

## Report of the Auditor General on Head 162 – Ministry of Megapolis and Western Development - Year 2015

Head – 162 The audit of the Appropriation Accounts and the Reconciliation Statements including the financial records, books, registers and other records of the Ministry of Megapolis and Western Development for the year ended 31 December 2015 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 31 January 2017. 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 Provisions and Expenditure

The total net provisions made for the Department amounted to Rs. 18,016.13 million and out of that, Rs. 7,437.90 million had been utilized by the end of the year under review. Accordingly, the savings out of the net provisions made for the Department, amounted to Rs. 10,578.23 million, representing 58.72 per cent. Details appear below.

Expenditure	As at 31 December 2015			Savings as a Percentage of the Net Provision
	Net Provision	Utilization	Savings	
	Rs. Millions	Rs. Millions	Rs. Millions	
Recurrent	477.68	459.02	18.66	3.91
Capital	17,538.45	6,978.88	10,559.57	60.21
<b>Total</b>	<b>18,016.13</b>	<b>7,437.90</b>	<b>10,578.23</b>	<b>58.72</b>

## 2.2 Advances Account

### 2.2.1 Advances to Public Officers Account

#### Limits Authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers Account under the Item No. 16201 of the Department, and the actual amounts are given below.

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
2.00	0.38	0.30	0.55	40.00	8.39

## 2.3 Imprest Account

The balance of the imprest account of the Ministry under the account No. 7002/0000/00/0452/0015/000 as at 31 December 2014 totalled Rs. 8.65 million.

## 2.4 Audit Observation

The Appropriation Account and the Reconciliation Statements of the Ministry of Megapolis and Western Development for the year ended 31 December 2015 had been satisfactorily prepared subject to the Audit Observations included in the Management Audit Report referred to in paragraph 1.1 above. The material and important audit observations included in that Management Audit Report appear in paragraph 3.

## 3. Material and Important Audit Observations

### 3.1 Non-maintenance of Registers and Books

It was observed in the audit test checks that the following registers had not been maintained by the Department.

<b>Type of Register</b> -----	<b>Relevant Regulation</b> -----
(i) Register of Fixed Assets	Treasury Circular, No. 842, dated 19 December 1978.
(ii) Register of Electrical Fittings	Financial Regulation 454 (2)
(iii) Register of Liabilities	Financial Regulation 214
(iv) Register of Counterfoil Books	Financial Regulation 341
(v) Attendance Register of the Procurement Committee, and the Technical Evaluation Committee	Guideline 2.11.2 of the Government Procurement Guidelines

### **3.3 Replies to the Audit Queries** -----

Reply to an audit query issued to the Ministry in the year under review had not been furnished even up to 31 January 2017. The value of quantifiable transactions relating to the that query, amounted to Rs. 150,000,000

### **3.4 Good Governance and Accountability** -----

#### **3.4.1 Annual Action Plan** -----

The annual Action Plan had not been prepared by the Ministry in terms of Public Finance Circular, No. 01/2014, dated 17 February 2014.

#### **3.4.2 Annual Procurement Plan** -----

The Procurement Plan had not been prepared in terms of the National Budget Circular, No. 128, dated 24 March 2006.

#### **3.4.3 Annual Performance Report** -----

In terms of Public Finance Circular, No. 402, dated 12 September 2002, the Performance Report should be tabled in Parliament by the Ministry within 150 days since the lapse of the financial year. However, that report had not been tabled in Parliament even by 31 January 2017.

### **3.5 Assets Management** -----

The following deficiencies were observed during the audit test checks conducted on the assets of the Ministry.

**(a) Conducting Annual Board of Survey**

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In terms of Public Finance Circular, No. 02/2014, dated 17 October 2014, the Board of Survey should have been conducted for the year 2015 thereby furnishing the report to the Auditor General prior to 17 March 2016. Nevertheless, that report had not been presented to audit even up to 01 July 2016.

**(b) Irregular Utilization of Assets Belonging to other Institutions**

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The audit test checks revealed that the assets valued at Rs. 1,067,637 owned by the Ministry of Defence, had been utilized by the Ministry.

**3.6 Non-compliances**

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**Non-compliances with Laws, Rules, Regulations**

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

**Reference to Laws, Rules, and Regulations**

**Value  
Rs.**

**Non-compliance**

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

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Financial Regulation 104 and 103

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719,471 Six vehicles belonging to the Metro Colombo Urban Development Project had met with various accidents. Although the expenditure on repairs had been recovered from the insurance companies, action had not been taken on those accidents in terms of Financial Regulations.

**(b) Management Services Circulars**

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Paragraph 4.1.3 of the Circular, No. 10,832,729  
33, dated 05 April 2007

The 1/3 allowance of the part time staff of the Metro Colombo Urban Development Project, should have been paid based on the basic salary of the post being held at the Project except for the other allowances. However, the 1/3 allowance had been computed inclusive of the basic salary and other allowances.

**(c) Letter of the Secretary to the Public Service Commission**

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The Letter No. PSC/APP/07/897, dated 13 November 2015 addressing all the Secretaries to the Ministries, and Heads of Departments.

Instead of appointing an officer from the special class of the Sri Lanka Engineering Service to the post of Additional Secretary (Planning) of the Ministry, and without obtaining the approval of the Public Service Commission, an officer of Class 1 of the Sri Lanka Engineering Service, had been appointed.

**3.7 Foreign Funded Projects**

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The Ministry had implemented 03 projects under foreign finance in the year under review. According to the loan agreements, the estimated costs thereof totaled Rs. 48,647 million, and a sum of Rs. 4,358.4 million had been utilized on those project in the year under review. The following observations are made in connection with those foreign funded projects.

**(a) Metro Colombo Urban Development Project**

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The following observations are made in this connection.

- (i) The comprehensive Action Plan had not been prepared even after 3 <sup>1</sup>/<sub>2</sub> years since the launch of the project by including the responsibilities relating to the achievement of targets within the specific project duration, and indicating the monthly , quarterly and half-yearly financial and physical targets of the entire project duration. Accordingly, the financial and physical progress achieved by the project up to 31 December 2015, could not be verified.
- (ii) The total project cost amounted to US \$ 213 million equivalent to Rs. 27,890 million, and 30 per cent of that indicating a sum of US \$ 64 equivalent to Rs. 8,517 million, had been utilized by 31 December 2015. Only a period of about 1 <sup>1</sup>/<sub>2</sub> years had remained to complete the project. The Ministry had faced with the challenge to fulfil the objectives of the project by utilizing a sum of US \$ 149 within that period.
- (iii) In order to alleviate the flood risk of the Colombo water basin, it had been planned to implement 12 sub-components during the project period. Of the rehabilitations and improvements of which the estimated cost had been 6,403 million, 07 works had been in the planning stage, whilst the procurement process for another 09 works had been in progress even by 31 December 2015.

**(b) Strategic Cities Development Project**

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The following observations are made in the audit test checks conducted on this project.

- (i) A comprehensive Action Plan including the assignment of responsibilities for achieving the monthly , quarterly and half-yearly financial and physical targets covering the entire project period, had not been prepared and implemented.

- (ii) A detailed budget had not been prepared for the year under review based on the work plan of the project in terms of Paragraph II of the project evaluation article. Accordingly, only a sum of Rs. 459.01 million out of the domestic finance amounting to Rs. 4,410 million, had been utilized in the year under review.
- (iii) The Agency supplying loans had made provisions of US \$ 147 equivalent to Rs. 19,257 million. After a lapse of 02 years since the launch of the project, a sum of US \$ 2.93 million equivalent to Rs. 387.29 million had been incurred by 31 December 2015 representing 2.00 per cent of the total funds.
- (iv) Only 06 and 04 sessions of the project steering committee meetings and project consultancy committee meetings had been conducted respectively in the year under review. Representatives from the Municipal Councils, Road Development Authority, Urban Development Authority, Department of Irrigation, and National Water Supply and Drainage Board, had not been appointed to the said committees on permanent basis. As such, effective decisions could not be made at the committee meetings to improve the operations of the project by delegating the authority among the agencies.
- (v) Repair works of the main canals and drainage system in the town of Galle planned to be completed within a period of 02 years, renovation of 03 roads planned to be commenced in the year under review, construction works of the walking tracks in the Fort, and improvement of other infrastructure facilities in the jurisdiction of the Galle municipal council, had not been commenced even up to 30 April 2016. Of the 05 bridges to be renovated in the town of Galle, it was expected to complete the renovation of 03 bridges in Samagiwatta, Kanampitiya, and Beligaha by 50 per cent at the end of the year under review, but the progress thereof remained as low as 07 per cent.
- (vi) The renovation of the Arthur's Seat Viewing Deck, and the planning, supervision of construction, expansion, and renovation of the water supply system in Kandy, had been planned to complete on 31 December 2015. A slow progress of 40 per cent and 85 per cent respectively had been reported as at that date.

**(c) Metro Colombo – Towards a Flood Resilient Urban Environment Trust Fund**

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The activities of the Trust Fund had been expected to carry out under 04 components namely, Metro Colombo Integrated Flood Risk Assessment, Preparation of Metro Colombo Flood Risk Mitigations Strategy and Action Plans, Development of Monitoring and Evaluation System, and Project Management and Administration. However, such activities had not been commenced as planned and as a result, the period for funding had been extended further 2 ½ years on 02 occasions from 30 July 2014 to 31 January 2017. According to the progress reports of the Trust Fund, the action for the preparation of a Master Plan for Wetlands in the Metro Colombo City Region had only been initiated during the year under review.

**a) Abandonment of Certain Works included in the Foreign Funded Projects**

Despite being planned to complete 14 sub projects valued at Rs. 3,822.68 million under Metro Colombo Urban Development Project, those projects had been entirely abandoned due to difficulties in providing funds.

**b) Idling / Underutilization of the Assets of the Project**

The balance of the Special Dollar Account being maintained by the Project at the Central Bank of Sri Lanka amounted to US \$ 6.65 equivalent to Rs. 871.83 million as at 01 January, 2015. In addition to that, imprests valued at US \$ 03 million equivalent to Rs. 503.25 million had been granted on 10 June, 2015, and a sum of US \$ 3.48 equivalent to Rs. 475.92 million had been reimbursed therefrom during the year under review. Due to poor forecasting on the financial requirements of the activities of the Project, an excess sum of US \$ 6.16 equivalent to Rs. 888.68 million, had existed in the Special Dollar Account as at 31 December 2015.

**3.8 Implementation of projects through Domestic Financing**

**Projects that had not Acquired Progress Despite Funds being Released**

Although the total amount had been released to the Urban Development Authority relating to the constructions, instances in which no progress had been reported with respect to those projects, were revealed. Particulars on such projects are given below.

- (i) The Ministry had obtained provisions by presenting a supplementary estimate to the value of Rs. 150 million on 31 December, 2015 for constructing the Welfare Centre in Mattakkuliya. Although that sum had been released to the Urban Development Authority, the project had not yielded a progress.
- (ii) An expenditure estimate had been prepared to the value of Rs. 242 million in respect of the Hataraliyadda Town Development Project. Despite being planned to commence the constructions thereof on 06 September, 2012 and complete by 30 June, 2016, no progress had been achieved.

**3.9 Transactions of Contentious Nature**

Certain transactions entered into by the Ministry had been of contentious nature. Particulars of several such instances observed during the course of test checks appear below.

- (a.) By misinterpreting the Management Services Circular, No. 33, dated 05 April, 2007, a sum of Rs. 1,184,985 had been overpaid as arrears of salaries to the staff of the Kadawatha, Kaduwela, Kottawa Town Development Project (3K Project) which is a sub component of the Greater Colombo Urban Transport Development Project.
- (b.) Bids had been called by for the Project Management Unit from local and foreign consultancy firms in order to prepare a master plan for the wetlands, and evaluate the quality of water in the suburbs of Colombo, waterways in the middle of the country, and reservoirs. The minimum bid of US \$ 129,860 equivalent to Rs. 17.09 million submitted by a consultancy

firm qualified with international standards, and comprising an experienced engineering staff, had been turned down contrary to the criteria formulated by the Project Management Unit for selecting the consultants, thereby awarding the consultancy services contract to a foreign consultancy firm which had submitted the second lowest bid of US \$ 229,885 equivalent to Rs. 30.25 million.

- (c.) The following observations are made in connection with the Strategic Cities Development Projects.
- (i) A remuneration of Rs. 700,900 pertaining to 05 officers employed on part time basis at the Project Monitoring Unit, had been paid from the contribution received from the Government of Sri Lanka. However, in order to determine the nature of the work assignments of the projects, duty schedules or referenced conditions had not been made available to audit.
  - (ii) It had been planned by the Project to acquire 1632 plots of land at an estimated cost of Rs. 662 million. Of that, 820 plots of land had been acquired by the end of the year under review, and a sum of Rs. 235 million had been incurred thereon, and another sum of Rs. 188 million therefrom had been paid as additional compensation. Although additional compensation amounting to Rs. 8.07 million had been paid in respect of 14 plots of lands in 03 Divisional Secretariats under the recommendations on the acquisition and restoration of lands, particulars such as reasons for making such payments, and the extent of the lands acquired, had not been made available to audit.

### **3.10 Irregular Transactions**

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

#### **Deviation from the Government Procurement Procedure**

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The following observations are made.

- (a.) The computer software suitable for planning the drainage system for floods and waste water under the Metro Colombo Urban Development Project, had not been identified. Furthermore, 02 incompatible computer software had to be purchased by incurring a sum of Rs. 33.88 million without properly following the procurement procedure.
- (b.) Action had been taken to obtain consultancy services from the South East Asia Technology Co. Ltd, Thailand in respect of the Metro Colombo Urban Development Project. The activities relating to providing consultancy services, had been completed after a delay of 2 ½ years. Despite being planned to complete the said Project by June, 2017, some of the consultancy services and activities had been planned to execute up to the year 2020 in terms of the Procurement Plan of the project.
- (c.) Sixty seven tonnes of iron bars valued at Rs. 13.40 million had been procured by exceeding the requirements in respect of constructing 03 underground water tanks in the city of Kandy



under the Strategic Cities Development Project. As a result thereof, mobilization advance amounting to Rs. 2.68 million had been superfluously paid on cost to the contractor. An overpayment amounting to Rs. 1.2 million had been paid in respect of 09 items of Bills of Quantity furnished by the contractor for those constructions under the Claim Bill No. 01.

- (d.) Utility vehicles had been purchased for capacity development of the Agencies functioning under the Metro Colombo Urban Development Project. Two state-of-the-art Prado vehicles of luxurious type, and a bus had been purchased by incurring a sum of Rs. 59,145,494 by furnishing spurious information to the Treasury when purchasing those utility vehicles. Due to lack of funds owing to such expenditures, action had been taken to cease 19 sub-projects under the Project entirely.

### **3.11 Uneconomic Transactions**

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The particulars of transactions entered into devoid of economy revealed during the course of test checks are given below.

- (a.) A surcharge amounting to Rs. 67,320 had to be paid due to delay in paying the contributions of the officers of the Metro Colombo Urban Development Project, to the Employees' Provident Fund.
- (b.) When making payments for the construction of Biodiversity Park in Beddagana under the Metro Colombo Urban Development Project, a sum of Rs. 92,070,585 had been overpaid to the contractor, the CECB without being properly checked.
- (c.) Of the funds received from the Treasury, a sum of Rs. 150,000 had been spent as course fees of an employee who had read for a Doctorate.
- (d.) For officiating in the capacities of the former Project Director, and the Additional Secretary to the Line Ministry (Technology) as well, a fuel allowance amounting to Rs. 19,550 per month had been given for his official vehicle along with the salary. Fuel had not been supplied to the vehicle by utilizing that allowance. Although a quantity of 4560 liters of fuel could have been obtained from the Project at 120 liters per month in respect of the period of 38 months from March, 2012 to June, 2015 during which the former Project Director had officiated at the Project, a quantity of 10,813 liters of fuel had been obtained. As such, 6,252 liters of fuel valued at Rs. 718,980 had been obtained in excess contrary to the provisions of the Circulars.

### **3.12 Management Weaknesses**

#### **Metro Colombo Urban Development Project**

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The following weaknesses were observed during the course of audit test checks.

- (a.) Although a period of over a year had elapsed since an advance amounting to Rs. 1,000,575 had been paid for purchasing an accounting and project review software to be used at the Project Office, that software had not been installed.

- (b.) A very poor performance had been indicated by the Metro Colombo Urban Development Project by the end of the year 2015. Furthermore, a minimal number of progress review meetings had been held with the officers of the Project Implementation Agencies and the Project Officers. Although meetings of the Project Steering Committee should be held at least once per 02 months, only 01 meeting had been held per year.
- (c.) As several contracts had been awarded at once irrespective of the contractors' capability, the period for completion of the contracts had been extended as follows.
- (i) Six contracts with an estimated cost of Rs. 374 million, had been awarded to the same contractor. As such, the duration of those contracts had been extended by 02-114 days to complete the work.
  - (ii) Five contracts with an estimated cost of Rs. 1,620 million, had been awarded to another contractor, and the duration thereof had been extended by 117-209 days.
  - (iii) Extensions of period by 98 – 188 days had been provided for 03 other contractors involved in 09 contracts awarded at an estimated cost of Rs. 4,724.09 million

### 3.13 Human Resource Management

#### (a) Approved Cadre and Actual Cadre

The position on the cadre as at 31 December 2015 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
(i) Senior Level	31	16	15	-
(ii) Tertiary Level	06	02	04	-
(iii) Secondary Level	95	25	70	-
(iv) Primary Level	44	12	32	-
(v) Others (Casual/ Temporary/ Contract Basis)	-	04	-	04
<b>Total</b>	<b>176</b>	<b>59</b>	<b>121</b>	<b>04</b>

The following observation is made.

An officer of the tertiary level and 02 officers of the secondary level had been temporarily recruited by the end of the year under review.

**(b.) Human Resources Obtained from Other Parties**

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The officers of the Urban Development Authority had been attached for the duties of the Ministry without paying salaries.