

Head 24 - National Procurement Commission

1. Financial Statements

1.1 Opinion

The audit of the financial statement of the National Procurement Commission for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 2020 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 29 September 2020. 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 prepared in terms of provisions of the State Account Circular No. 271/2019 dated 03 December 2019 give a true and fair view of the financial position of the National Procurement Commission as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for 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 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 appropriate in the circumstances in providing a basis for the stated 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, misrepresentations, 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 Chief 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) and Section 38 of National Audit Act, No. 19 of 2018.

- (a) Financial statements are consistent with the preceding year,

- (b) The recommendations made by me on financial statements in previous year had been implemented.

2. Financial Review

2.1 Expenditure Management

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(a) The deference of the revised expenditure estimate pertaining to 10 Objects compared to the initial expenditure estimate ranged from minus 30 per cent to 257 per cent.	Actions should be taken to prepare the estimates as accurate as possible.	It caused facts such as recruiting new carder for vacancies, traveling expenses, arising additional stationery requirements, increasing expenditure requirement for other supplies, emergency vehicle repairs, suspension of operating leases, purchase of properties under concessionary loan scheme for public servants, payment of lease installment for a vehicle, and non-inclusion of provisions in budget 2019.
(b) Out of the provision of Rs. 23 million allocated for 08 Objects in the year under review, the utilization was Rs. 16 million, and the saving was Rs. 7 million. That savings ranged from 23 percent to 100 percent as a percentage of the net provision allocated.	Actions should be taken to prepare the estimates as accurate as possible.	It caused facts such as minimization of requirements for travelling expenses, participation in foreign tours, being within the machinery warranty period, non-payment of vehicle allowances, economizing, suspension of operating leases, saving after spending for internal floor partitioning, revision of quantities of purchases.

2.2 Exceeding Limits

Audit Observation

Among the limits of Advance Accounts Activities in terms of the annual Appropriation Act, the maximum limits of expenditure was Rs. 1,200,000 and the maximum limits of debit balance was Rs. 3,000,000 and the corresponding actual values were Rs. 2,266,762 and Rs. 3,287,856 respectively. Accordingly, exceeding the limit was Rs. 1,066,762 and Rs. 287,856 respectively. It was further observed that corresponding values of maximum limits were recorded as Rs. 2,100,000 and Rs. 4,000,000 respectively in the ACA-5 format of the financial statements.

Recommendation

Actions should be taken to be within the limits imposed by the Appropriation Act.

Comments of the Chief Accounting Officer

I agree with the audit query. A Cabinet Memorandum was submitted to the Presidential Secretariat to amend these limits.

2.3 Entering into Liabilities and Commitments

Audit Observation

Liabilities of Rs. 88,776 pertaining to 03 Objects had not been recorded in Note no. (iv) of the financial statements.

Recommendation

All liabilities should be disclosed in the financial statements.

Comments of the Chief Accounting Officer

I agree with the reconciliations of liabilities. I agree with the audit query. Relevant officers were instructed to avoid such mistakes in the future.

3. Operating Review

3.1 Vision and Mission

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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<p>The approval of Parliament had not been able to obtain for the guidelines on procurement of goods, works and services, information systems and selection of consultants, which were submitted in relation to the organization's mission of timely formulation of fair, equitable, transparent, competitive and cost effective policies, guidelines and procedures for the procurement of goods and services, works, consultancy services and information systems by government institutions.</p>	<p>The legal framework which gives powers to accomplish the relevant mission should be formulated.</p>	<p>It is informed that this matter has arisen due to the fact that the guidelines submitted to Parliament in the year 2019 have not been tabled in Parliament and I also wish to inform that the reason for delay of the said process was unavoidable circumstances pertaining to the Procurement Commission.</p>

3.2 Failure to perform the functions

3.2.1 Preparation and implementation of new procurement guidelines

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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<p>(a) After two years from the establishment of the Commission, the approval of the Commission had to be obtained for the final draft of the new procurement guidelines for goods and</p>	<p>The procurement mechanism should be made more efficient and effective by approving the procurement guidelines.</p>	<p>It is kindly informed that although the final draft of the new procurement guidelines for goods and services, work, information systems as well as the selection and employment of consultants has been gazetted with the approval of the Cabinet and the</p>

services, works, information systems as well as the selection and employment of consultants. Even though the proposed new Procurement Guidelines and Manuals were scheduled to be published in the Government Gazette accordingly and submitted to Parliament for approval within 3 months, that approval had not been granted even by September 2020.

- (b) Preparation of procurement guidelines for Public Private Partnership Project, preparation of procedure manuals for pharmaceutical procurement, formulation of green procurement policies had not been able to complete so far.

The procurement mechanism should be made more efficient and effective by formulating the procurement guidelines.

concurrency of the Attorney General and submitted to Parliament for approval, it has not yet been tabled in Parliament and it is beyond the control of the Commission.

After establishment of the National Agency for Public Private Partnership (NAPP) in 2018, re-formulation of guidelines for Public Private Partnership Projects was commenced as a partnership project in line with their agreement with this Commission.

Formulation of green procurement policies needs to be done in collaboration with the Ministry of Environment and since the evaluation criteria for green products has not been prepared by the said Ministry so far, such guidelines have failed to be formulated.

3.3 Review of Action Plans and Procurement Plans of Government Institutions

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer												
<p>(a) Although calling of annual action plans and procurement plans from all Ministries had been commenced in the year 2018, that activity had not been efficiently carried out and details were as follows.</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">Year</th> <th style="text-align: center;">No. of institution s coming under the Ministry including itself</th> <th style="text-align: center;">No. of action plans received</th> <th style="text-align: center;">No. of procurement plans received</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">2018</td> <td style="text-align: center;">559</td> <td style="text-align: center;">222</td> <td style="text-align: center;">187</td> </tr> <tr> <td style="text-align: center;">2019</td> <td style="text-align: center;">512</td> <td style="text-align: center;">218</td> <td style="text-align: center;">249</td> </tr> </tbody> </table>	Year	No. of institution s coming under the Ministry including itself	No. of action plans received	No. of procurement plans received	2018	559	222	187	2019	512	218	249	<p>As calling of annual action plan and procurement plans is a function of the Commission, actions should be taken accordingly.</p>	<p>The purpose of this is to determine whether the planned procurement is in line with the objectives of the organization and to ensure that such procurement leads to the achievement of the objectives of the organization. However, it has been observed even by the Commission that the method currently being implemented to obtain the action plan and procurement plan from respective institutions needs to be paid more attention.</p>
Year	No. of institution s coming under the Ministry including itself	No. of action plans received	No. of procurement plans received											
2018	559	222	187											
2019	512	218	249											
<p>(b) The review of action plans and procurement plans in relation to the year 2018 had been completed only for 19 institutions by the Commission and with respect to the year 2019, plans of only 11 institutions had been reviewed.</p>	<p>Reviews should be expedited.</p>	<p>- Do -</p>												
<p>(c) Out of 1471 concluded procurements pertaining to 47 Ministries in relation to the year 2017, 83 procurements had been selected for examination on sample basis by the Commission and out of them only 30 procurements had been examined and completed during the year 2019.</p>	<p>Since the Examination of concluded procurement is useful to carry out future procurements effectively and efficiently, actions should be taken accordingly.</p>	<p>- Do -</p>												

4. Achievement of Sustainable Development Goals

Audit Observation

Every public institution should act in compliance with the United Nations Sustainable Development Agenda for the year 2030. However, the National Procurement Commission had not taken actions to identify the sustainable development goals, targets and milestones in respect of achieving those targets and the indicators for evaluating the achievement of such targets relating to the activities under purview of their scope during the year under review.

Recommendation

Actions should be taken to comply in accordance with the agenda and circular.

Comments of the Chief Accounting Officer

The powers, functions and duties conferred under Articles 156 (C) (1) and (2) of the Constitution are exercised and necessary actions are taken in order to promote the fairness, equity, transparency, cost effectiveness and competitiveness in the procurement process implemented by public institutions and it is observed that the public procurement process is indirectly led towards the sustainable development goals through those processes.

However, I kindly inform that direct programs aimed at sustainable development goals are not able to implement as there are no legal provisions other than the powers, duties and functions vested in the Commission by the Constitution.

5. Good Governance

5.1 Internal Audit

Audit Observation

In terms of Section 40(1) of the National Audit Act, No. 19 of 2018, an internal auditor should be appointed and actions had not been taken accordingly.

Recommendation

An internal auditor should be appointed in terms of the Act.

Comments of the Chief Accounting Officer

Action is being taken to appoint an internal auditor.

5.2 **Audit and Management Committee**

Audit Observation

Audit and management committee meetings had not been held in terms of Section 41(1) of the National Audit Act, No. 19 of 2018.

Recommendation

For the wellbeing of the organization, audit and management committee meetings should be held in accordance with the provisions.

Comments of the Chief Accounting Officer

As an internal auditor has not been appointed, the audit and management committee meetings are not able to be held and even though the approval required to appoint an internal auditor has been sought from the Department of Management Services, the approval has not been granted. Accordingly, actions are being taken to obtain this service on assignment basis.

6. **Human Resource Management**

The following observations are made.

Audit Observation

- (a) 05 officers had been recruited for the approved permanent cadre on casual basis and 09 officers on contract basis by the end of the year 2019. An officer had been recruited for a post of Public Management Assistant on casual basis without following an approved procedure and that officer had been paid Rs. 213,514 during the year 2019.

Recommendation

Staff appointments should be formal.

Comments of the Chief Accounting Officer

In view of the powers vested in Article 156 (F) (1) of the Constitution to recruit the required officers for proper discharge of functions of the Commission, the appointment was made in order to perform the functions of the Commission efficiently. I wish to inform that the cadre has been formally approved considering the payment of salaries from the consolidated fund.

(b) Since the cadre of the Procurement Monitoring Unit of the Commission consists of 01 Executive Grade Officer and 02 Non Executive Grade Officers, it is observed that there is no an adequate cadre to carry out its functions efficiently.

An adequate staff should be recruited in order to succeed the monitoring activities.

It was noted to be approved the required cadre after studying the works to be done.