

Report of the Auditor General on Head 130 Ministry of Local Government and Provincial Councils – Year 2014

Paragraphs 1 and 2 of this Report contain the general information on the Accounts of the Ministry and the Audit Observations on Head appear in Paragraph 3 onwards.

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 Local Government and Provincial Councils for the year ended 31 December 2014 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 Chief Accounting Officer of the Ministry on 20 July 2015. 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 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.

2. Accounts

2.1 Appropriation Account

Total Provision and Expenditure

The total net provision made for the Ministry amounted to Rs.11,112.24 million and out of that a sum of Rs.9,517.43 million had been utilized by the end of the year under review. Accordingly, the savings out of the net provision amounted to Rs.1,594.81 million or 14.4 per cent of the net provision. Details appear below.

Expenditure	<u>As at 31 December 2014</u>			Savings as a Percentage of Net Provision
	Net Provision	Utilization	Savings	
	Rs.Millions	Rs.Millions	Rs.Millions	
Recurrent	1,583.94	1,273.87	310.07	19.6
Capital	9,528.30	8,243.56	1,284.74	13.5
Total	11,112.24	9,517.43	1,594.81	14.4

2.2 Advances to Public Officers Account

Limits Authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers Account of the Ministry and the actual amounts are given below.

Item Number	Expenditure		Receipts		Debit Balance	
	Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions
13001	8.00	6.47	3.90	4.74	35.00	24.99

2.3 Audit Observation

According to the Financial Records and Books for the year ended 31 December 2014, it was observed that subject to the audit observations appearing in paragraph 1.1 of the Management Audit Report, the Appropriation Account and the Reconciliation Statements of the Ministry of Local Government and Provincial Councils have been prepared satisfactorily. The material and important observations out of the observations included in the Management Audit Report appear in paragraph 3.1 to 3.10 herein.

3. Head 130 – Ministry of Local Government and Provincial Councils

3.1 Non – maintenance of Registers and Books

It was observed during audit test checks that the Ministry had not maintained the following registers.

Type of Register -----	Relevant Regulation -----
(i) Register of Cheques and Money Orders	Financial Regulation 451
(ii) Register of Attendance for Procurement Committee and Technical Evaluation Committee members	Guideline 2.11.2 of the Government Procurement Guidelines.
(iii) Minutes of the Meetings	Guideline 2.11.3 (a) of the Government Procurement Guidelines.
(iv) Register of Invitation of Bids	Guideline 5.2.1 of the Government Procurement Guidelines.

3.2 Appropriation Account

(a) Budgetary Variance

The following observation is made.

Excess provisions of Rs.1,482,023,498 had been made for 34 Objects and as such the savings after the utilization of provisions ranged between 6 per cent and 100 per cent of the net provisions relating to the respective Objects.

(b) Utilisation of Provisions made available by other Ministries

Provisions amounting to Rs.4,395 million had been granted by the Ministry of Economic Development to the Ministry of Local Government and Provincial Councils for Development of Access Roads and Renovation of Rural Bridges and to construct new bridges. Out of those provisions a sum of Rs.1,903 million had been utilized. The Secretary to the Ministry of Local Government had instructed to purchase galvanized pipes for various purposes including constructions of sheds by utilizing those provisions on 09,15 and 20 October 2014 and 40,056 galvanized pipes to the value of Rs.44,347,822 had been purchased based on that decision. The following deficiencies were observed at the audit checks carried out in respect of those transactions.

- (i) Even though the procurement process should ensure so as to accomplish the objectives mentioned in the Guideline 1.2.1 of the Government Procurement Guidelines. The above procurements amounting to Rs.44,347,822 had been split into 6 instances and purchased through shopping procedure during 28 October to 14 November 2014 without following the open competitive bidding procedure.
- (ii) The quotations had been called for galvanized pipes to be utilized only for flag pillars without obtaining a certificate either from the Technical Evaluation Committee or from a person who has a knowledge thereon when deciding specifications of the galvanized pipes.
- (iii) A written request relating to the requirement of flag pillars had not been made by the Local Authorities, while 40,056 flag pillars amounting to Rs.44,347,822 had been provided for 77 Local Authorities in 9 Districts. According to the information called by a letter dated 28 January 2015 from the Local Authorities, as a sample it was observed that the flag pillars provided had been dumped in those institutions without utilising them in any of the effective activity by the respective Local Authorities.

3.3 Reconciliation Statement of the Advances to Public Officers Account

According to the Reconciliation Statement of the Advances to Public Officers Account Item No.13001 as at 31 December 2014 presented to audit, the balances that remained outstanding as at that date totalled Rs.1,244,434. Even though those outstanding balances remained brought forward for a period ranging from 06 months to 05 years, satisfactory action had not been taken to recover those outstanding balances.

3.4 Non- compliances

Non – compliance with Laws, Rules and Regulations etc.

Even though 47 mobile sheds valued at Rs.1,419,870 at the rate of Rs.30,210 per unit given to eight Pradeshiya Sabhas should be included in the Stock Register of the Ministry in terms of the Financial Regulation 751, it was not so done even as at 31 December 2014.

3.5 Foreign Funded Projects

The estimated cost of 11 projects implemented under foreign financing by the Ministry during the year under review amounted to Rs.76,257 million, while a sum of Rs.3,326 million had been utilized for those projects. The following observations are made relating to 06 foreign funded projects subjected to audit as at 30 June 2015.

(a) Greater Colombo Waste Water Management Project

It was planned to award a contract at Rs.290 million on 13 January 2014 for constructions and improvements in the Wanathamulla Area and to complete on 27 January 2015. But the physical progress of it was only 13 per cent even by 19 February 2015 which elapsed the target date.

(b) Provincial Road Development Project

The following observations are made in this regard.

- (i) Asphalt Premix Paving Machine purchased by the project without carrying out a proper feasibility study incurring a sum of Rs.29,827,931 had been given to Provincial Road Development Authority of the Central Provincial Council in December 2013. That machine had been utilized only for 05 days by the Provincial Road Development Authority from the date which the machine provided even up to 21 May 2015, the date of audit.
- (ii) The effectiveness of the 08 Tippers valued at Rs.24,306,303 and 08 Double Drum Steel Wheel Rollers valued at Rs.9,950,858 given to Development, Construction and Machinery Authority of the Sabaragamuwa Provincial Council by the project had been at a minimum level.
- (iii) Fifteen Plate Compactors and 16 Grass Cutter Machines given to Provincial Department of Engineering Services of the Sabaragamuwa Provincial Council incurring sums of Rs.2,940,499 and Rs.703,999 respectively by the project had not been utilized in an any effective activity even by 12 May 2015 the date of audit.
- (iv) The progress of the Road Package SG2KG3 to be completed on 15 March 2015 had been 73 per cent as at 30 June 2015 and the progress of the Road Package SG3RP1 had been at a very weak level of 46 per cent.

(c) Road Sector Assistance Project

The following observations are made.

- (i) A sum of Rs.479,250 had been spent from the project funds to obtain air tickets from Katunayake to Mattala and for food and beverages for 42 officers participated on a trip to Mattala including 3 officers and 39 officers of the project and the Ministry respectively.

- (ii) Even though the project activities of the Rural Road Pilot Component had been completed on 30 September 2014, the completion report of the project had not been handed over to the line Ministry even by 31 March 2015.

(d) **Provincial Road Project (Uva)**

The following observations are made.

- (i) In terms of Paragraph 06 of the Circular No.Sec/2013/07 of the Department of Inland Revenue, dated 01 September 2013 the Pay as You Earn Tax amounting to Rs.421,704 of 09 officers for the year under review had not been remitted to the Department of Inland Revenue.
- (ii) A circuit bungalow for the use of the project officers had been obtained from the contractor of UVA Project by the Uva Provincial Project Implementation Unit and the rental of the house had been included in the specifications and a sum of Rs.1,635,891 had been paid in the year 2014.
- (iii) Due to non- selection of a genuine contractor with an accurate evaluation and non cancellation of the agreement of the contractor who breached the conditions of the contract of Uva 02 Project an arbitration case had been filed by the contractor claiming a loss of Rs.729 million on 05 August 2014. But action had not been taken by the management to avoid the financial loss that may occur to the Government. Further that had not been disclosed in the financial statements 2014.
- (iv) Due to the reasons such as non-implementation of projects according to the procurement time table, non – recruitment of supervising consultant and the staff of the project and not signing financial agreements between Uva Provincial Council and the Ministry of Finance, the bids had not been evaluated within the bid validity period and the contract had not been awarded and as such a sum of Rs.18,626,657 had been paid as equal to 6 per cent on fixed portion of the contractual amount for 05 bidders. Accordingly, the above

problems were arised even though two procurement consultants had been appointed.

- (v) The project had obtained the service of 25 vehicles for consultants and the project staff from contractors and a rental of Rs.149.8 million had been paid. If 25 vehicles were purchased at Rs.110.6 million instead of obtaining from the contractor a financial gain approximately Rs.20.5 million could have been obtained by the Government. Further, it was deprived the opportunity to obtain the ownership of 25 vehicles valued at Rs.110.6 million.
- (vi) Even though a culvert with a width of 900 mm had been constructed in the place of 4+730 of the Galauda Kandaketiya Road – UVA 02 constructed in the Badulla District, the old culvert constructed with a width of 600 mm had not been removed. Even though the irrigation system was damaged due to the construction of the road, it was not renovated as previous. Therefore, the problems were arised to obtain water for paddy cultivation of 36 acres belonging to the 18 farmers.

(e) **Provincial Road Project (Project Co-ordination Unit)**

Nine officers had visited abroad for foreign studies or training out of the project expenditure in 4 instances. Even though in terms of the Circular No.2010/01 of the Ministry of Finance and Planning dated 11 October 2010 it should pay 30 USD as outfit allowance per day, 50 USD per day had been paid by the project as outfit allowance and as such a sum of Rs.140,405 had been over paid. Action had not been taken to recover that over paid amount even by 31 December 2014.

(f) **Northern Road Connectivity Project (Additional Provision)**

The following observations are made.

- (i) A sum of Rs.90,142,929 had been retained from the payments relating to 05 Road Packages implemented by the project. That amount had not been shown as a liability payable in the financial statements prepared as at the end of the year under review.

- (ii) According to the agreement No. 2890 signed by the Government with Asian Development Bank, provisions had not been made to purchase vehicles from the project funds. But the project had included Rs.17,000,000 into the contract expenditure through package 01 contractor and purchased 02 semi luxury cab vehicles.
- (iii) A sum of Rs.2,136,000 had been paid to the contractor as maintenance expenditure of above 2 vehicles purchased from project funds as at 31 December 2014. None of the bills, Daily Running Charts in respect of those maintenance expenditure had been furnished to audit by the project office. Therefore, those expenditure could not be satisfactorily vouched in audit.
- (iv) Ten officers attached to the project office had been paid salaries from the project, based on 5 per cent special allowance, 15 per cent allowance to be paid to basic salary and 50 per cent allowance for work in project office. As such a sum of Rs.158,940 had been overpaid in the year under review.
- (v) Public service officers of the North Central Province who appointed to cover up the duties of the project office had been paid 5 per cent special allowance and 15 per cent allowance in paying salaries for their permanent post. Despite the payments made as above the project had also paid above mentioned 5 per cent special allowance and 15 per cent allowance on the allowances paid for covering up duties of the office. Accordingly, a sum of Rs.220,368 had been overpaid as those allowances from the project funds as well in the year under review.
- (vi) Without obtaining instructions and permission from the Department of irrigation, breaking the dams of the tanks and earth filling and compaction had been done for carpeting the road surface passing across the dams of the tanks in the Anuradhapura area. Therefore the surface of the carpeted road developed across the dams of the tanks were cracked. (Ex: Parts of the 3+750 Km, 6+540 Km of the

Kirigollawa – Heeralugama Road – NCANC – 128 closed to first and second tanks were cracked)

3.6 Performance

According to the Annual Budget Estimate and Action Plan 2014, the observations relating to the progress of the Ministry are given below.

- (a) The financial targets only had been shown in the data in respect of Local Funding Projects stated in the Action Plan for the year 2014 but physical targets had not been shown. Therefore the planned activities of the institution had not been achieved successfully.
- (b) The financial targets and the financial progress of the Ministry only had been recorded in the progress report as well. Therefore the physical progress of the development activities completed by the Ministry had not been shown. Those information could not be obtained even from the examination of relevant files.

3.7 Irregular Transactions

Deviation from the Procedure laid down in the Government Procurement Guidelines

Contrary to the Guideline 3.4 of the Procurement Guidelines, 820 mobile sheds costing Rs.24.77 million had been purchased by following shopping procedure by the Ministry of Local Government and Provincial Councils and had been distributed among the Local Authorities.

3.8 Losses and Damage

Hundred and twenty canopy sheds had been distributed to Local Authorities of the Hambanthota District and it was observed at the audit test check carried out, 32 canopy sheds valued at Rs.864,000 mentioned as distributed had not been received by the 6 Local Authorities.

3.9 Management Weaknesses

Nine hundred bicycles had been purchased to the value of Rs.13,305,600 to generate self employment opportunities for upgrading livelihood of the poor people of the Ampara District during the election period and handed over to Akkaripattu Pradeshiya Sabha on 05 January 2015.

The following observations are made in this connection.

- (i) Nine hundred bicycles had been purchased by spending Rs.13,305,600 from a private institution. Both the lowest bid and the second lowest bid were rejected in the procurement and as such a financial loss of Rs.939,600 and Rs.759,600 respectively was caused to the Government.
- (ii) Out of the cheques drawn on 31 December 2014 a cheque drawn for 900 bicycles amounting to Rs.13,305,600 only had been issued. At the physical examination carried out, it was observed that 04 cheques drawn on 31 December 2014 valued at Rs.16,262,375 had remained in the Accounts branch even by 13 January 2015, and those were cancelled on 16 January 2015.

3.10 Human Resources Management

Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2013 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
(i) Senior Level	39	26	14	01
(ii) Tertiary Level	03	01	02	-
(iii) Secondary Level	153	120	33	-
(iv) Primary Level	55	42	13	01
(v) Others (Casual/Temporary/ Contract Basis)	-	01	-	-
Total	250	190	62	02

The Ministry had not taken action to fill 62 vacancies by the end of the year under review and action had not been taken to obtain a proper approval for two excess employees even by 31 December 2014.