. Achievement of Sustainable Development Goals

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
----- Every Government institution should act in terms of the 2030 “Agenda” for Sustainable Development of the United Nations. Nevertheless, the National Procurement Commission had not taken action to identify the sustainable development goals, targets relating to the functions that come under	----- Every Government institution should act in terms of the 2030 “Agenda” for Sustainable Development of the United Nations.	----- Drafts of procurement guidelines and manuals have been prepared so as to achieve the said objectives considering the role of the Government procurement relating to the functions of the National Procurement Commission in achieving the 17 Sustainable Development Goals. Action will be taken to present these drafts of procurement guidelines and manuals in Parliament and obtain

its scope and focal points to reach those targets and indices for measuring the achievement of targets.

the approval therefor. However, I kindly inform that the role of the National Procurement Commission cannot be limited to one or several objectives when considering the 17 Sustainable Development Goals and action will be taken to achieve the said objectives.

5. Good Governance

5.1 Internal Audit and Audit and Management Committee

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
----- An Internal Auditor in terms of Section 40(1) of the National Audit Act, No. 19 of 2018, had not been appointed and Audit and Management Committee meetings had also not been held in terms of Section 41(1) of the Act.	----- Appointment of an Internal Auditor and conduct of Audit and Management Committee meetings properly in terms of the Act.	----- Action is being taken to appoint an Internal Auditor.

6. Human Resource Management

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
----- The approved cadre and actual cadre of the Commission as at 31 December 2018 stood at 51 and 27 respectively, thus the number of vacancies had been 24. It was observed that persons were employed on contract basis in 07 posts of the approved cadre.	----- Action should be taken to fill the relevant vacancies or to revise the approved cadre.	----- I agree.