

**Auditor General's Report for the year 2012 on Appropriation Head 123
Ministry of Constructions, Engineering Services, Housing and Common Amenities and
Departments under the Ministry**

This report consists of two parts.

**Part 1 – Summarized Report relating to the Accounts of the Ministry and Departments
under the Ministry.**

Part 2 - Detailed Report relating to Each Appropriation Head

Part 1

**Summarized report relating to Accounts of the Ministry of Constructions, Engineering
Services, Housing and Common Amenities and Departments under the Ministry.**

1. Departments under the Ministry

Expenditure Head	Department
309	Department of Buildings
310	Government Factory
311	National Physical Planning Department

2. Accounts

2.1 Appropriation Account

(a) Total Provision and Expenditure

While the total net provision made for the Ministry and 03 Departments under the Ministry amounted to Rs.3,018,422,253 and out of that a sum of Rs.2,442,438,408 had been utilized as at the end of the year under review. Accordingly, savings of the Ministry and each Department out of the net provision had been in a range between Rs.5,249,997 and Rs.532,017,595 or

between 3 per cent and 21 per cent of the net provision respectively. Details are shown below.

Appropriation Head	Ministry/ Department	<u>Net Provision as at 31 December 2012</u>		<u>Utilization as at 31 December 2012</u>		<u>Savings as at 31 December 2012</u>	
		Recurrent	Capital	Recurrent	Capital	Recurrent	Capital
-----	-----	-----	-----	-----	-----	-----	-----
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
123	Ministry of Construction, Engineering Services, Housing and Common Amenities	317,210,000	2,212,975,253	300,133,926	1,698,033,732	17,076,074	514,941,521
309	Department of Buildings	234,771,000	20,145,000	216,569,225	17,832,499	18,201,775	2,312,501
310	Government Factory	53,286,000	31,225,000	52,210,650	14,098,373	1,075,350	17,126,627
311	National Physical Planning Department	144,335,000	4,475,000	139,359,552	4,200,451	4,975,448	274,549
		-----	-----	-----	-----	-----	-----
Total		749,602,000	2,268,820,253	708,273,353	1,734,165,055	41,328,647	534,655,198
		=====	=====	=====	=====	=====	=====

(b) Utilization of Provisions made available by other Ministries and Departments

Provisions totalling Rs. 536,150,428 had been made available by other Ministries and Departments for various activities and the particulars of utilization of such provisions are given below.

Department	Provisions received	Actual Expenditure	Savings as at 31 December 2012	Summarized Observation on Savings
-----	-----	-----	-----	-----
	Rs.	Rs.	Rs.	
Department of Buildings	534,665,428	346,270,307	188,395,121	Unavailability of adequate imprests, delay in works due to suspension of the works of contractors, non-presentation of bills, failure in returning the balance to the client or taking into the State Revenue.
National Physical Planning Department	1,485,000	1,000,000	485,000	Non-presentation of bills

2.2 Advance Accounts

2.2.1 Advances to Public Officers Accounts

Limits Authorized by Parliament

The following limits authorized by Parliament on the Ministry and 03 Departments under the Ministry relating to Advances to Public Officers Accounts had been adopted.

Head	Item No.	Expenditure		Receipts		Debit Balance	
		Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
123	12301	9,000,000	7,657,693	4,000,000	8,553,277	80,000,000	23,497,785
309	30901	20,000,000	12,158,356	12,000,000	17,729,093	95,000,000	45,202,522
310	31001	28,000,000	18,437,053	18,000,000	23,119,299	127,000,000	88,871,083
311	31101	15,000,000	7,287,661	7,000,000	11,651,331	106,000,000	36,865,991

2.2.2 Commercial Advance Accounts

A Commercial Advance Account had been maintained by a Department under the Ministry.

(a) Limits Authorized by the Parliament

The following limits authorized by parliament on a Commercial Advance Account had been complied with.

Head	Item No.	Expenditure		Receipts		Debit Balance		Liabilities	
		Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual	Maximum Limit	Actual
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
310	31003	325,000,000	322,022,593	280,000,000	322,455,300	180,000,000	126,038,528	5,000,000	2,226,492

(b) Financial Results

Financial results of a Commercial Advance Account were as follows.

Department	Item No.	Advance Account Activity	Financial Results			
			2012		2011	
			Profit/(loss) without Hypothetical Charges	Profit/(loss) with Hypothetical Charges	Profit/(loss) without Hypothetical Charges	Profit/(loss) with Hypothetical Charges
			Rs.	Rs.	Rs.	Rs.
Government Factory	31003	Work done Advance Account	101,485,931	101,284,931	104,088,207	103,887,207

2.2.3 Non-Commercial Advance Accounts

Limits Authorized by Parliament

The following limits had been authorized by parliament on a Non-Commercial Advance Account activity of a Department under the Ministry and except for the limit of liability, the other limits had been complied with.

Head	Item No.	Expenditure		Receipts		Debit Balance		Liabilities	
		Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual	Maximum Limit	Actual
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
310	31002	130,000,000	125,346,384	120,000,000	134,817,796	40,000,000	30,687,057	20,000,000	21,242,636

2.3 Imprest and General Deposits Account

(a) Imprest Accounts

The total of the debit balances of Imprest Accounts of two Departments under the Ministry as at 31 December 2012 was Rs.4,478,795. Details are given below.

Department	Balance as at 31 December 2012
	Rs.
Buildings Department	196,006
Government Factory	4,282,789
Total	4,478,795

(b) General Deposits Accounts

The total of the Deposit Accounts of the Ministry and three Departments under the Ministry as at 31 December 2012 was Rs.725,176,215. Details are shown below.

Ministry/Department	Deposit Account No.	Balance as at 31 December 2012
		Rs.
Ministry of Constructions, Engineering Services, Housing and Common Amenities	6000/0000/000/0015/0079	3,681,453

Buildings Department	6000/0000/000/0015/0163 6000/0000/000/0015/0176	68,126,472 627,232,998
Government Factory	6000/0000/000/0015/0164 6000/0000/000/0015/0046	1,349,297 24,032,254
National Physical Planning Department	6000/0000/000/0015/0165	753,741
Total		<u>725,176,215</u>

Part 2

Detailed Report relating to each Appropriation Head

1. Appropriation Head 123- Ministry of Construction, Engineering Services, Housing and Common Amenities

1.1 Scope of Audit

The audit of the Appropriation Account including the financial records, reconciliation statements, books, registers and other records of the Ministry of Construction, Engineering Services, Housing and Common Amenities for the year ended 31 December 2012 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Secretary to the Ministry on 11 November 2013. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the Accounts and Reconciliation Statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

1.2 Responsibility of the Chief Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer is responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements 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 and Public Finance and Administrative Regulations. This responsibility also includes, designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

1.3 Audit Observations

According to the Financial Records and Books for the year ended 31 December 2012, it was observed that except the general observations appearing in (a) to (c) herein and the major audit findings appearing in paragraphs 1.4 to 1.8 below, the Appropriation Account and the Reconciliation Statements of the Ministry of Construction, Engineering Services, Housing and Common Amenities have been prepared satisfactorily.

(a) Budgetary Variance

- (i) The entire provision amounting to Rs.63,000,000 made by the supplementary estimates for two Capital Expenditure Objects had been saved due to non- receipt of cash imprest.

- (ii) The savings after utilization of the total net grant amounting to Rs.1,375,775,253 provided for 27 Capital Expenditure Objects amounted to 15 per cent due to non- receipt of sufficient cash imprest.

(b) General Deposit Account

Action in terms of Financial Regulations 571 had not been taken on a deposit over 02 years totalling Rs.1,008,578.

(c) Reconciliation Statement on Advances to Public Officers' Account

The outstanding balance of recoveries totalled Rs.71,670 according to the Reconciliation Statement as at 31 December 2012 on Advances to Public Officers' Account No.12301.The recovery of such outstanding balances had failed.

1.4 Good Governance and Accountability

1.4.1 Corporate Plan

Even though the Ministry should prepare a Corporate Plan at least for three consecutive years from the year 2010 and onwards at the beginning of the year in terms of the letter of Director General of Finance No.PF/R/2/2/3/5(4) dated 10 March 2010 addressed all Secretaries to Ministries, Chief Secretaries of Provincial Councils, Heads of the Departments, District Secretaries and Heads of Provincial Authorities, such a plan had not been prepared even by 31 December 2012.

1.4.2 Annual Performance Reports

The Annual Performance Report should be prepared by the Ministry and tabled in Parliament with a copy to the Auditor General within 150 days of the closure of financial year in terms of Public Finance Circulars No. 402 and No.402(1) of 12 September 2002 and 20 February 2004 of the letter of the Director General of Public Finance referred to in Paragraph 1.4.1 above. However, the Performance Report for the year under review had not been tabled in Parliament even by 01 November 2013.

1.4.3 Implementation of the Audit and Management Committee

The objective of the implementation of Audit and Management Committee had not been achieved as the Auditor General's reports and internal audit reports are not reviewed with the intention of taking correct steps and follow up action.

1.5 Performance

(a) Key Functions not executed adequately

The key functions of the Ministry had not been executed adequately and an instance so revealed is given below.

The functions relating to enforcement of the National policy on Construction, National Housing policy and the Construction Industry Development Act had not been finalized even by 31 December 2012.

(b) Functions not executed with long- term delays

A permanent Technical Committee had been established since the year 2008 to report on the estimates on engineering contracts and buildings offered to State Construction Institutions deviating from the General Procurement Procedure the charges payable therefor and to intervene into disputes arising on contracts accepted under the Consolidated Fund in terms of the decision of the Cabinet of Ministers No. १०३/०८/०९०५/३४४/०१० of 12 June 2008. The decision of the Committee had not been issued even by 31 July 2013 on 134 claims in respect of estimates of contracts presented to the permanent Technical Committee during the period 2008 to 2012 and the amount payable therefor according to the information presented to audit. The period of delay ranged from 01 to 05 years. Many problems such as inability to finalize the work, inability to pay final bills, inability to release the retention money had been occurred as a result of this delay.

The Secretary to the Ministry had informed that the presentation of incomplete documents, presentation of estimates which override the approval of the Cabinet of Ministers, amendment of Bills of Quantity after presentation, delays in obtaining explanations and lack of officers were the reasons attributed to this delay.

(c) Planning

Action not taken in accordance with the Annual Action Plan

It was observed that action had not been taken in accordance with the Action Plan in the following instances.

- (i) According to the Annual Action Plan, progress of the financial targets of the Janasewana Housing Project was 54 per cent only.
- (ii) Even though the financial and physical target of the second project “Sihina Niwasa” had been a sum of Rs.3,800,000 and 100 per cent respectively, the progress had been only a sum of Rs.1,800,000 and 47 per cent respectively.
- (iii) Even though the financial and physical targets of the Kahathuduwa Project had been a sum of Rs.50,000,000 and 100 per cent respectively, the progress had been only a sum of Rs.29,700,000 and 59 per cent respectively.
- (iv) Even though the financial and physical target of Mattegoda Project had been a sum of Rs.42,000,000 and 100 per cent respectively, the progress had been only a sum of Rs.11,100,000 and 25 per cent respectively.
- (v) Even though the financial and physical target of Janasewana “Kapruka” Project had been a sum of Rs.15,000,000 and 100 per

cent respectively the progress had only been a sum of Rs.5,900,000 and 39 per cent respectively.

1.6 Losses and Damages

The observations on losses and damages observed during the course of audit test checks are given below.

A loss of Rs. 1,624,068 had occurred due to the accident caused to vehicle of the Ministry on 07 April 2012. Out of the loss a sum of Rs.427,038 had not been covered by the insurance and action had not been taken in terms of Financial Regulation 104(04) in this regard.

1.7 Management Weaknesses

The following weaknesses were observed.

The Progress Reports prepared by some institutions under the Ministry had not been properly completed. Incomplete Progress Reports had been accepted and action had not been taken even to get them completed. As such, proper supervision on performance of some institutions under the Ministry had not been carried out by the Ministry. Several such instances are given below.

- (a) Even though the physical target relating to Janasewana Housing Project was 58,883 houses according to the Annual Action Plan, progress could not be measured as the actual values had not been included in the Progress Report.
- (b) The financial target of the project for demolition of unapproved constructions amounted to Rs.2,000,000. Its progress in the first quarter of the year 2012 had been noted as 5 per cent. The physical progress of other quarters had not been noted.

1.8 Human Resources Management

Approved and Actual Cadre

The position of cadre as at 31 December 2012 had been as follows.

Category of Employee	Approved cadre	Actual cadre	Number of Vacancies
(i) Senior Level	27	20	07
(ii) Tertiary Level	04	03	01
(iii) Secondary Level	87	73	14
(iv) Primary Level	44	35	09
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Total	<u>162</u>	<u>131</u>	<u>31</u>

2. Head 309 - Department of Buildings

2.1 Scope of Audit

The audit of the Appropriation Account, including the financial records, reconciliation statements, books, registers and other records of the Department of Buildings, for the year ended 31 December 2012 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of the Department on 11 November

2013. The audit observations, comments and findings on the accounts and reconciliation statements were based on a review of the Accounts and Reconciliation Statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

2.2 Responsibility of the Chief Accounting Officer and the Accounting Officer on the Accounts and the Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account, and the Reconciliation Statements 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 and Public Finance and Administrative Regulations. This responsibility includes; designing, implementing, maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

2.3 Audit Observations

It was observed that the Appropriation Account, and the Reconciliation Statements of the Department of Buildings had been satisfactorily prepared in accordance with the financial reports and books as at 31 December 2012; except for the common observations appearing in (a) to (c) of this report and main audit observations appearing in paragraphs 2.4 to 2.10 shown below.

(a.) Non-maintenance of Books and Registers

- (i) Register of Fixed Assets had not been maintained in an updated manner in accordance with the provisions of the Treasury Circular, No. 842 dated 19 December 1978.

- (ii) Due to non-availability of required evidence in the Department such as, files containing information, an identified loss of a vehicle valued at Rs. 732,711 could not be satisfactorily vouched in audit.

The Head of the Department informed that the said vehicle had been released to a ministerial security division between the period from 2000 - 2002 , the vehicle had been returned to the Department after removing some parts and action would be taken to write off a sum of Rs. 116,775 spent on the repair by replacing similar parts.

(b.) General Deposit Account

The following observations are made.

- (i) Action had not been taken in terms of Financial Regulation 571 in respect of 211 deposits amounting to Rs. 54,899,287 which had lapsed for more than 2 years.
- (ii) A sum of Rs. 94,286 sent by other Ministries and Departments for miscellaneous activities had been spent for recurrent expenditure of the Chief Engineer's Office (Maintenance) in Colombo.
- (iii) Of the money received for repairs and constructions of the Department of Archeology, a sum of Rs. 1,142,120 that had been saved after completion of the relevant activities, had not been returned to that Department.

(c.) Reconciliation Statement on the Advances to Public Officers Account

In accordance with the reconciliation statement bearing item No. 30901 of the Advances to Public Officers Account as at 31 December 2012, the total of the balances that remained outstanding as at that date amounted to Rs. 572,770, and those balances could not be recovered.

2.4 Good Governance and Accountability

2.4.1 Annual Performance Reports

In accordance with Public Finance Circulars, No. 402 and 402(1) dated 12 September 2002, and 20 February 2004 mentioned in the letter No. PF/R/2/2/3/5(4) of the Director General of Public Finance dated 10 March 2010, the Annual Performance Report prepared by the Department should be tabled in Parliament with a copy to the Auditor General within 150 days after close of the financial year. However, the performance report for the year under review had not been tabled in Parliament even by 01 November 2013.

2.4.2 Internal Audit

An internal audit unit had not been established in terms of Financial Regulation 133 and the provisions of paragraph 3 of the Management Audit Circular, No. DMA/2009 (1) dated 09 June 2009. An internal audit had not been carried out even by the Internal Audit Unit of the Ministry of Construction, Engineering Services, Housing & Common Amenities.

2.4.3 Implementation of the Audit and Management Committee

As reports of the Auditor General and internal audit reports are not reviewed with the objective of taking follow-up action and corrective measures, the objective of implementing audit and management committee had not been achieved.

2.5 Non-compliances

Non-compliances with Laws, Rules, Regulations, etc.

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

References to Laws, Rules and Regulations -----	Value ----- Rs.	Non-compliance -----
<u>Financial Regulations of the Democratic Socialist Republic of Sri Lanka</u>	241,275,062	The authority to certify the payments of the Chief Engineer's Offices had been vested in the Deputy Chief Engineer, a post not included in the approved staff.
Financial Regulation 135		Further, both activities such as certification and approval, had been done by the same officer.
Financial Regulation 138	277,972	Payments had been made for 05 uncertified vouchers in the Colombo Chief Engineer's Office (Maintenance).

2.6 Weaknesses in Implementing Projects

<u>Delays in Implementing Projects</u>					
The following delays in the implementation of projects by the Department were observed. Project	Estimated Cost ----- Rs.	Date Commenced -----	Date to be Completed -----	Expenditure as at 31 December 2012 ----- Rs.	Reasons for the Delay -----
----- Construction of a new building for the Jaffna district office of the Department of Motor Traffic.	16,800,000	15.02.2010 ..	14.08.2012	9,520,000	The contractor was the State Development and Construction Corporation. This project had been delayed due to financial difficulties of the said institute.

Construction of the laboratory of the Paddy Research Institute, and installation of an elevator.	110,110,000	23.05.2008	23.05.2010	18,995,041	The contractor was the State Development and Construction Corporation. This project had been delayed due to financial difficulties of the said institute.
Construction of the official quarters of the Paddy Research Institute, in Samanthurai	7,680,000	27.06.2012	31.08.2012	3,900,000	The works had been delayed due to the delay of the contractor (although provisions amounting to Rs. 7,400,850 had been received, a sum of Rs. 5,585,635 had been returned as the year of accounts was closed)
Construction of the Post Office in Guruthalawa, Badulla	11,850,000	17.06.2012	15.11.2012		Heavy rains, and the delay in fixing the door of the safe closet.

2.7 Performance

Key Functions not executed adequately

The key functions of the Department of Buildings had not been executed adequately and an instance so revealed is given below.

Preparation of building plans and estimates and carrying out constructions within the limits of provisions made under expenditure heads of the Government Departments and other Government institutions are the main objectives of the Department. Even though Rs.122,044 million had been allocated for the Buildings and Constructions Expenditure Heads by the annual budget, 2012, only 127 projects valued at Rs.1,259 million or 1.03 per cent had been implemented. Action had not been taken either to plan necessary activities aiming at the main objectives of the Department or focus an adequate attention thereon.

2.8 Irregular Transactions

Certain transactions entered into by the Department had been devoid of regularity. Several such instances observed are given below.

(a) Deviation from Government Procurement Procedure

The following observations are made.

- (i) As contractors for the repairs and maintenance had been selected by utilizing the emergency procurement method specified in Section 3.8 of the Procurement Guidelines, the Department had deviated from taking action in competitive nature as specified in Chapter 3 of the said Guidelines. It was revealed in an audit test check that while taking action in this manner, contracts for repairs and maintenance valued at Rs.530,757,701 and Rs. 135,873,040 had been awarded during the period from October 2007 to December 2011 and during the year 2012 respectively.
- (ii) Having divided the estimated total cost of Rs.22,156,020 of 03 repairs and maintenance works subjected to the sample, into 19 segments, the Chief Engineer

(Maintenance), Colombo had awarded them to the contractors selected as in the above manner under 19 programmes.

(b) Transactions Without Authority

The following observations are made.

- (i) Even though the period of contract of the registered contractors had not been extended for the period from 01 January 2012 to 28 February 2012, the Chief Engineer (Maintenance), Colombo had awarded 12 repairs and maintenance works to the contractors registered in the year 2011, during the period from January to 28 February, 2012 without authority. The total value thereof amounted to Rs.6,665,738.
- (ii) Even though powers had been vested for assigning works to one contractor within the total financial limits of Rs.20 million, the Chief Engineer (Maintenance), Colombo had assigned works to two contractors in 28 instances exceeding the above financial limit. The total value that exceeded the 20 million financial limit was Rs.14,681,574.

(c) Other

The following observations are made.

- (i) Having estimated the Special Schedule of Rate (SSR) values, the Chief Engineer (Maintenance), Colombo had prepared work sheets and after revising the SSR value based on the actual bills made available by the contractors on completion of the work, those had been forwarded seeking approval of the Management Committee. Further, in accordance with the provisions in the Circular No.02/2010 dated 23 June 2010 issued by the Director General of Buildings, the approval of the Management Committee of the Head Office should be obtained before making payments for the SSR values. The following observations are made in this connection.

- In estimating SSR values, market price had not been obtained for the establishment of the value of the materials.
 - The method of revising SSR values based on the actual bills submitted by the contractors was questionable.
 - It was established that there was a delay in granting approval for the SSR values.
 - The SSR value totalling Rs.7,286,566 prepared for 09 programmes had been entirely paid to the contractors prior to grant the approval.
- (ii) There were instances where programmes had been issued to the contactors after the commencement of the relevant repair or maintenance works, and in most cases after the completion of the work. (Out of 207 programmes the total cost of which amounted to Rs.108,445,767 issued by the Chief Engineer (Maintenance), Colombo during the period from 01 March 2012 to 31 December 2012, 48 programmes costing Rs.26,106,434 had been issued after the commencement or completion of the work and it represented 23 per cent) This is a major weakness of the internal control system and this had paved the way for making payments to the contractors without charging demurrage charges in terms of the conditions relating to the programmes..

2.9 Management Weaknesses

The following weaknesses were observed

Unresolved Audit Paragraphs

After examining the audit paragraphs included in the Auditor General’s Report relating to the Department by the Committee on Public Accounts, the audit observations of which follow-up actions had not been completed are given below.

Reference to the Report of the Referred Subject

Auditor General

Year Paragraph No.

2009	05 (c)	Action should have been taken forthwith to settle the internal issues crop up as a result of irregular nature in making payments at Regional Engineering Offices and failure to appoint the Chief Accountant to the Procurement Committee of the Department, whereas it had not been so done.
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2.10 Human Resources Management

Approved Cadre and Actual Cadre

The position on the cadre as at 31 December 2012 had been as follows.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
	-----	-----	-----	-----
(i)	Senior Level	110	65	45
(ii)	Tertiary Level	23	03	20
(iii)	Secondary Level	208	169	39
(iv)	Primary Level	178	138	40
		-----	-----	-----
	Total	519	375	144
		=====	=====	=====

3. Appropriation Head 310- Government Factory

3.1 Scope of Audit

The audit of the Appropriation Account including the financial records, reconciliation statements, books, registers and other records of the Government Factory for the year ended 31 December 2012 was carried out in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of the Department on 11 November 2013. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

3.2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Accounts and the Reconciliation Statements in accordance with the provisions in Articles 148,149,150 and 152 of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Financial and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

3.3 Audit Observations

According to the financial records and books as at 31 December 2012, it was observed that except for the effects of the general observations appearing at (a) to (e) and major audit findings appearing in paragraphs 3.4 to 3.12 herein, the Appropriation Account and the reconciliation statements of the Government Factory had been prepared satisfactorily.

(a) Non-maintenance of Registers and Books

- (i) It was observed during audit test checks that the Department had not maintained the following registers in a proper and updated manner.

Type of Register	Relevant Regulation
Register of Ad-hoc Sub Imprests	Financial Regulation 371
Register of Motor Vehicles, Log Books and Running Charts	Public Administration Circular No.6/99 of 22 February 1999
Register of Fixed Assets	Treasury Circular No. 842 of 19 December 1978
Register of Losses and Damages	Financial Regulation 110

- (ii) Loans totalling Rs. 165,379 issued to 06 public officers and recovery of loans from them could not be satisfactorily vouched in audit due to the unavailability of required evidence such as loan files and other relevant details in the Department.

(b) Provisions obtained under the Project of Supplementary Support Services and Contingent Liabilities

- (i) The entire provisions amounting to Rs.11,500,000 made by supplementary estimates for a Capital Object had been saved due to non-receipt of Imprests.
- (ii) The savings, after the utilization of provisions amounting to Rs.5,500,000 made by supplementary estimates for a Capital Object, amounted to Rs.4,336,945 and it was 78 per cent of the entire provisions.

(c) Imprest Account

Even though the ad hoc sub-impressts obtained should be settled immediately after the completion of the purpose in terms of Financial Regulation 371, the ad hoc sub-impressts amounting to Rs.155,651 had been settled after a delay of 01 month to 03 months from the completion of the purpose.

(d) Reconciliation Statement of the Advances to Public Officers Account

According to the Reconciliation Statement as at 31 December 2012 relating to the Advances to Public Officers Account Item No.31001, the outstanding balances comprising a sum of Rs.1,103,512 due from deceased and retired officers, a sum of Rs.312,550 due from interdicted officers and a sum of Rs.721,152 due from officers who had vacated posts as at that date, totalled Rs.2,137,214 and the recovery of those outstanding balances had failed.

(e) Commercial Advance Accounts

The following observations are made.

- (i) An adverse audit opinion has been expressed on the Commercial Advance Account prepared for the year 2012.
- (ii) The outstanding balances due from 811 Government institutions within a period ranging from the year 1995 to the year 2008 in the Work Done Advance Account Item No.31003 totalled Rs.82,575,255 and the recovery of those outstanding balances had failed.

3.4 Good Governance and Accountability

3.4.1 Annual Performance Reports

Even though the Annual Performance Report which should be prepared by the Department in terms of Public Finance Circular Nos. 402 and 402(1) of 12 September 2002 and 20 February 2004 respectively mentioned in the Letter No. PF/R/2/2/3/5(4) of 10 March 2010 of the Director General of Public Finance should be tabled within 150 days after closure of the financial year with a copy to the Auditor General, the Performance Report relevant to the year under review had not been tabled in Parliament even by 01 November 2013.

3.4.2 Internal Audit

An Internal Audit Unit had not been established in terms of Financial Regulation 133 and provisions in paragraph 03 of the Management Audit Circular No. DMA/2009(1) dated 09 June 2009. Moreover, an audit had not been carried out even by the Internal Audit Unit of the Ministry of Constructions, Engineering Services, Housing and Common Amenities.

3.4.3 Implementation of Audit and Management Committee

The objective of the implementation of Audit and Management Committee had not been fulfilled due to failure in the review of Auditor General's Reports and internal audit reports with a view to taking correct measures and follow up action.

3.5 Assets Management

(a) Idle and Under-utilized Assets

It was observed in audit test checks that certain assets had been lying idle or under- utilized as categorized below.

Type of Assets	No. of Units	Idle or Under-utilized Period
-----	-----	-----
(i) Lands	An extent over 02 acres	It was confirmed that this land is enjoyed by unauthorized occupants over a period of 20 years.
(ii) Buildings (Official Quarters)	02	01 Year
(iii) Motor Vehicles	03	The idle period of two motor vehicles could not be determined and one motor vehicle had remained idle since 02 years.
(iv) <u>Machinery</u>		
Hollow Chisel Moriser & Borer	01	For a period of over 10 years.
Powder Coating Machine	01	For a period of over 01 year.
Metal Sheet Cutting Machine	01	For a period of over 02 years.

3.6 Non-compliances

(a) Non-compliance with Laws, Rules, Regulations etc.

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

Reference to Laws, Rules, Regulations etc.	Value	Non-compliance
-----	-----	-----
(i) <u>Establishments Code</u>		
Sub sections 1:1 and 2:3 of Chapter XIX of the Establishments Code	30,260,000	Eight quarters had been constructed with an extent of square feet less than the prescribed extent of square feet for the Staff Grades and they had not been graded.

Sub section 4:2 of Chapter XIX of the Establishments Code

Government quarters belonging to the Staff Grade had been granted without adopting a fair policy and those had been granted to Non-Staff Grade Officers as well.

Sub section 6:1 of Chapter XIX of the Establishments Code

There were 15 instances where the quarters were being occupied by occupants exceeding the lease period of 05 years.

3.7 Performance

Planning

Non-compliance with the Annual Action Plan

It was observed that action had not been taken in accordance with the Action Plan in the following instances.

Project	Targeted Income according to the Action Plan	Targeted Income according to the Annual Progress Report	Annual Progress according to the Progress Review Reports	Percentage of the Annual Progress	
-----	-----	-----	-----	-----	
	(Rs.Millions)	(Rs.Millions)	(Rs.Millions)		
Deduru Oya Project- Construction and fixation of 08 spillway gates	155	50	19.69	13	} According to the Action Plan
Aththikkawa Project – Construction of 04 spillway	30	8.33	4.03	13	

gates
Kaligama
Project –
Construction
of 04
spillway
gates

- 5 1.38 28

According
to the
Progress
Report

3.8 Deficiencies in operation of Bank Accounts

Proper internal control procedures had not been adopted in the financial control of the Government Factory and the accuracy and transparency of the Bank Reconciliation Statements prepared as at 31 December 2012 or the accuracy of the bank balance as at that date could not be satisfied in audit.

The reasons in that connection are as follows.

- (a) Bank Reconciliation Statements for the 08 months from January to August 2013 had not been prepared even by 15 September 2013.
- (b) The Bank Reconciliation Statement for December 2012 had been prepared in April 2013.
- (c) The preparation and examination of the Bank Reconciliation Statement for the year 2012 had not been certified.
- (d) It was confirmed that the Bank Reconciliation Statement prepared as at 31 December 2012 had not been prepared accurately due to the following reasons.
 - (i) Even though unrealized deposits of Rs. 8,242 had been shown in the Bank Reconciliation Statement, according to the Cash Book it was Rs. 28,242.
 - (ii) The cheque valued at Rs. 23,408 paid by 31 December 2012, had been shown in the Bank Reconciliation Statement as a cheque not presented to the bank.
 - (iii) The cheque valued at Rs. 28,938 not presented to the bank for payment by 31 December 2012 had been shown as Rs. 22,282 in the Bank Reconciliation Statement.
 - (iv) According to the Bank Reconciliation Statement relating to November 2012, 02 cheques valued at Rs. 141,091 had not been presented to the bank for

payment and they had not been presented even during December 2012. However, that value had not been shown in the Bank Reconciliation Statement.

- (v) Four cheques totalling of Rs. 86,682 that could not be identified as cheques issued according to the Cash Book, had been included in the Bank Reconciliation Statement as cheques not presented for payment.

3.9 Transactions of Contentious Nature

Certain transactions carried out by the Department had been of contentious nature. Details of a few transactions so revealed at the audit test checks are given below.

- (a) Goods received contrary to specifications had to be returned due to non-attachment of the raw material sample sent to the suppliers in the office file and payment of the total sum of Rs. 31,500 to the supplier before supplying goods. Even though it was confirmed at the physical verification that the goods had been manufactured using a different raw material other than the required raw material sample, the transaction on 18 overalls purchased in the year under review had been contentious due to matters such as all the goods had been taken back according to the incorrect recommendations in the investigation report obtained by appointing the Assistant Legal Officer of the Department as an Investigation Officer.
- (b) A sum of Rs. 560,000 had been spent during the year under review for purchase of 1000 kilograms of Powder Coating Powder not suited for the requirement and as the materials had been supplied after the recommendations of the Technical Evaluation Committee stating that the samples are accurate, the supplier had refused to take back the materials.
- (c) Two items of Dryer Elements had been purchased by spending a sum of Rs. 29,000 on 31 December 2012 and as required specifications had not been properly identified, it could not be confirmed whether the most appropriate and the most

necessary equipment had been purchased. Moreover, payments had been made for an invoice without the name and the address of the supplier and evidence on confirmation of receipts, goods receive note, reference to notes of stock books and issue orders were not available. Even though it had been noted that these equipment had been utilized for Job Card No.1634, according to the relevant file, it had not been reported whether those 02 equipment had been purchased or issued for the said purpose.

- (d) One Air Compressor had been purchased by spending a sum of Rs. 20,000 on 31 December 2012 and as required specifications had not been properly identified, it could not be confirmed whether the most appropriate and the most necessary equipment had been purchased. Moreover, the specifications of identification such as the trade name and serial numbers had not been mentioned in the invoice or any other register and it was noted that it had been utilized for Job Card No.4005. Nevertheless, according to the relevant file it had not been reported whether this equipment had been purchased or issued for the relevant purpose. Even though it had been noted that the relevant machine had been included in an inventory, the relevant inventory could not be identified. Even though 01 Air Compressor with the trade mark HITECH BRAND had been submitted for the physical verification, it could not be confirmed whether it was the same item purchased on the aforesaid date, as an inventorized identification number had not been mentioned
- (e) Despite the availability of equipment and employees necessary for welding purposes in the factory, welding works had been given to an external party on 05 December 2012 by spending a sum of Rs.2,142,000. According to the file relating to Job Card No.2083 on which the service had been obtained, it could not be confirmed that the service had been obtained. Moreover, documentary evidence was not available relating to the period during which the service had been obtained or the quotations or the manner in which the value of invoice had been computed or explanations thereon.

3.10 Irregular Transactions

Certain transactions entered into by the Department had been irregular.

A few such instances observed are given below.

Deviations from the Procurement Procedure

- (i) A stock of timber logs valued at Rs. 4,592,228 had been purchased during the year under review. The approval of the Procurement Committee had been obtained after a period of 35 and 98 days from the date of purchase.
- (ii) A stock of Mahogany timber had been directly purchased from the State Timber Corporation on 08 February 2012 by spending a sum of Rs. 3,970,111 without calling for competitive bids according to the formal procurement procedure. Out of that, a stock valued at Rs. 3,229,557 had been stored without a rain shelter even by 29 March 2013.

3.11 Human Resource Management

(a) Approved Cadre and the Actual Cadre

The cadre position as at 31 December 2012 was as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
-----	-----	-----	-----
(i) Senior Level	21	15	06
(ii) Tertiary Level	07	05	02
(iii) Secondary Level	156	125	31
(iv) Primary Level	445	346	99
Total	----- 629 ===	----- 491 ===	----- 138 ===

(b) Control over Duty Hours of Officers

The following observation is made.

Authority to approve the requests made for authority of revising the time of arrival and departure and clearly mentioning the plausible instances of change in time had not been assigned in writing to each Divisional Head. The name and designation of the officer had not been included and signed so as to identify the officer who had granted approval for alterations and letters of requests with approval had not been numbered, serially dated and filed and maintained properly. Approval had been granted to alter the times with delays of 15, 20 and 45 minutes frequently. Five out of 09 samples subjected to checks revealed that the times of arrival and departure of those officers had been revised without approval. Among them the approval for revision of time of a female officer had been fraudulently prepared and submitted subsequently while another officer had obtained duty allowances by revising the time without approval. Approval had not been granted for duty leave of 02 officers for certain days which had been noted as duty leave in the Leave Register.

4. Appropriation Head 311 – Department of National Physical Planning

4.1 Scope of Audit

The audit of the Appropriation Account including the financial records, reconciliation statements, books, registers and other records of the Department of National Physical Planning for the year ended 31 December 2012 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 was issued to the Head of the Department on 11 November 2013. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

4.2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statement 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 and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

4.3 Audit Observations

According to the financial records and books for the year ended 31 December 2012, it was observed that except for the effects of the general observations appearing at (a) and (c) and major audit findings appearing from paragraphs 4.4 to 4.8 herein, the Appropriation Account and the Reconciliation Statements of the Department of National Physical Planning had been prepared satisfactorily.

(a) Non-maintenance of Registers and Books

(i) It was observed during audit test checks that the Department had not maintained the following registers while certain other registers had not been maintained in the proper and updated manner.

Type of Register	Relevant Regulation
-----	-----
Register of Fixed Assets	Treasury Circular No. 842 of 19 December 1978.
Register of Losses and Damages	Financial Regulation 110
Register of Fixed Assets to be maintained separately in respect of Computers and Software.	Treasury Circular No. IAI/2002/02 of 28 November 2002

- (ii) Replies to 03 audit queries issued to the Department in the year under review and 04 audit queries issued in the preceding year had not been furnished even by 31 March 2013 and the value of the quantifiable transactions relating to those audit queries amounted to Rs. 27,022,852.

(b) Incurring of Commitments exceeding the Financial Provisions.

The income of the service charges amounting to Rs.1,000,000 received in the year under review had not been credited to the State Revenue and instead of that, it had been surcharged to the several Objects of the Department. The provisions could be spent had increased due to the decrease of the expenditure of those Objects. A sum of Rs.700,000 had been paid for recurrent expenditure such as repairing of vehicles, purchase of stationery ,payment of overtime and a sum of Rs.300,000 had been paid for the conference held by the Department in the year 2011 by utilizing those increased provisions. Due to the erroneous accounting method used as above the expenditure incurred exceeding the approved financial provisions was not disclosed from the accounts contrary to the provisions of the Financial Regulation 94 .

(c) Transactions Contrary to the Objectives.

Liabilities incurred exceeding the limit in the preceding year amounting to Rs.300,000 had been settled by utilizing the provisions received from the Ministry of Buddha Sasana and Religious Affairs for another specific activity.

(d) Reconciliation Statement on the Advances to Public Officers Account

The following observations are made.

- (i) According to the Reconciliation Statement of the Advances to Public Officers Account Item No. 31101 as at 31 December 2012, the balances that remained outstanding as at that date totaled Rs.1,117,434 and the Department had failed to recover those outstanding balances.
- (ii) Out of those outstanding loan balances a loan balance of Rs.121,305 outstanding for over 03 years, out of the property loan granted to an officer in the year 1997 contrary to the provisions of the Establishments Code could not be recovered from the relevant officer.
- (iii) Actions taken for the recovery of the loans or reasons for non –recovery of the loans were not revealed in audit due to non-presentation of the loan files relating to the total outstanding from balances amounting to Rs.357,217 to

audit. The officers responsible for the files had informed the audit that those files could not be found.

4.4 Good Governance and Accountability

4.4.1 Corporate Plan

Even though a Corporate Plan should be prepared by the Department at least for 03 years from the year 2010 onwards at the beginning of the year in terms of the Letter No.PF/R/2/2/3/5(4) dated 10 March 2010 of the Director General of Public Finance addressed to all Secretaries to Ministries, Chief Secretaries of Provincial Councils, Heads of Departments, District Secretaries and Heads of Local Authorities, such a plan had not been prepared even by 31 December 2012.

4.4.2 Annual Performance Reports

Even though the Annual Performance Report that should be prepared by the Department in terms of Public Finance Circular No.402 dated 12 September 2002 and No.402(1) dated 20 February 2004 referred to in the letter No. PF/R/2/2/3/5(4) of the Director General of Public Finance dated 10 March 2010 should have been tabled in Parliament with a copy to the Auditor General within 150 days after the closure of the financial year, the performance report for the year under review had not been tabled in Parliament even up to 01 November 2013.

4.4.3 Internal Audit

An Internal Audit Unit had not been established in terms of the provisions of Financial Regulation 133 and paragraph 03 of the Management Audit Circular No.DMA/2009(1) of 09 June 2009 . Further, an internal audit had not been carried out even by the Internal Audit Unit of the Ministry of Constructions, Engineering Services, Housing and Common Amenities.

4.4.4 Implementation of the Audit and Management Committee

The objective of implementation of the Audit and Management Committee had not been achieved as the Reports of the Auditor General and the Internal Audit Reports are not reviewed with a view to taking proper action and follow up action.

4.5 Assets Management

Non-maintenance of Information on the Assets belonging to the Department

According to the Appropriation Account prepared for the year ended 31 December 2012, the value of the buildings and constructions belonging to the Department amounted to Rs.11,154,709 while the value of lands belonging to the Department had not been shown in the account. The deeds or any other equivalent document to confirm the extent or the ownership of the lands and buildings of the Department, and the particulars such as approval, letters of transfers and acknowledgement on taking over relating to the lands and buildings transferred to other parties were not made available in the Department.

4.6 Non-compliances

(a) Non-compliance with Laws, Rules, and Regulations etc.

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

Reference to Laws, Rules and Regulations	Value	Non-compliance
	Rs.	
(i) Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
Financial Regulation 94(i)	1,838,761	Commitments had been incurred exceeding the provisions in the Annual Estimate during the year under review.
Financial Regulations 102,104,109	60,389	Responsibility had not been fixed after inquiries held in respect of an accident to a motor vehicle and action had not been taken either to recover or write off the damage.

(ii) Public Administration
Circulars

Circular No.14/2008 of 26 2,160,000 Transport allowances had been paid to 06
June 2008 and Treasury officers so as to receive personal financial
Circular No.BD/A/AO/BC of benefits.
07 October 2012

(iii) Public Finance Circulars

Circular No.422 of 30 July Due to non-submission of a detailed report
2006 relating to the assets belonging to the
Department as at 31 December 2012 to the
Department of Public Finance, the extent ,
ownership and value of the lands and
buildings belonging to the Department
could not be ascertained.

4.7 Management Weaknesses

(a) Collection of Revenue

The following observations are made.

- (i) The authority for collection and remittance of rental income of circuit bungalows and rest houses had not been delegated to anyone. Nevertheless, that rental income had been collected by engaging circuit and rest house keepers.
- (ii) The Register of Counterfoil books had not been properly maintained while the name and the designation of the officer who has taken over Receipts Books had not been recorded in the register. A receipt of acceptance in a Form General 219 had not been filed to the effect that Receipts Books had been taken over.
- (iii) A written request of a Head of a Branch stating the requirement of the Receipts Books had not been submitted while Receipts Books had been issued without an approval of a staff officer.
- (iv) A large number of books including 100 receipts had been issued at a time to Branch Offices without estimating the number of receipts which could be used for one or two months. In issuing books, new Receipts Books had been issued without confirming that all books issued previously were used or the books used were returned to the Head Office.

- (v) The total number of Receipts Books issued to the Branch Offices in Kataragama, Mahiyangana, Polonnaruwa, Devinuwara and Anuradhapura and to the Shroff of the Head Office during the period from the year 2000 up to 2012 stood at 1,211. Out of that, 102 Receipts Books had been used and returned to the Head office. Accordingly, 1,109 Receipts Books had not been returned to the Head Office. Adequate documentary evidence so as to confirm that the books not returned were the books used to collect the income were not made available. Further, the reports on income received from Branch Offices during the period from the year 2000 up to 2011 had also not been furnished to audit.
- (vi) The money remitted to the Head Office from Branch Offices had not been reconciled with the report on income received from Branch Offices and with the copies of receipts issued by Branch Offices .
- (vii) A receipt had not been issued in respect of the money remitted to the Head Office from Branch Offices.
- (viii) Even though the money remitted to the Head Office from Branch Offices should be immediately debited to the Cash Book of the Head Office, instances of debits made with delays were observed.
- (b) The Department as well as the circuit keepers were engaged in the allocation of circuit bungalows to the tourists and collecting charges therefor, while Receipts Books for collection of charges had been issued to the circuit keepers without any internal control. Thus, the possibility of occurring financial irregularities could not be ruled out in audit.

4.8 Human Resources Management

Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2012 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	40	14	26
(ii) Tertiary Level	13	02	11
(iii) Secondary Level	122	80	42
(iv) Primary Level	47	26	21
Total	222	122	100